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Research Report

Labour market and migration in the Danube Region

ZEW-Gutachten

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Policy Paper

Labour market and migration in the Danube Region

Key facts

- There are large differences between the labour markets of the Danube Region: Best performers such as Austria and the German federal states Baden-Württemberg and Bavaria contrast with countries on the European periphery with poor labour market outcomes. In the less developed subregions:
 - activity rates are lower than in the prospering ones;
 - agriculture – mostly low productivity subsistence farming – is still important, while the service sector, generally considered as the generator of future employment, is underdeveloped;
 - (youth) unemployment rates are very high by European standards, particularly in the Accession Countries, and informal sector employment is quite large and widespread;
 - labour migration is traditionally high and remittances are an important source of income, while Austria and particularly Germany are among the most favoured destination countries in the EU.

About the project

Coordinator of Priority Area 8 (“To support the competitiveness of enterprises”) of the EU Strategy for the Danube Region (EUSDR), the Ministry of Finance and Economics Baden-Wuerttemberg, has commissioned a study on the socio-economic assessment of the Danube Region with financial support from the Directorate-General for Regional and Urban Policy of the European Commission. The aim of the study is to document the socio-economic development of the Danube Region with respect to the goals of the EUSDR and the overall objectives of the EU growth strategy “Europe 2020” and to identify strengths and weaknesses, to propose areas of activity and to provide recommendations for the future strategic orientation of the EUSDR. In a first step, extensive data has been collected on competitiveness, entrepreneurship and SMEs and cooperation in the Danube Region and a set of preliminary recommendations has been formulated. In the second part, these recommendations will be developed further with the help of expert interviews and focus groups in order to provide a strategic contribution of a programme strategy for the Danube Region. The study is conducted by the Centre for European Economic Research (ZEW), Mannheim in cooperation with the Institute for Applied Economic Research (IAW), Tübingen, and the Vienna Institute for International Economic Studies (wiiw)



Introduction

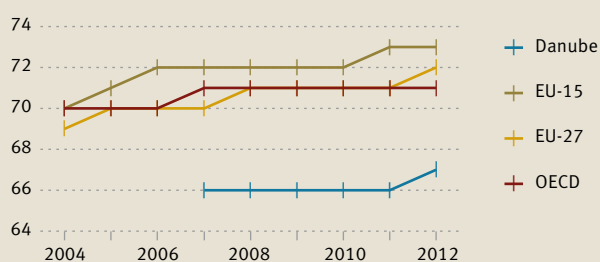
Labour markets in the Danube Region are different from those in the EU-15, EU-27 and OECD countries and there are also important regional variations within the Danube Region. The gap is especially large between the most developed Member States Area 1 and the least developed Accession and Neighbouring Countries and to some extent the Member States Area 3.¹

Given the poor economic growth prospects, gaps between the Danube Region countries with respect to activity and unemployment rates are likely to persist and consequently poverty will be on the rise in the less developed regions. Thus, the outflow of (young and highly educated) workers to the more prosperous countries will continue.

Activity rates below benchmark countries

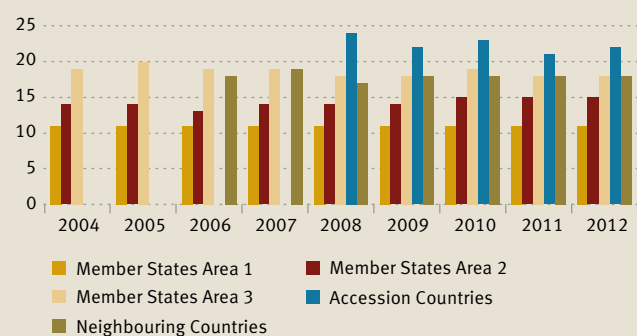
Labour market participation rates in the Danube Region (Figure 1) have been traditionally lower (at about 67%) than in the EU-27 and EU-15 or OECD countries (above 70%); the same applies to employment rates. These gaps have virtually not changed in the last couple of years. With regard to educational attainment, the employment rate among highly educated persons (with completed tertiary education) is about 7-8 percentage points lower in the Danube Region than in the EU-15 or in the EU-27. Compared to the EU economies, the Danube Region has a very strong representation of the medium educated skill groups. With the exception of the Member States Area 1 the share of the medium educated in total employment exceeds the 60% mark and even 70% in the Member States Area 2.

Figure 1: Activity rates (labour force in % of working age population 15-64 years)



Source: Eurostat, OECD, national statistics. Calculation and illustration: wiw.

