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**Book review on:**

## **The European Labour Market Regional Dimensions**

Floro Ernesto Caroleo and Sergio Destefanis (editors)<sup>1</sup>  
by Peter Huber, Austrian Institute for Economic Research, Vienna

This collective volume is published at a time when, in conjunction with the enlargement of the European Union and the Lisbon agenda, regional labour market issues are once more arousing increased academic and political interest. One of the book's strengths in this respect is its wide geographic coverage. While for instance Elhorst's (2003) important survey of research on regional unemployment differentials covers 41 contributions of which 15 focus exclusively on the UK and 14 on the US, this book, which comprises 14 papers presented at the seventeenth AIEL conference held at the University in Salerno in September 2002, does much better: Six contributions focus on comparative analysis of at least two EU countries, one on Poland, one on Germany, one on the UK and one study is theoretical. A slight national bias – which, however, seems to be justifiable in light of the interest of the case and the quality of the contributions – can only be found with respect to the four Italian studies, which focus on a survey of recent Italian attempts to define regional labour markets, estimates of the Italian Beveridge Curve, the reasons for widening unemployment differentials in Italy and the evaluation of labour market policy.

The book also brings together papers on a wide set of issues such as measuring and assessing labour market flexibility, the role of skills, structural change and institutions in shaping regional labour market disparities and the evaluation of labour market policies. On the positive side, this implies that a reader, who reads all chapters, will be provided with a good overview of the topics currently on the research agenda in European regional labour market research – a value added that is underpinned by the thorough literature surveys provided in almost all of the papers and the two survey papers.

On the negative side, however, the wide coverage creates the impression of a rather fragmented research agenda. This impression is reinforced by Caroleo's and Destefanis' introduction, which summarises the papers but provides little in the way of a unifying theoretical or empirical framework within which the separate contributions can be structured, and leaves the reader rather lonesome in interpreting the policy relevance of individual chapters. This is a pity in particular because one of the editors of the book, in a more recent paper (Caroleo and Pastore, 2007), suggests a research agenda for regional labour market research in an enlarged EU that is clearly linked to the lessons of this book. We would argue that against the background of this contribution, the high density of quality comparative work presented in this book provides a number of interesting results and – more importantly – presents a starting point for future research in the direction suggested in this paper.

A number of contributions, for instance, address the issue of the impact of regional structural change on the labour market, which is the first research priority in the list presented in Caroleo and Pastore (2007). This applies most strongly to those

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<sup>1</sup> Physica-Verlag, Heidelberg, 2006, pp. VIII, 341.

papers which focus on transition economies (i.e. the new member states of the EU). Ferragina and Pastore in their survey of the literature on regional development in transition, which (together with their 2007 publication in the *Journal of Economic Surveys*) is likely to become an important reference, link this literature to the theoretical literature on the optimal speed of transition and suggest that regional analysis can be used to discriminate between competing explanations for the high and persistent unemployment rates in most transition countries. They conclude that the evidence favours interpretations where persistent unemployment rate disparities reflect differences in the speed of restructuring in transition

This link between labour market disparities and restructuring is also highlighted in the other papers focusing on new member states. Domadenik and Vehovec in their comparative analysis of industrial restructuring in Slovenia and Croatia find that enterprises in the two countries have similar short run labour demand elasticities but differ substantially with respect to long run elasticities. Furthermore, they hypothesize that the differences in labour market outcomes between the two countries are due to differences in the form of restructuring of enterprises, with Slovenian firms showing more strategic restructuring. Newell, by contrast, in his analysis of the role of skill mismatch for regional disparities in Poland, addresses an issue that has only recently been moving into the centre of interest in understanding regional disparities in transition (see also Jurajda and Terrell, 2007). He finds that the equilibrium and mismatch phenomena associated with the differential endowment of regions with skills can explain about half of the variance in Polish unemployment rates.

Finally, Sena draws attention to the fact that massive industrial restructuring is not only a phenomenon observed in the new member states, but also in many mature market economies. Against this background she discusses how different policies, such as tax, unemployment and active labour market policies, contribute to creating high and persistent unemployment rates. She uses East Germany and Poland as two case studies of countries with particular rapid structural change. Furthermore, she highlights the interdependence of different policy measures by showing how, in an environment of low search incentives for the unemployed, active labour market policies in general show little effect in improving labour market outcomes.

These contributions thus highlight the important role of structural change in determining regional labour market outcomes in transition. In my own survey of this literature (Huber, 2007), I have tried to stress that, aside from structural change, starting conditions also had an important role to play. Planned economies were not as egalitarian as is often supposed, and regional disparities (in particular in terms of factors influencing the economic potential of a region) were substantial. Clearly the issue of the relative importance of various factors affecting the heterogeneous growth experiences of transition economies is going to remain part of the research agenda of scholars interested in transition for quite some time (see also Campos and Coricelli, 2002 on this point). Similarly, the impact of different forms of restructuring and their interrelationships are high on the research agenda (see Djankov and Murrell, 2002 for a survey) as are issues of the effects of the interaction of structural change, search incentives and active labour market policies, which can indeed be nicely studied by the example of transition economies.

