

# Promoting sustainable labour markets in rural settings

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## Introduction

Differences in national welfare systems are reflected in rates of labour market participation for different segments of labour across the EU member states. The Nordic countries have since long stressed “full employment” as a key labour market objective. There, the public sector has for instance actively been used to replace non-paid care with formal jobs. Germany and Austria on the other hand, both of which have less developed childcare systems, in practice treat males as the primary household wage earners. Moreover, several Southern member states consider the “extended family” to have responsibility for those family members in need, which obviously limits the chances of certain segments of the population from entering or indeed re-entering the regular labour market.

However, notwithstanding such differences in emphasis, the notion of “full employment” eventually found its way onto the agenda of the European Union. The member states are moreover unanimous in their belief that this goal would require significant levels of investment in the areas of employment and social policy. The notion of the activation of all segments of labour is accentuated: e.g. the goal requires at least 50 per cent of people aged over 55 years in the EU to be employed in 2010.

The differences in employment frequencies between EU member states remain large, but on the whole they now seem to be converging. On the other hand, regional differences within member states are reported to be on the increase. As such, the *transitional* characteristics of the labour market are becoming more transparent: Each transition, or career – such as from education to work, from care to work, or from unemployment to work, etc. – can be temporary and repetitions. Transitions can now of course occur at almost any time of one’s “working life”. There are theories explaining the nature and scope of such “transitional” behaviour exhibited by the current labour force, stressing, among other things, the individual choice of life-style, life chances or career options in different places. The other side of the coin of course is that rapid economic restructuring increases the risk of non-voluntary changes in employment status. In the current debate in some countries, high recorded rates of sick leave are considered to be related to various stress factors in both work and social life – in small and rural regions they are assumed to be responses to the lack of opportunities, while in

urban regions they are rather assumed to be the side-effects of tough competition in several fields of economic and social life.

The regions within member states thus perform as more or less efficient transitional labour markets, depending primarily on diversity and the vitality of their industrial structure, as well as on the demographic structure of the labour force. In general, labour markets in metropolitan regions are expected to permit higher rates of transition, reflecting more individual freedom of choice than do small and less diverse LLMs. However, performance is inevitably moderated by the welfare system prevalent in each country. In all probability then it is the countries that have an “individual” rather than a “household” focus on labour market participation that will be better prepared for high rates of transition.

The purpose of this chapter is thus to

- Review recent advances in the theory of the transitional labour market.
- Explore differential performance among rural labour markets in Sweden.
- And, discuss the need for policy reorientation for better functioning local labour markets.

## Characteristics of the transitional labour market

The concept of the transitional labour market was launched by the OECD in the 1990s (Schmid 1995). Transitional labour markets are defined as legitimate, negotiated and politically supported sets of mobility options for the individual. These transitions can take place in different timescales, by day, week, month and year, but also under different phases of the life cycle. Recent research indicates that, it is stated that the individuals’ increasingly frequent shifts of status from/to employment and education, disability and sickness, retirement, household work, unemployment, etc., are becoming increasingly important to deal with if one wants to maintain a successful employment policy.

The functioning and dysfunctional nature of labour markets can best be understood in a systemic framework. Employment systems are defined as the set of policies and institutions influencing interaction between the production and the labour market systems. The outcome of this interaction determines the quality and quantity of employment.

TLMs are used as both a theoretical and a policy-oriented concept. They are based on observations that the border between the labour market and other social systems – the educational system, the private household economy, etc., are becoming increasingly blurred. The important policy recommendations are thus that these boundaries should become more open for transitions between formal employment and productive non-market activities. As such, the opening up of these boundaries should reduce the permanent insider/outsider problem that is typical of modern labour markets.

In transitional labour market theory, employment is attaining a new meaning. Traditionally, employment was defined as the act of employing someone, the state of being employed or a persons' regular occupation. In classic labour market theory, developed for example by Lord Beveridge in the 1940s, employment was still more narrowly defined, as the male breadwinners' full time occupation based on a longstanding contract with the same employer. In the emerging transitional labour market, employment is rather more of a temporary state, or the current manifestation of long-term employability. The prototype for this new employment concept is the network labour market, with flexible entries and exits contingent on opportunities and individual expertise and continuous and flexible paths of accumulating work experience.