Figure 2: Self-employment rates by subregion of the Danube Region (in % of total employment)



Source: Eurostat, OECD, national statistics. Calculation and illustration: wiw.

Non-standard forms of employment vary across subregions

Non-standard forms of employment (part time and self-employment) have divergent development patterns in the Danube Region, EU and OECD countries and between the subregions of the Danube Region. In the latter, part time employment is most pronounced in the Member States Area 1, accounting for around 27% of total employment, while only for 2% in the Member States Area 2.

Self-employment has been highest in the OECD countries in the period between 2004 and 2012; its share in total employment accounted for about 16%. In the Danube Region self-employment was slightly below the level reported for the EU-27 and EU-15

averages (15%). Again, there are significant differences between the subregions of the Danube Region: As shown in Figure 2, self-employment is exceptionally high, but slightly declining in the

¹ The authors of the study divided the Danube Region into the following subregions: Member States Area 1 (Baden-Württemberg, Bavaria, Austria), Member States Area 2 (Czech Republic, Hungary, Slovak Republic, Slovenia), Member States Area 3 (Bulgaria, Croatia, Romania), Accession Countries (Bosnia and Herzegovina, Montenegro, Serbia) and Neighbouring Countries (Moldova, Ukraine).

Accession Countries (22% of total employment) and somewhat lower in the Member States Area 3 and in the Neighbouring Countries (18% each). In these three groups of countries agriculture – mostly subsistence farming – is an important economic activity for the self-employed; self-employment is, thus, a proxy for informal sector employment.

Wide disparities in unemployment

Since the outbreak of the financial and economic crisis unemployment in the Danube Region has followed a similar path as the OECD countries (Figure 3).

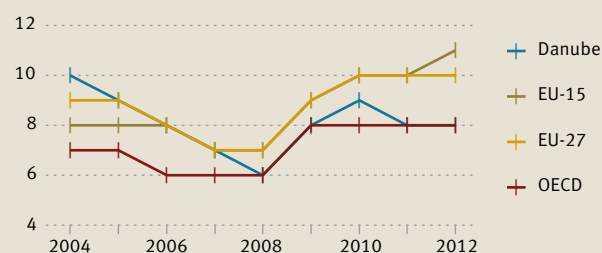
Large differences in unemployment become evident if looking at the subregions of the Danube Region: as shown in Figure 4, the incidence of unemployment has been traditionally much more severe in the Accession Countries than in the Danube Region as a whole and unemployment varies extremely if compared with the best performing subregion, the Member States Area 1. The gap in unemployment between these two subregions widened significantly from 12 percentage points in 2008 to 21 percentage points in 2012. In Member States Area 2 and Member States Area 3, unemployment is slightly exceeding the EU average, while the Neighbouring Countries face unemployment rates below the Danube Region average. The latter is mainly resulting from delayed restructuring, ageing of the population and from enhanced outward migration.

As depicted in Figure 5, with the exception of the Member States Area 1, youth unemployment is more than twice as high as total unemployment, in the Member States Area 3 even three times higher. Accession Countries exhibit both the highest rates of total and of youth unemployment (exceeding the 50% mark).

Migration and remittances

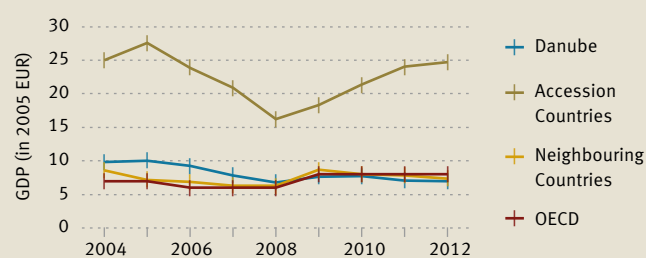
International migration has a long tradition in the countries of the Danube Region. In the Accession Countries (then part of the former Yugoslavia) guest worker emigration started already in the 1960s in order to alleviate labour market imbalances; over the past decades also the breakup of Yugoslavia and the subsequent war have led to large migration flows from the region. Bosnia and Herzegovina is the main sending country from this area; half of its migrants have chosen EU countries as their destination, in particular Germany, Austria and Slovenia.² Migration from the Neighbouring Countries, which is mainly driven by economic and job-related reasons, is directed both to the Russian Commonwealth (CIS) and the EU countries. In 2012 about one million migrants from Ukraine lived in the EU (Poland, Italy and Germany) and about 300,000 from Moldova

Figure 3: Unemployment rates (in % of labour force 15+)



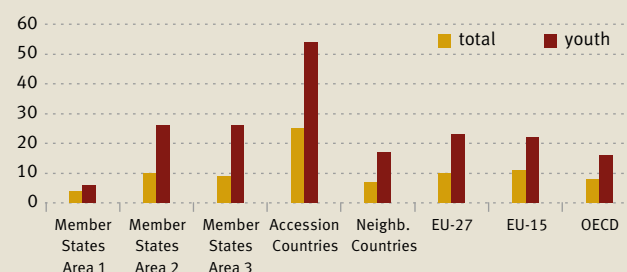
Source: Eurostat, OECD, national statistics. Calculation and illustration: wiiw.

