

## **EU Monitor**

Long-term Sustainability of Healthy  
Labour Market in EU Population  
Development, Immigration Stress, and  
their Impact

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## Abstract

A functioning labour market that ensures fair and equal treatment of the labour force (with no other undesirable factors i.e. such as insufficient working conditions, apparent and targeted involuntary reduction of working hours, etc.) is one of the cornerstones of achieving economic growth based on the growth of innovations. The long-term sustainability of a healthy labour market should therefore be a priority for EU countries.

However, the upcoming workforce crisis (the lack of employees not only in the case of EU countries, i.e. in the Czech Republic, Germany, but also in the USA) causes a tendency to deviate from the ideal state of long-term sustainable labour market. For instance, in labour migration a level playing field and fair remuneration is not always ensured. It is already possible to observe many negative factors that undermine the potential of a long-term sustainable labour market in the EU.

The issue is key not only for employees and employers but also for the individual states, which are forced to address the effects of labour market failures. For instance, in the form of providing social security, reskilling or upskilling for workers from abroad who lose their jobs and become unemployed. Therefore, the aim of the policy paper is not only to point out the current problems in the labour market but above all to define recommendations that would help stabilize the labour market to the satisfaction of all stakeholders (employees, employers, government).

## Keywords

Labour Market, Immigration, Work, Workforce.



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## Introduction

A healthy labour market is the starting point for a prosperous national economy. The prosperity is given by an effective use of human capital that comes up with innovative solutions. Such state is desirable for intense economic growth and therefore national governments should focus on this topic.

The importance of intensive economic growth is supported and emphasized by many economists, for instance Mihola and Wawrosz (2013): *“The extensive development, based on the increasing units of inputs, must, at a certain point, meet with the limit of scarce resources. It is not also able to increase production without further increasing of inputs what can endanger environment, nature and even life on the Earth.”* As the results of many studies show countries of the EU are striving for intensive economic growth. The development of their GDP over time confirms this effort. At the same time, following the Covid-19 pandemic, it was shown the importance of labour market for economic growth and its long-term sustainability (points out, for example, Giovanni Gallipoli & Christos Makridis, 2020).

Although the current labour markets in individual countries, not only within the European Union, are tackling various problems, the basic need remains the same in all cases:

**A long-term sustainable labour market that provides a level playing field and treatment for all labour market participants, while ensuring the maximum use of human capital (knowledge and skills) to achieve economic prosperity and global competitiveness.**

After all, as stated by the latest findings of the authors Elena Jianu & Ramona Pîrvu & Gheorghe Axinte & Ovidiu Toma & Andrei Valentin Cojocaru & Flavia Murtaza (2021): *“Reducing inequalities for EU citizens and promoting upward convergence is one of the priorities on the agenda of the European Commission and, certainly, inequality will be a very important public policy issue for years to come.”*

## Current Situation of the Labour Market and Key Influences that Affect the Labour Market

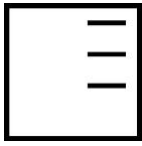
One of the fundamental macroeconomic indicators to focus on is unemployment rate. EU countries can thus be divided into two main groups. Most countries of the European Union are characterized by their long-term low unemployment rate, for instance (OECD, 2019):

- The Czech Republic 2.02%,
- Germany 3.15%,
- Poland 3.28%,
- Hungary 3.30%,
- The Netherlands 3.40%,
- others.

For the time being, the unemployment rate is not being significantly affected by the COVID-19 pandemic within the European Union. If we focus on the number of job vacancies and the number of unemployed people, then the core of the problem is already starting to show. For instance, in the Czech Republic, employers offered as many as 358,152 vacancies through labour offices in 7/2021. On the other hand, during the same period, labour offices registered only 272,178 job seekers. What's more, only 252,000 applicants were able to start in a new job immediately (Úřad Práce ČR, 2021). The situation thus shows the beginning of a work force crisis.

Considering current and predicted demographic developments, the population growth of many countries is showing signs of an ageing society. The share of the economically active in the total population is gradually decreasing.