The effects of regional economic structure on regional labour market performance are also at the centre of a number of the contributions on mature market economies. For instance Amendola, Caroleo and Coppola in their paper analyse regional

disparities using dynamic multivariate analysis methods and highlight substantial structural differences of European labour markets as the main reason for regional disparities. They, however, also identify other important factors which contribute to regional labour market disparities such as localization factors (i.e. urbanisation and transport hubs) and agglomeration economies. Furthermore, Marelli in his contribution, which focuses on measuring symmetries or asymmetries in regional business cycles argues that sectoral specialisation patterns are important in determining regional employment growth performance in the EU15 in the period from 1983 to 1997 and that business cycle asymmetries between regions in the EU are more strongly associated with differences in industrial structure than with geographic proximity. This result has important policy implications for the feasibility of the European monetary union.

In addition Maggioni's and Gambarotto's survey of the literature devoted to the analysis of local labour markets suggests that the choice of the definition of the term 'region' in itself determines which policy conclusions the analyst is likely to find. He argues that researchers that focus on administrative regions are likely to stress the role of institutions in shaping regional development, while a functional approach (such as travel-to-work basins) is likely to emphasize the role of removing barriers to mobility and researchers in the industrial districts tradition are most likely to focus on the role of social and relational capital.

These papers in sum link closely to the emerging literature on regional labour market development in the EU, which is still underdeveloped. Interestingly, one aspect that is hardly analysed in these papers, but quite intensively in most other contributions to this literature (see Perugini and Signorelli 2007, Longhi, Nijkamp and Traistaru 2005, Zeilstra and Elhorst 2006), is the effect of institutions on the development of regional labour markets. Again we would expect that future research will increasingly focus on regional data to identify these effects and their interaction with regional structure on labour market outcomes.

Three papers focus in a similar vein on labour market flexibility from an empirical as well as a theoretical perspective. Among these papers Südekum's theoretical contribution attempts an integration of the wage curve in economic geography models and thus opens the door for an integration of two strands of literature, which belong to the most actively researched areas in recent decades. In particular Südekum's result that in the presence of increasing returns to scale migration will not erode the wage differentials, and that therefore the wage curve can be interpreted as a long run equilibrium relationship, is an important finding that in principle could also be tested empirically.

Montuguena, Garcia and Fernandez, by contrast, estimate wage curves for France, Italy, Portugal, Spain and the UK. Aside from substantial differences in wage flexibility between the countries, (with Portugal and Italy showing the lowest wage flexibility and the UK the highest), these authors also find that in all countries but the UK lagged measures of the underutilisation of labour (such as the unemployment rate) enter significantly in the wage equation, suggesting persistence in wage setting behaviour. Limosani analyses the relationship between wages, productivity and unemployment in Italian regions. His empirical evidence suggests that increasing wage and productivity disparities have been a major cause for the increasing regional disparities in unemployment rates in Italy in the last four decades.

Monastioriotis, in an important contribution that takes an encompassing view of labour market flexibility, develops a set of indicators of regional labour market

flexibility. Among the many interesting findings in this paper, probably the most important one from a regional economist's perspective is that, even within the institutional setting of a single country, there are large and persistent regional differences in empirical measures of regional labour market flexibility. This thus suggests that regions with different economic structures differ in their labour market flexibility and that empirical measures of labour market flexibility should always be benchmarked against the background of this structure: Clearly here too, there is ample room for applying this methodology to other countries in an attempt to determine the generality of results.

Finally, a last set of contributions focuses on labour market policies. In this series of papers Destefanis and Fonseca estimate the Italian Beveridge Curve for three main Italian regions in the 1990s. Aside from the general interest in coefficient estimates for a country whose Beveridge Curve has so far been little researched, their interest is also in assessing to what degree a particular aspect of labour market reform in Italy (the so called Treu Act) has affected matching efficiency in Italian regions. Their preliminary results indicate that, while this intervention has helped the more prosperous Northern regions in Italy, the South, which was already, prior to reforms, the least efficient labour market in terms of matching efficiency, experienced a slight outward shift (i.e. a further reduction in matching efficiency) after these reforms.

Hujer, Blien, Caliendo and Zeiss as well as Altavilla and Caroleo, by contrast, use the regional variation in policies and outcomes to assess the effects of active labour market policies using macroeconomic methods. These papers are particularly interesting since they apply relatively similar panel econometric techniques to two rather different countries. Hujer et al. find that while there is only a very short-lived unemployment rate reducing effect of job creation schemes on regional unemployment rates in West Germany, vocational training has a longer lasting unemployment rate reducing effect. Furthermore, they also find that in Eastern Germany only structural adjustment schemes are effective in reducing unemployment rates. Altavilla and Caroleo find that in the North of Italy subsidized employment schemes have no significant effect on regional unemployment levels but that job stabilisation and mixed cause contracts are effective in reducing unemployment rates in this region, while in the south subsidised employment is more effective than in the North and mixed cause contracts are ineffective. Furthermore, they provide evidence based on panel-var estimates that active labour market policy in the South of Italy is less effective in reducing regional unemployment rates than in the North.

All three of these papers thus suggest that there are substantial regional differences in the effectiveness of policy measures: in general, policy interventions aimed at reducing unemployment or improving matching efficiency, are more effective in the more advanced regions. Again this finding seems interesting and future research could well focus on whether it applies not only to Germany and Italy, but also to other countries

In sum this book brings together a wide range of contributions on topics that are likely to remain in the core of European regional labour market research for some time to come and thus provides a good overview of the current literature in European labour market research. Furthermore it presents many interesting hypotheses that could be used as inspiration for further research. What is left open is a unified policy conclusion. Given the scarcity of comparative research on regional labour markets in

the EU, however, resisting the temptation to jump to firm conclusions may be more a strength than a weakness.

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