Thus, transitional labour markets are arenas for new forms of self-employment, where social integration is developed through the individuals' relation to others. In this form, social integration is taking place through productive social interaction not only within the field of paid work, but also in family work, cultural activities and voluntary work. Transition does not only mean movements between employment statuses, but also stands for flexible employment careers, including stages for preparation, encounter, adjustment, stabilization and renewed preparation for a new job or a new task.

This way of analysing labour market performance makes it very obvious that simple, one-dimensional measures to achieve "full employment" such as minimum wages or negative income tax are unlikely to be seen as efficient. Evidently, the concept of the TLM provides a richer and more realistic model for proactive and cooperative labour market policy.

## Setting the focus on rural labour markets

Specifically for Nordic countries, the dysfunctional characteristics of the many small labour markets in depopulating regions are in particular need of notification. The options for good transitions in these regions are extremely limited and probably decreasing over time, in spite of the large input from the labour market, as well as from social and structural policies. This calls for an increased Northern dimension to be given to European policy on full employment. For large parts of the territories of Sweden, Finland and Norway, which are sparsely populated, it is questionable whether these regions will ever provide functional markets for labour. Even today, they are dominated by a secondary labour market, based on publicly subsidized employment. The aging population in these regions demands services from the shrinking – and also ageing – local labour force. How then can we formulate a policy for "making transitions pay" in these parts of the European space?

It is generally accepted across the EU that the economic performance of regions, nations and indeed of the entire European Union is dependent upon the efficient performance of each individual LLM. For instance, in the case of Sweden, a recent Government Bill clearly states that, “well functioning local labour markets across the entire country should be the prime objective for regional policy, aiming at increased economic growth in all regions.” However, due to wide variations in structural terms, it is probably not feasible to set a common standard objective for the performance of all local labour markets in any one country.

It is also commonly expressed, that in order to optimise the performance of the diverse types of LLMs, labour market policy has to be flexible, as well as being adjusted to, and implemented at, the lowest possible regional level.

In order to be applicable at a functional common framework labour market level, economic development, including policies on education and communication, as well as on social policy, will all have to be better co-ordinated at the national, regional and local levels. This calls for an improved and better-qualified information system that targets both the performance of individual LLMs, and aggregated systems of labour markets.

## The transitional labour market in rural Sweden

The starting point for our empirical analysis is the hypothesis that an efficient labour market – i.e. with the optimal economic use of human, social and cultural capital – is both a primary engine for economic growth and a basis for individual careers in the widest sense. The assumption is that although the labour market in a political sense is increasingly international, its spatial characteristics are increasingly complex though they remain locally anchored (Nygren & Persson 2001).<sup>1</sup> As such we can see that there are forces working in several crosscutting directions here.

On the demand side, dealing with the care of the aged and other local service industries requires the adequate local supply of a committed labour force, while at the same time successive new generations of ICT and global “hi-tech” industrial networks diffuse the physical concept of a work-place.<sup>2</sup> There are conflicting and complementary theories explaining the location of workplaces in the new economy – from traditional agglomeration and more recent cluster theories, to theories of “indifference”. The latter meaning that new economic activity – i.e. corporations – is increasingly independent of any place-specific

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<sup>1</sup> Nygren, O. & Persson, L.O., (2001), *Det enkelriktade Sverige. Tjänstesektorn och den framtida regionala befolkningsutvecklingen*. TCO. Stockholm.

<sup>2</sup> van der Laan, L., 2001, *Knowledge economies and transitional labour markets: new regional growth engines*. Unpublished paper. Rotterdam School of Economics, Erasmus university.

characteristics, and that regional growth is to a large degree a matter of coincidence (Curran & Blackburn 1994).<sup>3</sup> Accordingly, different strategies come to be stressed in territorial industrial and innovation policy.

On the supply side, as mentioned earlier, the transitional characteristics of the labour market should now be seen more as the exception than the rule. There are a number of theories explaining this increasingly transitional labour force behaviour stressing the individual choice of life-style, life chances or careers perceived – or prevented – in different places. There are also theories stressing the importance of social capital, and whether it should be considered as a local or a global asset. Supply side oriented labour market policy is – slowly – adapting to the differing “tastes” of individuals and life-style groups. This transition can thus be viewed as a *supplementary* dimension to what is traditionally described as labour mobility, i.e. qualification or de-qualification careers, inter-industry mobility and inter-regional or international migration. Our hypothesis here is that these supplementary theories have to be considered in evaluating local labour market performance and sustainability.