For instance, in the case of the Czech Republic, in 2021 the share of the economically active in the total population is recorded at the level of 64%. According to the current population projections



provided by the Czech Statistical Office (CZSO, 2021), only 60.4% of the economically active will be registered in 2041. In 2051 even only an alarming 56.3%. A similarly unfavourable situation is for example in Germany, where already in 2030 will be a shortage of 8 million workers.

The fact that the impending workforce crisis is a reality that states should start addressing urgently is pointed out not only by entrepreneurs themselves but also by economists and other experts on the issue. After all, as Emilsson stated in 2015, the decades of falling birth rates have resulted in slower population growth in Europe than in other regions. By 2017, Europe's most populous country, Germany, ranked just 16th globally. The continent's birth rate is now so low that the total population in many European countries has begun to decline. In 13 of its 28 member countries, more people died than were born in 2017. Mihola, Wawrosz (2013) comes up with a similar statement „*All countries under our review (i.e. Bulgaria, Czech Republic, Estonia, Hungary, Latvia, Lithuania Poland, Romania, Slovenia and Slovakia for the period 1990-2010) faced the fall of labour force, which was, however, usually compensated by increasing of capital inputs.*”

Many companies and states also proceeded to promoting labour migration in response to the shortage of workers in the labour market.

Nowadays in 2021, we are in a period when many foreign workers are employed in individual countries. After all, as stated by the European Union's statistics agency as early as 2016, the population of many regions of the European Union grew primarily due to migration.

## Issues of Sustainability in the Context of Labour Migration and the Labour Market

Sustainability is a key issue. Before mentioning the threats and risks associated with international labour migration, it is worth noting the Sustainable Development Goals (SDGs). SDGs, also known as

the Global Goals, were adopted by the United Nations in 2015 as a universal call for an action helping to end poverty, protect the planet, and ensure that by 2030 all people enjoy peace and prosperity.

**Goal 8. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.**

**In particular, the following points should be noted in the context of this objective:**

**8.5. By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value.**

**8.8 Protect labour rights and promote safe and secure working environments for all workers, including migrant workers, in particular women migrants, and those in precarious employment.**

The long-term sustainability of the labour market is key. We can observe it especially in times when the labour market is not working efficiently. Such situations put national economies under pressure. A dysfunctional labour market can, in the long run, lead to a decline in economic performance, increased costs on the part of the state (especially in the form of transfer payments), as well as social and psychological difficulties. This is certainly undesirable.

Moreover, as the authors' Sirovátka and Šimíková findings from 2013 indicate: "*In case of the Czech labour market it turns out that long-term labour market problems are more significant than cyclical fluctuations in the economy.*"

## Threats and Risks Associated with Labour Migration within the Labour Market

Labour migration does not only cause positive effects in the form of saturation of labour demand. It also causes plenty of complex situations, both at a workplace and in the labour market itself. Therefore,



the threats or risks associated with labour migration are listed below.

#### Internal Company Environment and Approach to Employees:

- Equal treatment of employees is not often ensured. We can find the differences in wages, working conditions or other aspects of employment relations. Although many employers declare equal approach to all employees, often beyond the legal framework, the reality is different. For instance, as is confirmed by the latest findings of the State Labor Inspection Office in the Czech Republic (2020) employers may see the employment of foreign employees (from countries such as Ukraine) as an opportunity to strengthen their economic interests. Especially in terms of low labour costs and minimizing the cost of creating and maintaining working conditions by employers.
- Foreign employees (from low-income countries) are usually willing to work for a lower wage than Czech or EU citizens, and it can be said that both these employees and employers understand this situation.

The situation can be partially illustrated by the amount of employees' wages according to their nationality, see Table 1. Unfortunately, there are currently no representative data available for the Czech economy on the comparison of income of domestic and foreign workers according to their expertise or job position.

