



Local labor market flexibility in a perceived low migration country: The case of French labor markets



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ABSTRACT

Local labor markets are most flexible and aggregate natural unemployment is reduced when there is sufficient interregional economic migration to ensure that workers are reallocated from declining to expanding regions. Local European labor markets have generally been viewed as not as flexible as those in North America, leading to greater fluctuations in local wages, labor force participation and unemployment rates, and smaller changes in local employment as economic shocks are primarily experienced by the local area's original residents. France is an interesting case. French gross migration rates—though perhaps relatively low—are higher today than a generation ago. Using a host of novel identification approaches and French employment zone data dating back to the early 1980s, we investigate whether these changes correspond to economic migration that would increase labor market flexibility. Our results detect surprising amounts of economic migration in that most new jobs are eventually taken by new migrants or outside commuters. We then reconcile these somewhat surprising findings with the still relatively low contemporary French interregional gross migration rates, concluding that other structural impediments besides relative local labor market inflexibility are behind relatively poor labor market performance.

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1. Introduction

High local labor market mobility has long been assumed to be a key feature facilitating flexible regional and national labor markets and in promoting needed adjustments for an effective currency union (Mundell, 1961; Kenen, 1969; Hughes and McCormick, 1994; Mouhoud and Oudinet, 2006). In particular, Archibald (1969) points out that workers in high unemployment regions can move to low unemployment regions, reducing aggregate unemployment and accelerating adjustments to asymmetric regional shocks. Indeed, the lack of local labor market mobility is one reason that is typically cited for high unemployment rates and lower labor force participation in many continental European Union countries (Decressin and Fatás, 1995; Jimeno and Bentolila, 1998; Obstfeld and Peri, 1998), including France, the subject of our study. With the persistently sluggish performance of French and Eurozone labor markets since the onset of the Great Recession, it is useful to assess how much perceived structural labor market inflexibility and sluggish performance is due to the lack of local labor market mobility.

The spatial dispersion of unemployment rates is high in France: Fig. 1 plots for each employment zone the difference between local and

national unemployment rates for 2006 and 2011. For the two periods, the highest local rate is four times the lowest one (4.5% vs 19%). The persistence of spatial differences in unemployment rate is also very high and higher than in the US (measured at the county level). Table 1 shows that the highest correlation across periods in the US is between 1990 and 2000 (0.75), with the other correlations being less than 0.65. In France, the correlation is between 0.8 and 0.9 in the successive periods.

The perceived absence of labor market mobility is not the only structural cause that is believed to be behind high French and other continental European labor market nonemployment rates (Siebert, 1997; Nickell, 1997). Other structural factors such as high minimum wages, high collective bargaining coverage, and more generous unemployment and welfare benefits are also believed to be behind weaker labor market performance (OECD, 2010). Beffa (2005) notes that the lack of large-

Table 1

Correlation between the difference in local and national unemployment rates in France and in the US for selected periods.

	US				France			
	1980	1990	2000	2009	1982	1990	1999	2011
1980	1	0.66	0.52	0.53	1982	1	0.89	0.88
1990		1	0.75	0.61	1990		1	0.93
2000			1	0.60	1999		1	0.88

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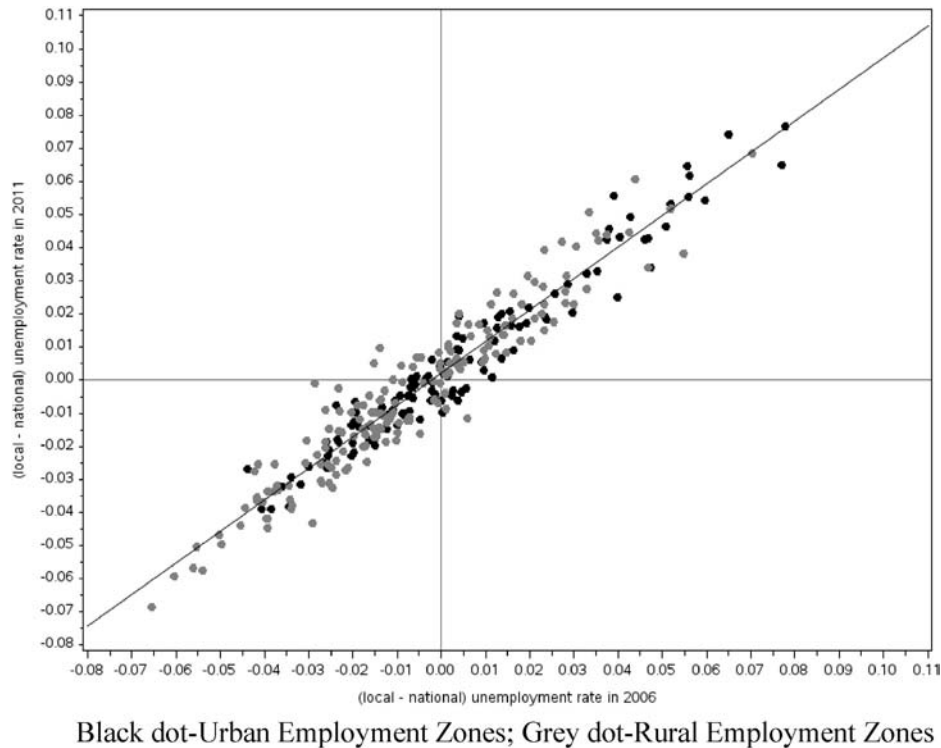


