Mobility and regional labour markets:
Lessons for employees and employers

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Introduction

• This presentation introduces the question of mobility in the context of the border regions of Kent and Nord-Pas de Calais

• Mobility involves both the movement of people (labour) and of firms or their investment (capital)

• But mobility is less than might be expected, mainly due to the lack of good information on opportunities

• This presentation is designed to help remedy that lack by bringing together a general discussion of the issues, some basic data to understand the regional context and a set of links to various sources of further information – including official web sites in the UK, France and European Commission, and our own research reports
Overview

- Labour market flexibility
- Geographical mobility
- Determinants of mobility
- Trends in population and migration in Europe
- Migration and the regional economy
- Factor and product market flexibility – trade, migration and investment
- The Kent/Nord-Pas de Calais Region
- Labour mobility issues: skills needs, educational attainment and labour market knowledge
- Cross-border investment
- Needs for the future
Labour market flexibility

• Labour markets need to be flexible
  – To adjust effectively to changes in demand
  – To adopt and adapt to new technologies
  – To provide macroeconomic adjustment
    • especially where exchange rates and monetary policy cannot be used, e.g. in a single currency area

• There are six aspects to labour market flexibility
  – Working patterns: part-time, temporary, hours etc
  – Wage flexibility: wage levels and differentials
  – Numerical flexibility: ability to fire and fire relative to employee protection
  – Functional flexibility: workforce adaptability
  – Skills flexibility: education, training and transferability
  – Geographical mobility
Geographical Mobility

• Most obvious means of adjustment between different regions/countries
• Concern that mobility levels are “too low” to provide effective adjustment
• Recognise different types of mobility
  – “Traditional” migration: permanent move of residence and workplace
  – Short-term or temporary migration: movement of workplace for fixed period
    • Within same organisation
    • As part of fixed-term or seasonal contract
    • For educational/training reasons
  – Periodic commuting: movement of workplace, but no move of permanent residence, commuting weekly or less frequently
  – Daily commuting: movement of workplace over shorter distance
Geographical Mobility

- Constraints on geographical mobility
  - Legal/immigration controls
    - Not applicable to EU citizens who have right of free movement
    - Relevant to enlargement of EU: possible transition periods
  - Cultural/language barriers
    - Language barriers remain strong in EU, especially for skilled or middle management workers
    - Highly skilled/professional typically work in English
    - Unskilled may not need language proficiency for work
  - Mutual recognition of qualifications/training
    - Lack of basic understanding of educational structures in EU
    - Problems of professional recognition
  - Portability of social security and pensions entitlements
  - Family/household constraints
    - Dual career households
    - Educational mobility for children
Determinants of mobility

• Mobility depends on both push and pull factors
  – Push factors
    • Labour demand in home region: unemployment, wages, skills
    • Non labour market factors: political, religious, cultural
  – Pull factors
    • Labour demand in destination region: job creation, wages, skills
    • Non labour market factors

• Wage differences
  – Nominal differences: wage rate for the job
  – Real differences: allowing for differences in price levels

• Unemployment/job opportunities
  – Mobile workers tend to be most dynamic and respond to job creation rather than unemployment rates

• Lifetime earnings/human capital
  – Initial differences in wages may be less important than prospects
  – Mobility as lifetime training

• Mobility has costs
  – Financial: the cost of moving
  – Psychic/social: the problem of the unknown, impact on family life
Models of migration

- Neoclassical model: a simple starting point

This shows how two regions with different initial levels of demand and hence of wages, $w_1$ and $w_2$, will be brought towards equilibrium by migration. Wages in region 1 fall to $w'_1$ and in region 2 rise to $w'_2$; full adjustment does not take place because of the cost of migration $c_M$. There is a net gain in welfare to the two regions as a result.
Models of migration

• Human capital and life-cycle models
  – Allow for long-term effect on lifetime earnings
  – Mobility may not be permanent as workers seek to acquire skills
  – May lead either to return migration or serial migration
  – Positive impacts on productivity

• Household migration models
  – Households may need to solve more than one labour market problem
  – But may be able to spread risk by working in different labour markets
  – Remittances from migrants have positive economic impact in home region

• Asymmetric information: markets do not function fully
  – Migrants: know their own skills, but not the employers’ needs
  – Employers: know their needs but cannot determine accurately migrants’ skills

• Network models
  – Migrants improve information by following former migrants from same origin region
  – May also improve employers’ knowledge
Trends in population and migration in Europe

- Underlying decline in fertility:
  - Labour force in EU estimated to contract by 5.5% by 2020

- Traditional south to north migration reflects simple models of migration
  - But migration rates low compared with US (about one-third to one-half), even within countries (e.g. Italy)
  - Cohesion countries moved to net immigration
  - Some recent increases in mobility rates