Table 1. Remuneration for Work According to the Nationality of the Employee, 2021

Citizenship of Employees in the Czech Republic	Gross Monthly Salary	
	Median	Year-on-year Change
	CZK/Month	%
<b>CZ</b>	31 619	104,8
<b>UA</b>	25 752	102,0
<b>PL</b>	32 133	111,3
<b>BG</b>	28 134	104,1
<b>RO</b>	31 197	100,4

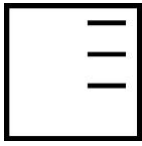
Source: ISPV, 2020

#### Impact on The Labour Market:

- According to the basic economic theory, the shortage of workers in the labour market should lead to an increase in the wage level. In practice, however, we see that many job positions (i.e. especially job positions that require a low level of education) are rewarded by very low remuneration for work. In some cases, employers see workers from abroad as a cheap labour force. Employers then lose the motivation to increase wages and prefer to use the work of foreign workers who are willing to work for a given wage. However, this situation can lead to wage rigidity as well as problems within a fair basic wage differentiation.
- If employers use the work of foreign workers as a cheap labour force, then at the same time the need for innovation and automation is minimized, which harms GDP growth.

#### Wider Societal Challenges - the State and its Role:

- In a broader context, it is worth noting that foreign employees need a degree



of security from the state in case of job loss. The state must therefore be prepared to address the issue of possible loss of employment of a foreign worker. In case of job loss, there is an increase in costs for the state. At the same time, foreign workers can come with their families and loved ones. This is a broader societal challenge in which the role of the state should not be neglected.

## Recommendations to Ensure the Long-term Sustainability of a Healthy Labour Market in the EU

### Education, Needs prediction and Lifelong Learning

As the investigation of Schebelle et al. from 2020 shown, the main motivation of employers for being interested in recruiting and employing Ukrainian workers was the lack of professionally qualified domestic workers who would have a (stable) interest in working in the offered job positions.

It, therefore, seems most beneficial to focus on the issue of **mismatch between labour market needs and the supply of education**. Effective prediction of future labour market needs and their successful implementation in formal education can lead to at least partial market stabilization.

However, it is not just about educating the part of the population that is not yet economically active. The need for education, more precisely retraining within the active employment policy, is a crucial factor in ensuring the long-term ability of an individual to stay in the labour market.

In the case of the arrival of employees from abroad, employers should support not only the increasing local language competencies of foreign workers, including professional terminology. Further education can be provided by other stakeholders, including the non-profit sector.

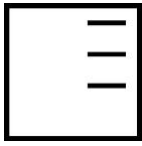
### Adapting Social and Health Insurance Payments to the Employee's Life Cycle (Voluntary Extension of the Retirement Age)

Given the demographic development of society, it seems beneficial to support the voluntary extension of the retirement age. If workers stay in the labour market longer, it will be beneficial not only for employers but also for the state itself (additional tax revenues). Many countries (for example the Czech Republic) do not actively use tax nor non-tax instruments to support the retention of workers in retirement age in the labour market.

An example of this can be found in the approach of the Netherlands, where the employer no longer must pay individual contributions for any such employees (the Government of the Netherlands, 2021), specifically:

- the Unemployment Insurance Act (WW);
- the Sickness Benefits Act;
- the Disability Insurance Act (WAO);
- the Work and Income according to Labour Capacity Act (WIA);
- the General Old Age Pensions Act (AOW).

As such, the individual is no longer insured against unemployment or incapacity to work. Of course, they will continue to collect their old age pension if their employment relations are terminated, which means that benefits during any incapacity to work no longer make sense. On the other hand, the individual is still entitled to a sickness benefit, even if the insurance contribution is no longer paid. Precisely this approach seems to be a suitable motivator for individual companies, and it can also be recommended that the payment of sickness insurance should be preserved under Czech conditions. The importance of the collection of sickness insurance payments is becoming more and



more crucial, partly due to rising health care costs<sup>1</sup>, caused, among other things, by the Covid-19 pandemic.

Another example can be found in Italy, where the government is endeavouring to motivate employers to employ older workers over the age of 50. The Italian government sees the group of unemployed people over the age of 50 as one of the most vulnerable groups according to Law. no. 92/2012 (the Monti-Fornero Reform). In compliance with Article 4, paragraphs 8 to 11, tax relief applies to companies that hire/employ workers over the age of fifty who have been unemployed for more than twelve months. Even though these bonuses are subject to many limitations, these tools can still be considered to constitute a positive step on the part of the government aimed at motivating the extension of the period of active inclusion in the labour market.