Figure 4: Unemployment rates by subregion of the Danube Region (in % of labour force 15+)



Source: Eurostat, OECD, national statistics. Calculation and illustration: wiiw.

Figure 5: Total and youth unemployment rate 2012 (in % of labour force 15+)



Source: Eurostat, OECD, national statistics. Calculation and illustration: wiiw.

² See Havlik et al. (2012), European Neighbourhood – Challenges and Opportunities for EU Competitiveness, wiiw Research Report No. 382, p. 112.

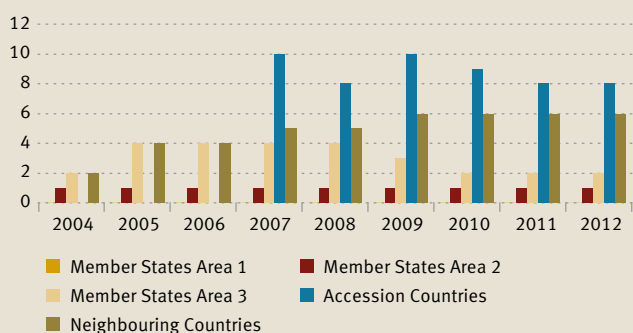
(Italy, Romania, Spain). The inflow to the EU rose significantly from 2003 onwards but dropped remarkably during the crisis. In the Member States Area 3 (particularly in Bulgaria and Romania) emigration started after 1989 and intensified in the wake of EU accession due to economic reasons, adding substantially to declining demographics. In 2012 about 2.5 million Romanian and 500,000 Bulgarian citizens resided in the EU and a further increase is expected due to the full

liberalisation of the EU labour market, which started at the beginning of 2014 for citizens from those two countries.³ Migration plays also an important role in the Member States Area 2 (Slovak Republic and recently also in Hungary). In most of the sending countries migration helped to cushion the problem of unemployment and generate remittances that can be spent on the local economy.

Remittances are an important source of income in a number of countries of the Danube Region. This holds true in particular for the Accession and Neighbouring Countries. Here, the share of remittances in GDP varies between 11% in Bosnia and Herzegovina and 24.5% in Moldova. Remittances coupled with increased migration have shown a rising trend over the past decade in these countries, generating welfare gains either for the

sending country or for the migrants themselves. As shown in Figure 6, the share of remittances in GDP fell in the aftermath of the crisis: from 10% to 8% in the Accession Countries and from over 4% to 2% in the Member States Area 3. By contrast, in the Neighbouring Countries the remittances' share in GDP even increased in 2009 and remained almost stagnant thereafter.

Figure 6: Remittances as a share of GDP, %



Source: World Bank, Eurostat national statistics. Calculation and illustration: wiiw.

Recommendations

Given the diverging levels of development of the Danube Region countries, tailor-made responses are needed with labour policies that may vary considerably from one country to another. It would be essential to

- ▶ support the introduction of dual training systems in some of the less developed Danube Region countries considering their high and unprecedented youth unemployment. Therefore, support by representatives of the social partners e.g. from Austria and Germany would be helpful for developing institutional settings and the legislative basis for the involvement of social partners in decisions on vocational education and training, but also in establishing efficient public employment services to ensure successful work placements.
- ▶ enhance/institutionalise cooperation between the poor and best performers with respect to labour market initiatives, e.g. through the exchange of best practices and training of people in the administration.
- ▶ ease labour market restrictions gradually, e.g. in the Accession Countries, and create conditions for return migration.

³ Migration from Romania and Bulgaria is mainly directed towards Italy, Spain and Germany. The most recent data for Germany show that in July 2014 the number of Bulgarian and Romanian citizens was by 109,654 persons higher than in July 2013. In terms of employment, in June 2014 (latest available data) there were 83,286 more workers from these two countries than in June 2014, see, http://doku.iab.de/arbeitsmarktdaten/Zuwanderungsmonitor_1408.pdf.

Further information:

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