- EU now has net immigration
  - Reduced inter-continental emigration
  - Increasing pressure of immigration from Central and Eastern Europe
  - Immigration from other countries
    - Short-term pressure of war and transition: Balkans, Albania
    - Long-term pressure from poor neighbours: Former Soviet Union, N.Africa
Migration rates generally low (1 to 2/000) but converging. All EU member states now countries of net immigration.
Foreign residents as % population, by EU country 1998

Note that only for Germany is the % of CEEC and non-EU residents a significant proportion of the population. Belgium has one of the highest rates of other EU residents, Luxembourg (not shown) is even higher.
Migration and the regional economy

• Traditional view:
  – Increases wages and productivity in emigration region
  – But region loses skill base
  – Depresses wages and productivity in immigration region
  – Thus mobility often opposed by unions and politicians

• Newer view
  – Inward migration enables resident workers to gain occupational flexibility: i.e. impact on productivity not wages or unemployment
  – Generates increased activity in region from additional demand
  – Outward migration reduces unemployment pressure in losing region and provide inward financial flows from remittances and returning migrants
  – Returning migrants enhance productivity and thus compensate for any skill loss
  – Actual impacts in both regions are sector and skill specific
  – Thus migration likely to be beneficial for all.
Factor and product market flexibility

- Trade and migration
  - Traditional view that trade is a substitute for labour migration: labour embodied in the products traded, thus mobility irrelevant in a single market
  - Increasing evidence that may be complements: more trade leads to more mobility, but more mobility also leads to more trade
  - Which has greatest effect on incomes and employment not clear

- Migration and Investment
  - Old question: move the workers or the work, which has greater net benefit?
  - But investment depends on more than labour availability and wages, e.g. capital incentives, social on-costs
  - Direct investment may involve bringing key workers: short-term training function or permanently?
  - Do restrictions on mobility induce more direct investment, and with what net effect?
The Kent/Nord-Pas de Calais Region

• Some basic economic data

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<th>Kent (UK)</th>
<th>Nord-Pas de Calais (France)</th>
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<tbody>
<tr>
<td>Population (000) 1998</td>
<td>1575</td>
<td>3997</td>
</tr>
<tr>
<td>GDP/head (PPS) EU15=100 1988 1998</td>
<td>88.4 (98.7)</td>
<td>89.2 (108.4)</td>
</tr>
<tr>
<td>Unemployment rate % 1989 1999</td>
<td>4.3 (7.4)</td>
<td>12.6 (9.3)</td>
</tr>
<tr>
<td>% population under 15 1998</td>
<td>19.2 (19.3)</td>
<td>21.7 (19.1)</td>
</tr>
<tr>
<td>% of age 25-59 with high educational attainment</td>
<td>24 (28)</td>
<td>16 (22)</td>
</tr>
</tbody>
</table>

The Kent/Nord-Pas de Calais Region

- Nord-Pas de Calais
  - Youngest population of any region in France
  - Tendency for relatively high out-migration
  - Skill levels below national average
  - Transformation of industrial structure from dominance of old industries
  - But unemployment remains high, very high in some areas
  - Strong dependence on regional incentives
  - For more details see http://www.insee.fr/fr/insee_regions/nord-pas-de-calais/rfc/accueil_rfc.asp
The Kent/Nord-Pas de Calais Region

- Kent
  - Older population than UK average
  - Dominance of London in labour market
  - Skill levels below national average
  - Some transformation of industrial structure from old industries, lower rate of high tech. development than South East generally, contrasts between sub-regions
  - Unemployment relatively low, but some pockets remain stubbornly high
  - Sought regional incentives to counter poor access and proximity to assisted areas in Nord-Pas de Calais
  - For more details see
    http://www.kent.gov.uk/sp/ker/KERMar00.pdf and
Unemployment in Nord-Pas de Calais

Note how the coastal region has much higher unemployment than the region as a whole, with a similar cyclical response, except during the peak construction period of the Channel Tunnel.
Unemployment evolution in Kent also shows similar cyclical patterns between travel to work areas; the Dover area benefits from Channel Tunnel construction in the early 1990s. Although the average level of unemployment is lower than in Nord-Pas de Calais, some of the disparities within Kent are relatively larger.
Labour mobility issues

• Skills needs
  – Both regions have skill deficiencies
  – Problems for indigenous firms, lack of attraction for new investment

• Educational attainment
  – Higher in Kent than Nord-Pas de Calais, but below national average in both
  – France has well-developed system of vocational/technical qualifications at basic levels (see http://www.education.gouv.fr/orient/default.htm for details)
  – Recognition of need to improve basic skill levels
  – Particular needs for better language ability to exploit border location, but this perceived as much less significant for most Kent firms than general communication or IT skills
Labour mobility issues

