

INT-AR Paper 4 – Labour market frictions and migration – Jan Cremers (UvT)

Research on labour market shortages

This paper makes an assessment of labour market frictions and shortages and of the proposed policy to tackle the frictions, based on national and international studies. The used definition of labour market frictions is based on existing international notions that were also used by the Dutch socio-economic council (SER) in its advice on labour migration: shortage or lack of labour can be both in absolute terms (no labour supply available) or in relative terms (no labour available for the offered pay and working conditions).¹

The SER expects that the Netherlands, in line with the rest of the EU, will be confronted with shortages of (young) high-skilled workers and as a result will have to recruit 'knowledge'-migrants. In the SER reasoning it is necessary to develop a strong and active labour market policy, based on existing and future shortages, including initiatives that aim to improve the use of (potential) qualifications of migrant workers that are already residing in the Netherlands.

The UK and Norway have an experience of more than a decade with longitudinal metering of labour shortages. This experience is synthesised, followed by a section on the Dutch approach. Most observers conclude that the demand for well-skilled personnel and the expected shortages in technically skilled and social occupations and, to a lesser extent, in occupations in care-taking and education might lead to serious labour market frictions. At the same time, several sources note that it is not an easy task to estimate the future needs on the labour market and the related shortages, which can be expected. The future needs correlate with the functioning of the labour market and with technological developments that have a direct influence on the future job content and the necessary size of the workforce. The technological development has an important impact on: production processes and tasks that can be split in parts and relocated to specialised plants spread over more countries, leading to an international economic division of labour, based on off-shoring, outsourcing or re-shoring. A lack of labour could lead to a transfer of (parts of) the production to other regions or countries, to substitution of labour by capital or to the import of necessary products.

Comparative European research

In a study, commissioned by the Employment and Social Affairs committee of the European Parliament (in 2015), an overview is provided of the expected labour shortages, looking at their nature, causes and size.² Quantitative shortages arise from a shrinking labour force, a decrease of the labour participation, a growing demand and a geographical disparity in the population structure. Qualitative shortages become manifest in a mismatch between the demand and the available qualification level, in preferences of employees that do not match with the offered jobs and in a poor image of the available functions combined with inadequate information provided. Migration can contribute to a decrease of shortages in receiving countries, but it can lead, at the same time, to quantitative shortages in the sending countries. For instance, the migration of medical and care professionals from the CEE-countries has created serious shortages in hospitals and healthcare institutions in different CEE-countries. According to the study, there are no substantial quantitative shortages at aggregate EU-level. Shortages are mainly of a qualitative nature in relation to educational deficits and insufficient labour market connection. In contrast to other countries the regional disparity in the Netherlands is relatively low. In the Netherlands mainly qualitative shortages are expected, with a growing demand for specialists in manufacturing, the building and energy sector, corporate services and the IT-sector. The Netherlands scores high on the ranking with regard to shortages in some technical occupations and specific IT-functions, and there is more demand than supply for medical specialists.

A report of the European Commission treats the barriers in the employers' search for qualified labour.³ According to a survey (in 2013) 40% of the interviewed employers was confronted with problems in the recruitment of skilled labour. Around half of the cases belonged in the category of real qualification shortages; one third of the cases was related to a remuneration that was too low. Unattractive working conditions, combined with atypical working time, poor career perspectives and a lack of training facilities, explain why it is often so difficult to find the right person, especially if no permanent job is in sight. The report signals for the Netherlands that there is no upward pressure on wages, because there is still enough skilled labour available on the labour market. The attentiveness to the development of talent (and a solid HRM-policy) might explain why labour shortages are still very limited.

Research on labour market shortages in the UK and Norway

The UK government installed in 2007 a permanent advisory institution for migration, the Migration Advisory Committee (MAC). The MAC is an independent, non-governmental public consultative body that advises the government in different policy areas that are related to migration issues. The institute, composed by 5 economists, a chairperson and representatives of home affairs and employment and social affairs monitors in particular three items: the impact of labour migration, the limitation of the migration that is based on the so-called *Tiers 2* system – the visa system in the UK for high qualified labour migrants – and shortages on the labour market related to qualification needs. Since 2008 the MAC publishes an overview of labour market shortages (the 'shortage occupation list') and examines and assesses notified shortages on the basis of a particular own methodology. The list determines to a large extent the migration policy of the British government for workers coming from third countries.⁴

Recent advises treat the applied income thresholds for labour migrants and the relationship with the actual work that is performed by migrants on the British labour market. In the spring of 2015 the list that eases the entrance to the labour market in case of serious frictions was revised. In the assessment the MAC made use of several existing sources, such as the Labour Force Survey, data and statistics on working time and earnings, research on qualification demands and unemployment data. The MAC defined over the years 12 indicators that are applied in the assessment. These are indicators related to the perception of employers, to the earning structure, the (available) labour volume and other relevant labour market data (such as the duration of existing demand and the relationship between vacancies and unemployment).

