Agricultural Labour Market Flexibility in the EU and Candidate Countries

Jason Loughrey, Trevor Donnellan, Kevin Hanrahan and Thia Hennessy

Rural Economy Research Centre, Teagasc, Athenry, Ireland

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Overview

• Institutional framework of agricultural labour market
• Survey on the characteristics of agricultural labour market
• Develop agricultural labour market index to measure rigidity
• Pinpoint specific criteria which affect the ranking of countries in this index
• Allows us to:
  • Rank countries on a labour market flexibility scale
  • Pinpoint specific criteria which affect the ranking
  • May be instructive for policy makers
Importance of Factor Markets

• Well functioning factor markets vital for growth and international competitiveness (Van Bavel et al., 2009)

• Affected by policy, regulatory and legal environment, social norms, customs and traditions
  • so factor markets across EU are not necessarily uniform

• Literature on the labour market generally in developed countries is extensive
  • But specific studies of the agricultural labour market are uncommon
  • Generally limit their focus to market in developing countries
Institutional Framework for the Labour Market

• Three pillars of an institutional framework for labour:
  • regulations governing individual and collective employment relations
  • unemployment protection and
  • active labour-market policies - Topel (1999)

• These features affect a wider set of criteria namely
  • labour mobility
  • employment flexibility
  • wage flexibility
  • human capital flexibility
  • labour productivity
Survey Approach

• Based on literature, devise a list of market parameters
• Each parameter has observable specific characteristics
  • Used to make a judgement about the extent to which the labour market can be seen as flexible
• Specify a set of conditions associated with these characteristics
  • Which one might (or might not) associate with labour market flexibility
Survey Design and implementation

• Factor Markets project partners acted as respondents to the survey
• Requested basic data on
  • the structure of the employment market
  • labour legislation
  • wage setting mechanisms
  • unions, taxation and social benefits
  • education and training
  • labour mobility and general features of agriculture
## Labour Market Conditions

<table>
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<tr>
<th>Broad Institutional Framework</th>
<th>Specific market characteristics</th>
<th>Conditions favouring market flexibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Structure of the Employment Market</td>
<td>• Size of the labour force&lt;br&gt;• Numbers at work and out of work&lt;br&gt;• Human capital measures&lt;br&gt;• Proportion of workers involved in agriculture&lt;br&gt;• Human capital and demographic measures of the agricultural work force</td>
<td>• Ease of movement of workers&lt;br&gt;• Measures that improve human capital</td>
</tr>
<tr>
<td>Labour Legislation</td>
<td>• Legislation on hiring and firing&lt;br&gt;• Workers’ rights and employment protection&lt;br&gt;• Working hours legislation&lt;br&gt;• Legislation on contracts and tenure&lt;br&gt;• Legislation governing foreign workers</td>
<td>• Low barriers to hiring and firing&lt;br&gt;• Less regulation of working hours&lt;br&gt;• Ease of access for foreign workers</td>
</tr>
<tr>
<td>Wage Setting</td>
<td>• Policies on minimum wage&lt;br&gt;• Policies on collective bargaining for agricultural workers</td>
<td>• Absence of minimum wage&lt;br&gt;• Wage flexibility&lt;br&gt;• Coordination in wage setting</td>
</tr>
<tr>
<td>Unionisation of Workers</td>
<td>• Unionisation of agricultural workers&lt;br&gt;• Protection of workers’ rights</td>
<td>• Less unionisation&lt;br&gt;• Minimal worker legislation</td>
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<tr>
<td>Policies on taxes</td>
<td>• Employee taxes&lt;br&gt;• Employers’ taxes&lt;br&gt;• Social Insurance Schemes etc.&lt;br&gt;• Unemployment benefits</td>
<td>• Lower employer and employee taxes&lt;br&gt;• Lower replacement rates, shorter unemployment benefit duration</td>
</tr>
</tbody>
</table>
Survey Results
Wage Setting

• Minimum wage legislation is relatively widespread
  • But FI, DE, IT and SE have no min. wage
• In some cases industry level wage agreements exist
  • Italy: 15 regional agreements / industry level agreements/ province level level agreements
• Gathered details on monetary value of minimum wage
  • for the wider economy and in agriculture
  • hourly minimum wage in euro
  • adjust for differences in GDP per person (PPP) using Eurostat data
Maximum hours of work per week in general economy

- Maximum hours of work legislation in all countries
- Some variation in max. hours
- Limit in most countries tends to be 40 hrs/wk
- Limit is higher in GB, IR, and NE
- Lowest limit in BE max is 38 hrs/wk
- Normal limit can be exceeded for short periods
Maximum hours of work per week in agriculture sector

- Max hours legislation applies in agriculture
- Broadly similar to rest of economy
- Exception appears to be HR
  - where agriculture max is 52 hr/wk (much higher than rest of economy)
Minimum Wage Level

Agriculture
- Highest for employees in IE, FR and the NE
- Lowest for employees in MK, HR, PL and SK
- Adjust for differences in GDP per capita
  - But this does not change the country rankings
  - But gap from highest to lowest does narrow
  - FR has the highest minimum wage
  - MK still has the lowest minimum wage

