

Internal Labor Mobility and Regional Labor Market Disparities

In Central Europe and the Baltic region, commuting – but not migration – may facilitate transitions out of unemployment

Pirella Paci, Erwin Tiongson, Mateusz Walewski, Jacek Liwinski, Maria Stoilkova

The transition to a market economy had dramatic labor market consequences in many of the countries in Central Europe and the Baltic region: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia. At the beginning of the transition, these countries had essentially no official unemployment and a very egalitarian distribution of wages. Structural reforms led to a sharp decline in employment with a related increase in unemployment and inactivity.

Many of these countries began to experience an economic rebound by the mid-1990s. However, the recovery had a limited impact on unemployment. In some cases, the late 1990s brought further increases in unemployment in the wake of slumps in economic performance and macroeconomic stabilization programs designed to restore macroeconomic equilibrium and support structural reforms. On the eve of the 2004 EU enlargement, most of these countries had substantially higher unemployment rates than the EU average and, in Slovakia and Poland, considerably higher than those of any other EU member. The wide and per-

sistent disparities in unemployment rates across the regions in Central Europe and the Baltics are a particular concern.

Labor Mobility is an Important Adjustment Mechanism

The persistence of regional disparities over time indicates, in part, a lack of flexibility in the prevailing adjustment mechanisms. In principle, adjustment to regional imbalances may take place mainly through a number of channels:

- Where unemployment is high, wages are expected to fall and the prospect of higher returns and lower unit labor costs should attract more firms into the region as well as encourage existing firms to hire more workers.
- If factors of production respond to unemployment disparities, capital should flow into lagging regions in response to lower unit costs and workers should move out of high unemployment, low wage regions into those where the returns for labor are higher.
- Government action aimed at addressing regional imbalances could take a number of forms.

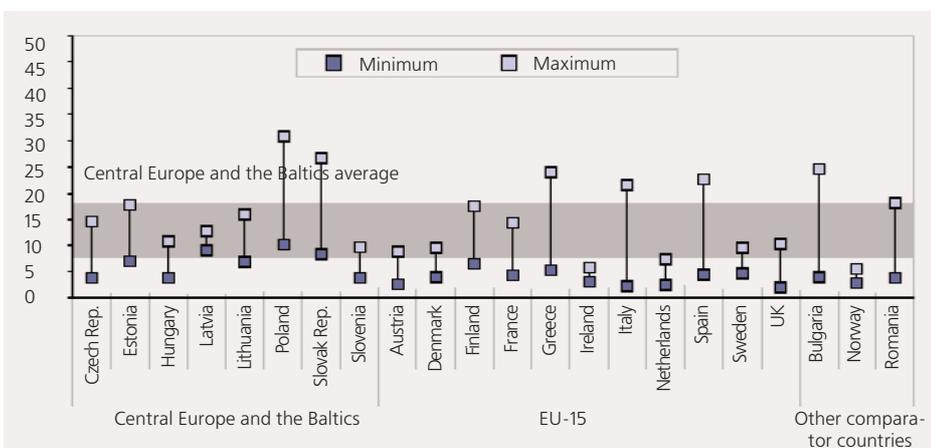
Capital flows in Central Europe and the Baltic region are generally not serving to help correct regional imbalances. In particular, capital typically flows to booming regions, where the human capital stock is high and where economic activity is concentrated. Wages adjust slightly but the measured wage elasticity (in absolute terms) may be insufficient to offset persistent and high rates of unemployment. In addition the responsiveness of wages to unemployment may be declining as the level of unemployment increases so that at very high unemployment levels wages may persist in staying down. Because adjustment mechanisms have not been effective in reducing regional unemployment disparities, labor mobility is a potentially important adjustment mechanism.

Labor Mobility is Weakly Related to Unemployment

Our findings are based on the 2004 Labor Force Survey data and various waves of the International Social Survey Program as well as summary information from the Eurobarometer Survey. Our study focuses on internal labor migration alone, which, however, may have an impact on the results because international migration may serve as a substitute for internal migration.

In the countries analyzed, internal migration is found to be low, to have fallen over time, and to be generally lower than that of the older EU members. In addition, migration is, at best, weakly related to regional unemployment rates. Moreover, commuting rates are higher than migration rates but vary substantially across countries. In 2004, commuters accounted for 1% of all employed workers in Poland and for 10% of such workers in Hungary. In contrast, internal migrants accounted for less than 1% of all employed workers, on average. There is also evidence that commuting rates are growing.

Figure 1: Minimum and Maximum Regional Unemployment Rates (NUTS 3)*, 2004



*NUTS is the EU's system of classifying territorial units.