• Labour market knowledge
  – Generally poor for both employees and employers
  – Problems of understanding and recognition of qualifications most serious
  – Also knowledge of rights under Health and Social Security regulations
  – EU has developed a network of national employment services, EURES, to assist: for general information see http://www.europa.eu.int/comm/employment_social/elm/eures/en/index.htm
  – Specific concentration on key cross-border regions of which first is Hainault/Nord-Pas de Calais/Western Flanders/Kent (HNFK) which provides a job search facility see: http://www.europa.eu.int/comm/employment_social/elm/eures/en/about/cross/1.htm
Cross-border investment

• Firms move (or invest in a new location) for various reasons:
  – Access to specific skills
  – Access to specific suppliers or markets
  – General transport accessibility
  – Costs (e.g. wages, rents, prices, taxes)
  – To avoid excessive regulation
  – Availability of investment incentives

• These can be divided into:
  – Hard factors: objectively quantifiable
  – Soft factors: not easily measured, but may be very significant in actual choice of location (e.g. language, cultural perceptions)
Cross-border investment

• UK major EU destination of FDI
  – £86.2 bn in 2000
  – France 2nd largest inward investor after US
  – UK major destination for French investment (48% in 2000)

• Factors influencing FDI
  – Flexible labour markets
  – Language
  – But some controversy over role of exchange rate with UK outside Euro-zone
Cross-border investment

- The pattern of foreign investment in Kent is similar to that in UK as a whole

- **Main investors are:**

<table>
<thead>
<tr>
<th>Origin</th>
<th>Number</th>
<th>Employment</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>39</td>
<td>3108</td>
</tr>
<tr>
<td>Germany</td>
<td>39</td>
<td>2290</td>
</tr>
<tr>
<td>Netherlands</td>
<td>27</td>
<td>2323</td>
</tr>
<tr>
<td>Switzerland</td>
<td>13</td>
<td>512</td>
</tr>
<tr>
<td>Sweden</td>
<td>10</td>
<td>617</td>
</tr>
<tr>
<td>Other Europe</td>
<td>25</td>
<td>1540</td>
</tr>
<tr>
<td>US/Canada</td>
<td>85</td>
<td>12698</td>
</tr>
<tr>
<td>Japan</td>
<td>23</td>
<td>1425</td>
</tr>
<tr>
<td>Rest of World</td>
<td>27</td>
<td>2772</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>288</td>
<td>27285</td>
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</tbody>
</table>
Cross-border investment

- French firms are less predominant in Kent than British firms in Nord-Pas de Calais and they are not principally firms from Nord-Pas de Calais
- We have surveyed 25 (out of 39) French firms in Kent employing over 3100 people and mainly in manufacturing (36%) and distribution (36%)
Cross-border investment

- Main reasons for French firms investing in Kent are:
  - Proximity to markets in UK and to continental Europe
  - Availability of land
  - But not financial assistance, wages or tax/legal benefits

Reason for location

Single most important factor
Cross-border investment

• Firms tend to be dynamic and growing
• About 5% of employees are French nationals
• Problems faced include availability of all types of skills

Percentage of vacancies difficult to fill

- Managers & professionals: 18%
- Associate professionals & technical: 14%
- Clerical & secretarial: 9%
- Craft & related: 9%
- Sales & sales related: 9%
- Plant & machine operatives: 9%
- Other: 18%

• About 50% of firms look outside Kent to fill difficult vacancies
Cross-border investment

- France traditionally less welcoming for inward investment than UK
  - 1999 Total FDI in France £32bn, in UK £52bn
  - But Nord-Pas de Calais leading inward investment region
- British firms have been the major foreign investors in France
  - Frequently over 20% of all FDI in France (42% in 2000)
- And in Nord-Pas de Calais:
  - 241 firms employing 26000 in 1998
  - Other major investors: US, Italy, Belgium
- Major reasons for investment by Belgian companies include:
  - Generous regional development incentives
  - Good infrastructure, including port infrastructure
Needs for the future

• Better (more and more reliable) information on opportunities for both those seeking work and those seeking workers (e.g. via EURES)
• Better (more and more reliable) information on the regulatory structures which will be faced, but more harmonisation of e.g. social security, pensions rights etc.
• Improvements in the basic employability skills of individuals (literacy, numeracy, IT and language) and easier mutual recognition of basic qualifications – i.e. improve mobility opportunities for the many not the few
• The vast majority of the population will not be mobile, but needs to recognise the benefits that mobility brings to all
Further information

- Detailed information is contained in the following reports:
  - Labour Markets in EU Border Regions: the case of Kent and Nord-Pas de Calais.
  - Capital Flows in EU Border Regions: the case of Kent and Nord-Pas de Calais
  - Capital Flows Across an Internal EU Border Crossing: the location and recruitment decisions of French businesses in the English County of Kent,

- All are available at:
  http://www.ukc.ac.uk/economics/research/INTERREG-WPS.html