In this labour market career approach, the following *statuses* (year  $t$  and year  $t+1$ ) for each individual of working age are defined and dealt with:

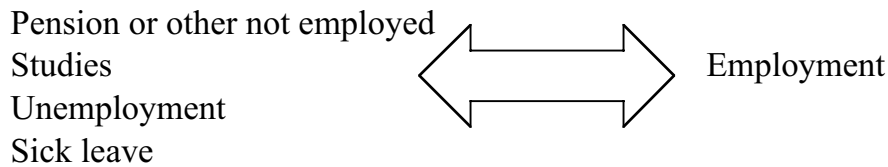
- Employed (wage labour or entrepreneur).
- Pension.
- Studies.
- Unemployed.
- Sick leave.
- Parental leave.
- Social benefit.
- No public support.

The dominant engine of labour market dynamics is the available vacancies, here measured as annual deactivation rates. To fill vacancies in the national labour market, activation to employment occurs predominantly from the statuses, *Studies* and *Unemployed*. In a recession year (1994) recruitment from unemployment is more important in numbers, while the opposite is registered in an upswing year (1998). In the upswing year numerous young people with a modern education were directly absorbed into the labour market, Figure 1. Returns from sickness leave were not stimulated by the upswing in 1998; rather half cut the number of returns.

In the specific policy-relevant evaluation of the Swedish case, we focus on four double-oriented flows:

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<sup>3</sup> Curran, J. & Blackburn, R. (1994) *Small firms and local economic networks – The death of the local economy?* London. Paul Chapman Publishing.

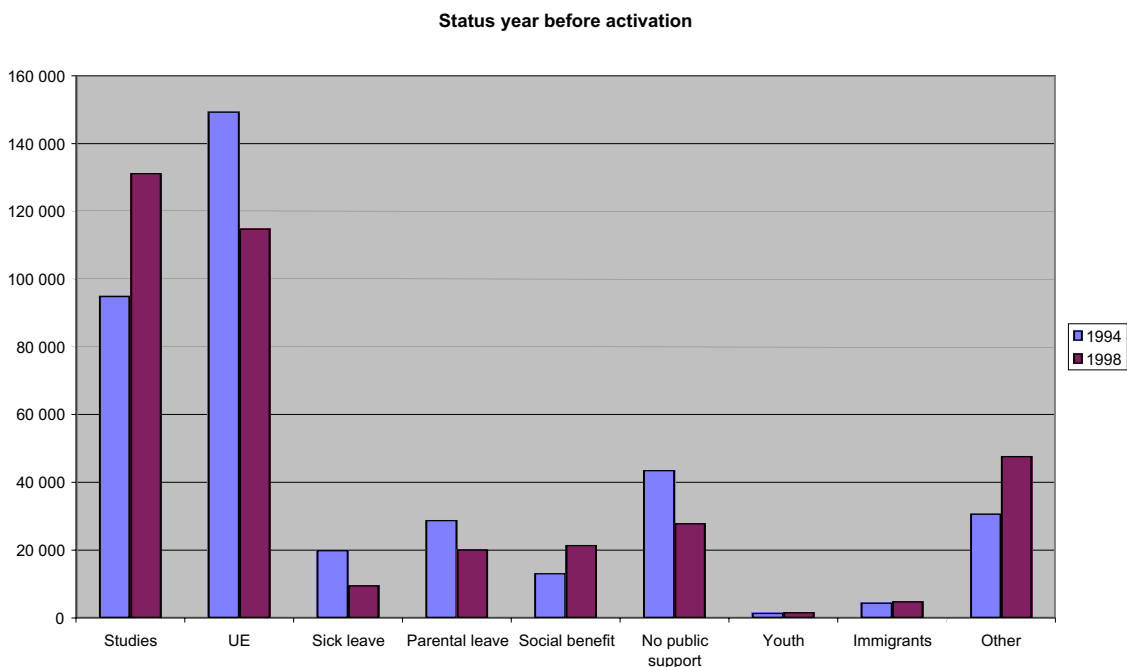


In the empirical analysis, the transition rates in these dimensions in the following LLMs and aggregates of LLMs in Sweden are compared.