Source: Eurostat and World Bank staff estimates

Unsurprisingly the probabilities of both commuting and migration are highest among men, the young and the better educated and among single or separated/widowed workers. In Lithuania and the Czech Republic, those who are engaged in continuing education or training are also more likely to commute. Commuting appears to be much more prevalent among workers employed by large firms. With respect to previous employment status, commuting may facilitate the transition out of joblessness. However, in the Czech Republic and Hungary, there is evidence that being previously unemployed is associated with lower probability of migration. This suggests that, at least in the case of internal labor migration, the already employed and the better skilled are more able to benefit from better employment opportunities in other regions than the unemployed. In addition, some occupations or workers in selected sectors are much more mobile than others. For example, agricultural workers tend to be less mobile than service or industry sector workers. At more disaggregated levels of employment sector, construction workers are relatively more mobile while education and health workers seem less mobile.

For understanding the growth and persistence of regional unemployment rate disparities, some findings are noteworthy:

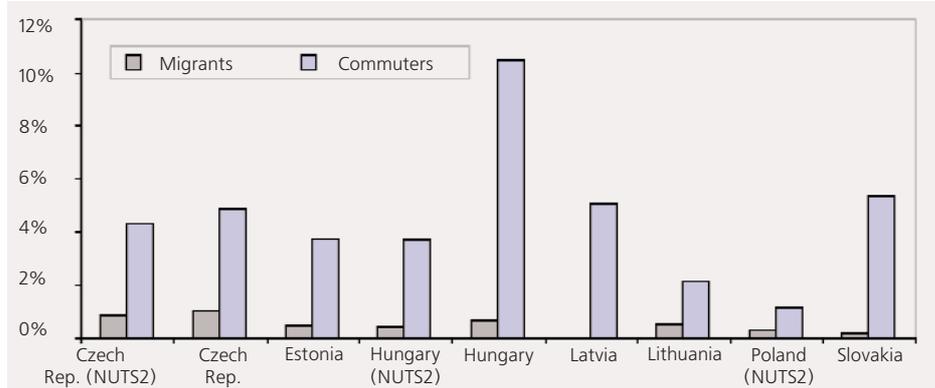
- Migration is generally not responsive in a consistent way to regional economic indicators but commuting is.
- Commuting but not migration may facilitate transitions out of joblessness as, in general, those previously inactive or unemployed are more likely to commute. In contrast, unemployment is only weakly associated with a higher probability of migration.

Furthermore, the results of the analysis of individual preferences suggest that habits matter: many individuals express a stronger attachment to their local communities and such attachment, in turn, is reflected in lower propensities to migrate. In addition, workers rely on informal sources of employment information. In regions where unemployment is high, informal job search methods may be much less effective outside the unemployed worker's region of residence.

Policy Implications

Appropriate policy measures are necessary to promote labor market flexibility

Figure 2. Migrants and Commuters: Labor Force Survey 2004
(In percent of the employed population; NUTS3 level unless otherwise indicated)



Source: LFS and World Bank staff estimates

ty. In particular, we propose the following policy considerations:

- *Promote measures to facilitate commuting.* Measures to facilitate commuting, rather than migration, may be more viable in areas where residential mobility is traditionally low and where there are institutional barriers to changing residences. In addition, since most of the studied countries are relatively small, commuting is a more attractive option than migration. Policy interventions to encourage commuting include reducing the monetary and time costs of transport, such as improvements in infrastructure and enhancing efficiency of the transport services market via a combination of private provision and public regulation.

- *Invest in education and lifelong learning.* As our findings suggest, those unemployed who are left behind in lagging regions are predominantly the low skilled workers with the lowest employment prospects. As such, investments in education and training may facilitate the adjustment process, as workers acquire the necessary skills to find jobs in more dynamic regions and move away from lagging parts of the country.

- *Enhance flexibility in labor markets.* For those left behind in lagging regions, a policy package designed to support job creation, encourage capital to move into the area and enhance productivity is critical. Policy measures designed to promote wage flexibility in local labor markets — such as through decentralized wage bargaining systems — are a critical component of this package.

- *Ensure that social protection does not inhibit mobility.* There is com-

pellent empirical evidence demonstrating that generous unemployment and welfare benefits may serve to dampen labor mobility, by raising reservation wages and reducing the incentive to look for work among unemployed workers. It has also been observed that regional disparities in real disposable per capita income may not be as large as suggested by differences in regional per capita income. This is due in large part to different price levels and social transfers. The policy challenge is to strike the right balance — providing unemployment and welfare benefits to mitigate income shocks while preserving job search incentives by the tightening of eligibility criteria.

But policy has its limits. Individuals may be unwilling to relocate, despite the promise of better employment prospects, due to a legacy of central planning and permanently secure jobs. Attachments to local communities, ancestral lands, and social networks, among other reasons encourage individuals to stay. Furthermore, employment is often not the only motivation for geographic mobility; family matters, housing amenities, utility costs, and living standards are often important determinants of mobility. The report finds evidence that preferences, attitudes and habits do restrain individual mobility.

This summary is based on Pierella Paci, Erwin R. Tiongson, Mateusz Walewski, Jacek Liwinski, Maria M. Stoilkova (2007) "Internal Labor Mobility in Central Europe and the Baltic Region", World Bank Working Paper No. 105, Washington, DC. The report was written prior to the 2007 EU enlargement process.

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