General economy
- Similar to minimum wage in the general economy
  - in some countries variable minimum wage (job experience, age or education)
Minimum Wage in agriculture sector (Adjusted and Unadjusted for GDP)

- Highest for employees in IE, FR and the NE
- Lowest for employees in MK, HR, PL and SK
- Adjust for differences in GDP per capita
Unionisation

Farm Operators

- Unions are very widespread (HR and SK exceptions)
- Data on the level of membership is patchy
- Typically in a range of 70 to 90 percent for most countries

Farm Employees

- Union membership info is quite limited
  - But less common for employees to be union members than farm operators
- Concluded that it would be best to omit unionisation from the overall index
  - Mixed feedback from experts on usefulness of farmer union density as a proxy for union power
  - Some concern about theoretical validity
Taxation and Social Benefits

• Examined data on design of the unemployment benefit system
  • duration of unemployment payments is generally 1 year
  • exceptions duration of payments is indefinite - BE and IR
• Farm operators generally not entitled to unemployment payments
Tax Wedge (% of Gross Wage) for low wage earners in 2011

- Tax wedge for low wage earners
  - tax rate as % of gross wage
- Usually between 30 – 45% of gross wage
- Highest in BE, FR & DE
- Lowest in GB & IR

Source: Eurostat
Education and Training

• Most countries have system of agricultural qualifications
  • But not mandatory to acquire such qualifications
• Education level of farm operators compared to wider population
  • some variation in education level between countries
  • For GB likely to be higher
  • For PL likely to be lower
  • Elsewhere no discernable difference
• Education of farm employees
  • above average in GB
  • below average in MK & SK
  • Elsewhere no discernable difference
Labour Mobility

• Between economic sectors and between regions
• Farm operators
  • labour market measures are not generally targeted to farm operators
  • exceptions - GR, IT, MK, PL, SL and SE
• Farm employees
  • active labour market measures quite widely available
  • exceptions - BE, DE, IR, the NE and SK
Car ownership as a measure of Mobility

- Car ownership promotes mobility
- Strongly correlated with GDP/capita
- Some outliers, GB & FI lower than levels in some less affluent countries
Home ownership as a measure of Mobility

- Higher levels of ownership limits mobility
  Oswald (1996)
- Lowest in DE, SE, NE and FR
- Highest in MK, GR
Labour Market Flexibility/Rigidity Index
Construction of an agricultural labour market flexibility/rigidity index

- Indices developed in the past for the wider labour market
  - (Nickell and Layard, 1999)
- Collate data from survey and ascribe a value to responses
  - consider how to weight responses
  - sum to provide an overall index value
- Create a score for each of 5 separate categories namely
  - labour legislation, wage setting, taxation and social benefits, education and training, and labour mobility
- Each of these individual category scores based on responses to several survey questions for that category
Construction of an agricultural labour market flexibility/rigidity index

• Questions within a category were weighted in some cases
  • so that particular questions did not overly influence the category score

• Category Scores
  • within each category, maximum score was 1
  • values closer to 1 indicator of greater labour market flexibility
  • values closer to 0 indicator of less labour market flexibility

• Decided not to weight the categories when summing for overall measure
Overall index of agricultural labour market flexibility/rigidity

- Labour Legislation
- Wage Setting
- Taxation & Social Benefits
- Education & Training
- Labour Mobility
Insights for policy makers

• Little difference in flexibility score across most countries
• Does this refute the assertion that there is heterogeneity in these markets?
  • No
    • Contribution of each factor to the overall index score varies
    • Reflects existence of some heterogeneity in category level scores
• Country ranking are sensitive to components included in the index
  • Omission of certain criteria affects rankings of countries
  • Emphasises importance of multi criteria measure of labour market flexibility
  • Individual labour market flexibility component scores may not be a good proxy for overall agricultural labour flexibility
  • Same point can be made with respect to inter-country comparisons
Overall Index without Wage Setting Component

- GB moves from fifth to second in terms of overall flexibility
- DE has the least flexible index measure
  - largely driven by low scores for education and training and labour mobility
- FR and NE remain still ranked as among least flexible

The Irish Agriculture and Food Development Authority
Overall index without Tax-Benefit Component

- SE has the third most flexible agricultural labour market.
- a movement of four places in the overall rankings.
- Relative ranking for a number of other countries move
- MK and GR remain the most flexible
- BE, FR and NE are the least flexible
Conclusions
Conclusion

• Many countries with similar overall labour market flexibility scores
  • But some heterogeneity in the institutional features of these labour markets
  • Important to measure flexibility across a wide range of criteria
• Individual features of a labour market may not be indicative of the extent of overall agricultural labour market flexibility
  • labour market flexibility measure was quite sensitive to the criteria included/excluded
  • influences the relative ranking of countries
• If policy makers desire increased flexibility a tailored approach is required
• Ultimately, a common European approach to enhancing agricultural labour market flexibility may be inappropriate
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