Fig. 1. Difference between local and national unemployment rate in 2006 and 2011. Black dot—urban employment zones; Gray dot—rural employment zones.

scale industrial policies after the 1980s is an important factor to explain the lack of employment dynamics in France. While all structural issues may have their policy challenges, many of these other causes are political in nature and could be altered through the political process. Increasing worker mobility rates may be more difficult if it is cultural—i.e., it may be much more difficult to reduce aggregate unemployment if labor mobility is overly low.

The United States, with its perceived high levels of factor mobility, is typically held out as a benchmark for possessing flexible local labor markets. One typical reason given for assumed greater US flexibility is the simple notion that US gross-migration rates are considerably higher than for EU countries (Obstfeld and Peri, 1998). In this vein, Blanchard and Katz's (1992) highly influential paper shows that US state labor markets fully adjust to shocks in about five to seven years, in which migration is a primary adjustment mechanism as opposed to changes in labor-force participation and/or unemployment rates. With the US as a comparison, many economists have concluded that slower migration responses in EU countries are one key reason that EU local labor markets are not as flexible, though there is some disagreement as to the degree that relative EU employment growth has suffered. Yet, Card et al. (1999) find that despite having more structural impediments that limit wage flexibility, French employment patterns were not all that much different than in Canada or the US.

There is some tentative recent evidence that internal French migration rates may not be all that much lower than in the United States (Molloy et al., 2011) and that internal French *gross-migration* flows having been trending upward in recent decades. Table 2 shows that

five-year inter-period mobility rates were five times higher in the US than in France in the late 1970s, but were only three times higher in the early 2000s. The narrowing of the gap is due to an increase of the mobility in France and a decrease in the US.

Indeed, the annual French interregional migration rate of persons aged 20–29 has risen by 60% between the 1990–1999 and 1999–2004 periods. If we add migration between NUTS2 and NUTS3 regions (long distance migration), the annual migration rate of young adults reaches 11% in the last period (Baccaini, 2007).¹ In addition, US local labor markets may not be as flexible as typically thought (Rowthorn and Glyn, 2006). For example, US gross county-to-county migration flows have fallen by about one-half since the late 1980s, with a rather sharp decline after the year 2000 (U.S. Census Bureau, 2014, Table A1). Another accompanying change after the year 2000 is a declining migration responsiveness of US workers to economic shocks (Partridge et al., 2012; Molloy et al., 2014), which combined with declining gross migration flows, indicates less US local labor market flexibility in general.

French migration may be more “efficient” in terms of facilitating economic migration in that it is *net migration* that is more important in adjusting for differential local shocks. Likewise, between 2012 and 2013, only 19% of all US migrants reported job reasons as the primary reason for migration, including the 5.4% who said they are moving to be closer to work, which is about the same as their responses in the late 1990s (U.S. Census Bureau, 2014, Table A5). Conversely, in a study on French data based on the European Panel, Gobillon (2001) shows that job reasons are reported 62% between 1994 and 1996, when long distance migrations are considered (42% “to be closer to the job” and 18% “for a new job”). Job reasons are also noted as the primary reason in 32% of shorter inter-municipality migrations. Relatively high US gross migration may then be less about adjustments to differential regional economic shocks and more about other personal reasons

Table 2
Change of residence in France and the US.

	France 1999–2004 ^a	US 2000–2005 ^b	France 1975–1982 ^a	US 1975–1980 ^b
Inter-period mover rate %	12	39.5	9.5	46.4

^a Donzeau and Pan Ké Shon (2009).

^b Ihrke and Faberm. (2012).

¹ NUTS2 and NUTS3 European zoning correspond to the “région” and the “département” level in France. There are 21 régions and 93 départements (without Corsica).

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