### **Cooperation of the State with Employers and Ensuring Fair Remuneration**

Despite specific and easily accessible legislation concerning fair remuneration, the amount of remuneration for the work of not only employees from abroad, but also domestic ones, is often incorrectly determined.

However, the violation of the principle of "equal pay for equal work" may not always be intended by employers. It would therefore be appropriate for the state to provide employers with transparent rules (possibly also methodologies, case studies or consultations) focused on the nature of the problem and how to set up a fair remuneration system. The United Kingdom (UK) has already attempted a similar act. The UK government, between years 2013 – 2015, extensively published many recommendations and guidelines on how to do job evaluations. Job evaluations is the starting point for determining fair remuneration. Most of these documents are freely available on the official government's website.

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<sup>1</sup> In the Czech Republic during the years 2020 and 2021, costs grew by 15.6 % year on year and then even by 25.6 %. (SP CR, 2021)

<sup>2</sup> The aim of this policy paper is not to evaluate the current setting of the social system. Nor is the aim of contributing to raising the

In some cases, non-compliance with the principle of equal pay and access is not a mistake caused by ignorance, but an intention. It would thus be appropriate for the state to support the societal pressure on the need to comply with the law and equal access to employees.

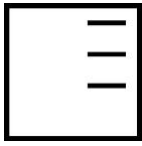
Finally, the role of institutions and the non-profit sector, which acts as an intermediary between foreign employees and employers, is important. It is non-profit organizations and state institutions that can provide a helping hand to foreign workers in solving legislative and other problems and issues. For example, the areas of the description and implementation of principles of fair remuneration are difficult to understand even for domestic workers, let alone for foreign workers. Foreign workers who come to work abroad are at a disadvantage compared to domestic workers, not only because of possible language or cultural barriers but also because of the limited social capital in the country where foreign workers come.

### **Connection and Context of the Social System**

To ensure enough people in the labour market, it is necessary to put into context the economic advantage of performing work compared to social benefits obtained during unemployment. According to Beran (2020), for example, in the case of the Czech Republic there existed a conflict between social benefits and remuneration for work in the period between 2001 and 2019.

Especially situations where individuals do not economically pay off to actively participate in the labour market (because their income from social benefits is higher) minimize their willingness to participate in the labour market. It is thus up to individual states to critically evaluate possible side/unintended effects of the social system<sup>2</sup>.

question of whether the state should seek to increase minimum wage levels or, conversely, reduce social benefits. However, it is essential to predict/evaluate the consequences of the application of selected social policy instruments on the labour market.



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### **Uniform Approach Across the European Union Labour Market**

Although labour markets differ from one European Union country to another, and each labour market has different characteristics, it is appropriate from the European Union's point of view to show a certain uniformity in the approach to labour migration.

## **Conclusion**

The aim of the policy paper was not only to point out current problems in the labour market but above all to define recommendations that would help to stabilize the labour market so as to satisfy all stakeholders (employees, employers, government).

**The long-term sustainability of the labour market lies in understanding the complexity of the labour market.** There is no simple recipe for securing the long-term sustainability of the labour market. To achieve a long-term sustainable labour market, the role and active involvement of all stakeholders is necessary: not only employees, employers, and the state, but also non-profit organizations and society in general. All stakeholders must accept the fact that some labour market challenges will remain in place in the coming years/decades (for instance, labour shortages due to the demographic development of society).

The issue of labour migration became very important not only for companies and producers but also for states. The area of labour migration is fully subject to the so-called state economic interests. On the other hand, what remains rather in the background is another state interest which tends to be associated with foreigners: hope regarding ensuring the demographic balance of the advanced Western societies (Čižinský, 2014).

Finally, it seems to be very useful to highlight that “labour” migrants cannot be reduced to work only. The life of these foreign workers has all other dimensions (relationships, values, etc). The same is true for all employees.

For this reason, the conclusion can be re-emphasized and stated that the long-term sustainability of the labour market lies in taking into account the

complexity of the labour market as well as the consequences of seemingly effective short-term solutions.





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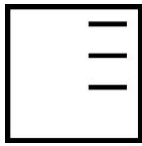
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