- Stockholm LLM, (Stockholm county).
- Objective 6 Sweden (covering a large sparsely populated area in NW Sweden).
- Objective 2 Sweden (aggregates of small or medium sized LLMs in industrial decline and in need for restructuring).
- Objective 5b (predominantly rural areas).

Annual recruitment ranges from 8.0 to 9.7 percent of the stock of labour each year, depending on the type of region (Table 2). This number was lower in peripheral regions (Objective 6 Sweden 9.5 per cent) than in the country as a whole.

Deactivation rates vary between regional LLMs from 7.5 to 9.5 per cent in the upswing year of 1998-99 (Table 1). Differences in total deactivation rates are however large between metropolitan (7.6 per cent) and peripheral regions (9.5 per cent).



**Figure 1.** Status in year  $t$  for recruitment in year  $t+1$  1994 and 1998.

**Table 1.** Deactivation rates in the upswing year of 1998-99.

	Status year $t+1$ , %					
	Job	Stud	UE	Pension, Not employed	sick	Sum
Sthlm	92.4	1.7	1.4	3.5	1.0	100
Rest o Sw	92.5	1.6	2.0	2.9	1.0	100
Obj 6	90.5	1.7	3.4	3.1	1.4	100
Obj 5b	91.9	1.5	2.4	3.1	1.1	100
Obj 2	92.3	1.4	2.6	2.6	1.1	100
Sweden	92.3	1.6	2.0	3.1	1.0	100

**Table 2.** Activation. Transition rates to employment year  $t+1$  from four status groups year  $t$ . Selected regions in Sweden. 1998-99

	Status year $t$ , %					
	Job	Stud	UE	Pension, Not employed	sick	Sum
Sthlm	90.3	4.5	2.1	2.8	0.4	100
Rest o Sw	91.3	4.1	2.6	1.7	0.3	100
Obj 6	90.5	3.8	3.7	1.6	0.3	100
Obj 5b	91.2	3.7	3.1	1.6	0.3	100
Obj 2	92.0	3.5	2.9	1.3	0.3	100
Sweden	91.1	4.1	2.6	1.9	0.3	100

Looking at these differences in terms of the four statuses that are of interest in the current political debate over increasing labour shortages, namely to/from studies, unemployment, sick leave and retirement, we find two significant differences in labour market performance between the national average and rural/peripheral LLMs in Sweden. To illustrate this, we will display some transition rates between 1998 and 1999.

Firstly, net recruitment from unemployment is higher at the national level (+0.6 per cent) than in (aggregated) Objective 6 Sweden (+0.3 per cent). The difference remains in spite of the huge resources spent on labour market policy in this region. Secondly, sick leave rates are 40 per cent higher in the rural region than the national average. Returns from sick leave correspond to 30 per cent of those leaving for sickness in the nation as a whole, just 21 per cent in rural regions.

## Evaluating individual labour market performance – bench-marking

In this benchmarking analysis, we evaluate the performance of each local labour market (LLM) in terms of deviance from the national rate for the following variables:

Retraining frequency – reflecting the opportunities to temporary leave the education system as a part of an individually chosen career, or as a part of a labour market policy scheme. We assume that high rates of this temporary transition improve the human capital, facilitate adjustment processes and thus contribute to the sustainability of the LLM.