The Norwegian NAV business survey, commissioned by the government, examines the labour demand, per region and in sectors and occupations. The survey includes, since 2007, the recruitment of foreign labour. In some editions of the NAV-survey (2007 to 2013) the demand for qualified labour migrants from outside Norway is analysed. Labour shortages peaked in 2007 with, in total, 132,400 workers. After the start of the financial-economic crisis the labour demand was decreasing; in 2008 shortages lowered to 88,700 workers, the year after the figures halved to 45,000 workers. Due to a housing and property bubble the demand increased again in 2011. After these years, a permanent loss of jobs with a serious effect on the overall demand started in the building trades and the oil exploration (in 2012 the overall shortages were calculated at 36,700 workers, in 2013 this decreased to 32,200 persons and in 2014 to 26,000). In the spring of 2015 the survey showed a further decrease of the shortages to 20,800 workers. Due to a modification of the survey the data on the period 2007-2011 and 2012-2013 are not completely compatible. However, it is clear that the sectoral distribution has substantially changed. The first measuring pinpoints agro- and horticulture and hospitality as the sectors with increased demand for foreign labour. Later on most labour migrants are recruited in extracting industries, including oil exploration, and hospitality. Although the overall demand is weakening in 2013, the demand for migrant labour stays upright in some industries. In the long run this is the case in corporate services, the IT and communication sector, in caretaking and social services. Serious shortages remain in healthcare occupations, in services and in parts of the building trades (though the large demand has substantially decreased). The demand in different segments of manufacturing was rather constant. The 2015 survey indicated a modest growth perspective; employers expected a stabilisation of the overall employment, with vanishing frictions in the extracting and oil industries (including the processing industries).

Migration and labour market frictions – the Dutch analysis

The analysis and mapping of labour market frictions in the Netherlands are undertaken by several institutes. The UWV (Employee Insurance Agency) makes use of various instruments (for instance sectoral analyses) that describe frictions and surpluses per sector. The ROA (Research centre for Education and Labour market) produces regular overviews of current and future developments of the Dutch labour market. The CBS (Statistics Netherlands) publishes the Labour Force Survey and other statistics.

The UWV produced an overview in May 2014 with labour and shortages. The overview tries to map as clear as possible the occupational shortages. At the level of medium-skilled workers the institute found indications of shortages in operational technical functions and technical staff; at high-skilled and scientific level the indicators of shortages went in other directions, i.e. specific IT-functions (programmers), specific occupations in education and specific financial occupations (tax specialists and actuaries). In caretaking, it was indicated that only in special functions, for instance regional/mobile caretakers and specialists in geriatric medicine, shortages were signalled. On the occupational side shortages were found in the metal and electronical manufacturing and in other parts of manufacturing, in specialised corporate services and in IT.⁵

The ROA expects serious frictions and tensions between demand and supply on the labour market in the near future in the IT and technical segments. In the last updated research (2015), the ROA forecasts a growing demand for technical occupations over the whole skill range in technics: starting at the medium-skilled level to the academic educated. The austerity programs in the healthcare and social sectors have important consequences for the prognosticated employment growth in the sector; as a consequence the forecasted growth will be substantially lower, resulting in less frictions.⁶

According to the statistical office CBS, labour migration can be one of the mechanisms that enter into force in case of labour shortages. With a regression analysis the office examined whether changes in the recent past of the size of the labour force have had an influence on the labour migration into the Netherlands. No significant relation was found between labour migration and supply of labour. In periods that the domestic labour supply accelerated there was no decrease of labour migrants' influx. In years of shortages the influx did not increase. The CBS does not exclude that part of the migration was the result of shortages of domestic supply of labour in specific sectors, but, at aggregate level no clear link exists between the overall labour supply and the total influx of labour migrants. This is the main reason why the office has decided not to use the ageing of the population and the demographical shrinkage as predictors of the (future) labour migration.⁷

A report of the European Migration Network (EMN) focuses on the need of third country workers and disregards the mobility of EU-citizens. EMN concludes that the labour market shortages are to be found in technical occupations, the IT-sector and certain specific labour market niches, at medium-skilled, high-skilled and academic level. The analysis of labour shortages has no important impact on the migration policy, with the exception of the upper level of the labour market, where labour migration is functioning as a means to strengthen the economy. For the rest, recruitment of labour migrants from third countries is not utilised to cover identified shortages; the initiative lies mostly in the hands of the (individual) employer. EMN notes that a shrinking and ageing labour population in all EU-countries will lead to a decreased potential of labour mobility in the EU. Fewer EU-migrants will be available and the competition with other EU-countries that want to attract migrants will intensify. Implicitly, EMN advocates a pro-active stance for a migration policy that is no longer considered a subordinated part of the actual labour market policy.⁸

¹ SER, 2014, Arbeidsmigratie, Advies 14/09.

² http://www.europarl.europa.eu/RegData/etudes/STUD/2015/542202/IPOL_STU%282015%29542202_EN.pdf

³ <http://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=7859&furtherPubs=yes>

⁴ https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/406775/Partial_review_of_the_SOL_for_UK_and_Scotland_Report.pdf

⁵ <https://www.werk.nl/xpsimage/wdo211581>

⁶ http://roa.sbe.maastrichtuniversity.nl/roanew/wp-content/uploads/2016/01/ROA_R_2015_6.pdf

⁷ <http://www.cbs.nl/NR/rdonlyres/472C113E-E5D4-455B-8EA9-B3420B8FF074/0/20131201b12art.pdf>

⁸ http://ec.europa.eu/dgs/home-affairs/what-we-do/networks/european_migration_network/reports/docs/emn-studies/emn-studies-20b_netherlands_labour_shortages_nl_version.pdf