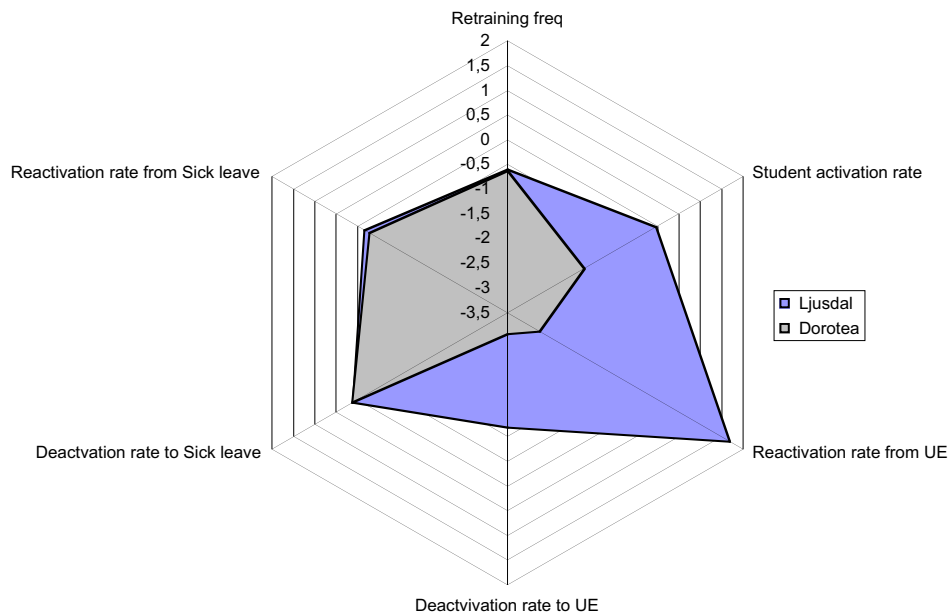
- Student activation rate – reflecting the rate of renewal of the labour force in the LLM.
- Deactivation rate to Unemployment – reflects the speed of the structural change of labour demand vs. the supply side in the LLM.
- Reactivation rate from UE – reflects to a large extent the efficiency of labour market policy implementation.
- Deactivation rate to Sick leave, and Reactivation rate from Sick Leave, both assumed to reflect a complex set of local, social, individual and institutional factors, largely non-market forces.

The result of the benchmarking process depends on which indicator is considered (see below):

	Retraining frequency	Student activation rate	Deactivation rate to Unemployment	Reactivation rate from UE	Deactivation rate to Sick leave	Reactivation rate from Sick Leave
Performance of 27 LLMs in Objective 6 vs country average	11 of 27 LLMs better than country average	7 better	None better	10 better	12 better	5 better

The overall performance as regards these indicators in two (extreme) LLMs *within* Objective 6 Sweden in 1998-99 is calculated in Figure 2. Zero (0) for each indicator corresponds to the national index. While showing relatively similar performance in terms of sick leave de/activation and propensity for retraining/lifelong learning, the small LLM of Dorotea has clear difficulties in coping with unemployment and with the renewal of the local labour force through recruitment from the education system.





**Figure 2.** Labour market performance by 6 indicators in two selected Objective 6 LLMs. Deviance from Country average 1998-99.

## Concluding remarks

In this chapter we have explained some of the characteristics of the emerging transitional labour market, using longitudinal employment data from Sweden. The transitional labour market concept describes the complex interactions occurring within the formal labour market in respect of each individual's career over the lifecycle. As such, our focus has been on the complex flows of labour to and from employment, unemployment, sick leave and education, which reveal not only the feasibility and failures of policy at the local national and international levels, but also the individual and collective responses to various push and pull factors of a less tangible character. We have also explored how differential patterns of labour market performance could be evaluated using indicators based on longitudinal annual data. Using these indicators we are currently developing a methodology to evaluate policies influencing labour market performance in terms of the activation of labour to help achieve the common European goal of full employment, and to help facilitate transitions in all types of regions.

The differing level of performance of aggregate rural/peripheral labour markets and the national average in Sweden suggests that rural regions do not activate unemployed people at higher rates, but deactivate people to sickness

leave to a larger extent. The ability for rural labour markets to reactivate sick people is however somewhat less than the national average.

However, it is of importance to note that the performance of rural/peripheral LLMs shows a wide variation as regards different indicators, in spite of their common status as Objective 6 areas, their common structural and institutional characteristics, sharing the same national labour market and social policy. This, in turn, suggests that policy design and implementation should become more adjusted to particular local conditions in order to achieve cohesion and convergence in terms of labour market performance *within* one and same regional category.

There are a number of policy measures relevant to the influencing of flows to and from employment at the transitional labour market. Coordination of measures and more flexibility in implementation is however desirable within labour market policy, structural fund policy, social and health policy as well as in education and the study support system. Elaboration of indicators such as activation rates promise to be useful instruments in support of these co-ordination efforts.

Finally, our analysis points to the most important conclusion of all, namely, that any national or international objective of  $x$  or  $y$  percent for employment at the aggregate level cannot be achieved without improvements in the performance of each and every single local labour market.

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