

Labour shortages – turning away from bad jobs

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Policy recommendations

- Rising labour shortages reflect structural shifts, including the digital and green transitions, as well as a cyclical component in the wake of the Covid-19 pandemic.
- The policy debate tends to focus on the need for skills and, where they are deemed to be missing, on bringing in those skills through immigration and mobility. Most discussions ignore the role of job quality, even though labour shortages have increased most and are worst in jobs with lower wages and worse conditions.
- Tight labour markets can provide workers with opportunities, to some extent making up for the slow erosion of workers' bargaining power over time. Indeed, this can lead to higher wages, better conditions and higher equality of wages overall.
- It is now necessary to support workers and sectors in improving conditions. This can be done by embracing higher minimum standards on wages and quality of work. This aspect should not be neglected.

Introduction

European labour markets seem to have weathered the Covid-19 pandemic rather well. Through extraordinary government support in the form of job retention schemes, employment remained relatively stable and major upheaval was avoided. Nevertheless, the recovery has exacerbated already existing issues of labour shortages, where companies are clamouring for workers and are struggling to fill vacancies (Eurofound 2021). In 2022 more than a quarter of EU businesses reported production problems as a result of labour shortages (Causa et al. 2022).

This policy brief seeks to direct attention to a perspective that risks being lost in the ongoing debates and policy discussions on tackling labour shortages, namely that these shortages also reflect the fact that some jobs have strenuous and intensive conditions, do not pay enough and are too low quality to attract workers. Improving skills or increasing immigration and mobility are no solution in such cases because not all shortage occupations are highly skilled, and they are often similar across countries (McGrath 2021). The quality of jobs must also be improved to attract and retain workers.

While there are structural aspects to current labour shortages, the most substantial increases in unfilled vacancies and the slowest recovery from the pandemic have taken place in relatively lower-paid and lower-quality jobs, even when comparing within sectors or countries. In line with international research tighter labour markets can help to make up for workers' generally lower bargaining power over time, and to increase wages and conditions, especially for the most disadvantaged. Indeed, across Europe we see an association between equality and wage growth, particularly at the lower end of the wage distribution, and tight labour markets.

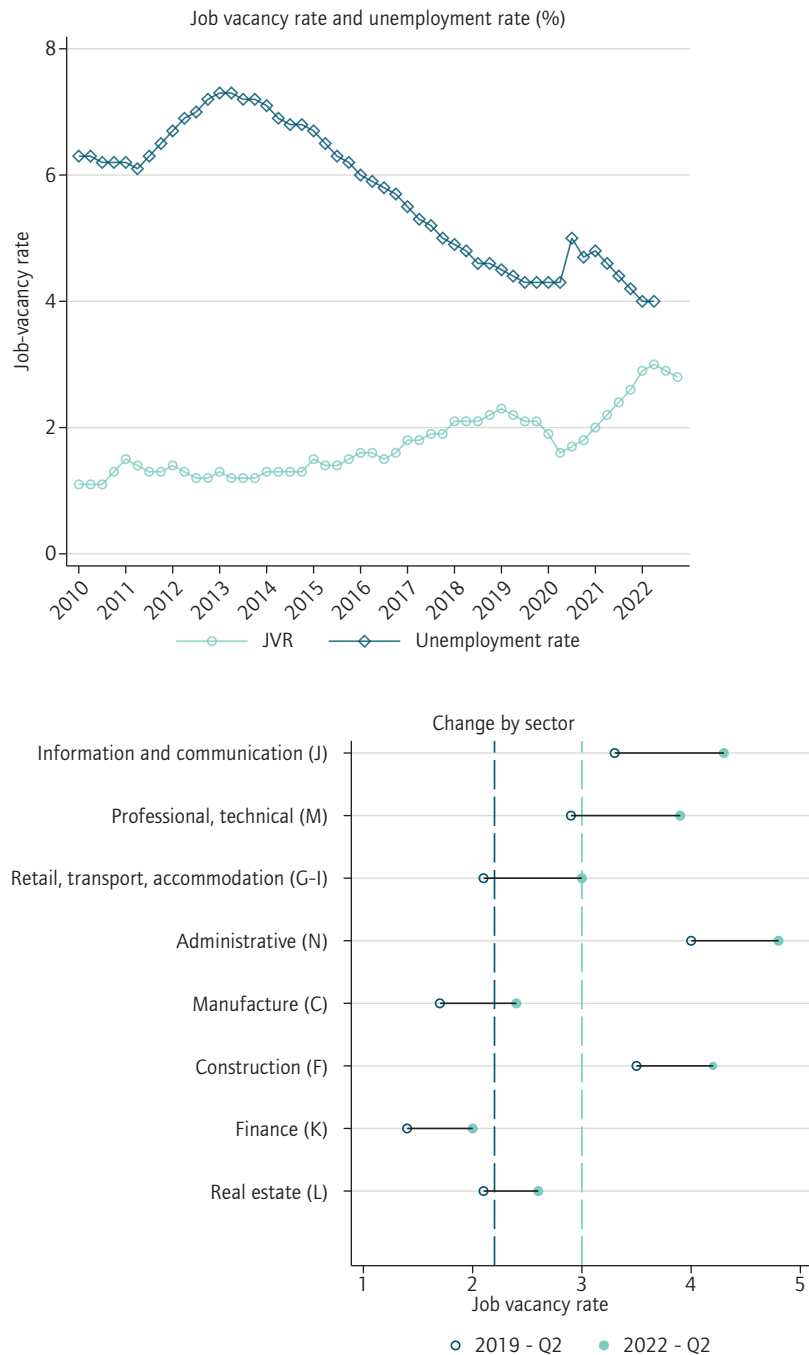
Labour shortages before, during and after the pandemic

While shortages increased overall, there are differences between countries and sectors. In general, those sectors with relatively worse jobs faced the largest rise in shortages, indicating that part of the issue is a move away from accepting low quality jobs. While there is little good data on how conditions have changed with the current labour shortages, this policy brief describes the situation in a specific sector within a country prior to the pandemic, using data on demographics or job quality from the EU Labour Force Survey in 2019 or on wages from the Structure of Earnings Survey in 2018. I compare how those sectors in which labour shortages increased most from 2019-Q2 to 2022-Q2 (or Q1) differ from the others.

Figure 1 shows the evolution of labour shortages across the EU27 over time. It shows (on the left) that job vacancy rates – the share of vacancies out of all jobs – increased continuously as Europe recovered from the Great Recession. During this time the unemployment rate in the EU27 declined consistently. While the pandemic temporarily wiped out this improvement, from the second half

of 2020 onwards vacancies were rising again and by the second quarter of 2022 the vacancy rate stood at around 3. Importantly, there have been increases in most sectors. While there were big shifts in sectors already with high shortages, such as ICT, demand increased rapidly also in less high-skilled sectors, such as retail and transport, construction, and administration.

Figure 1 Job vacancy rates over time and change in selected sectors



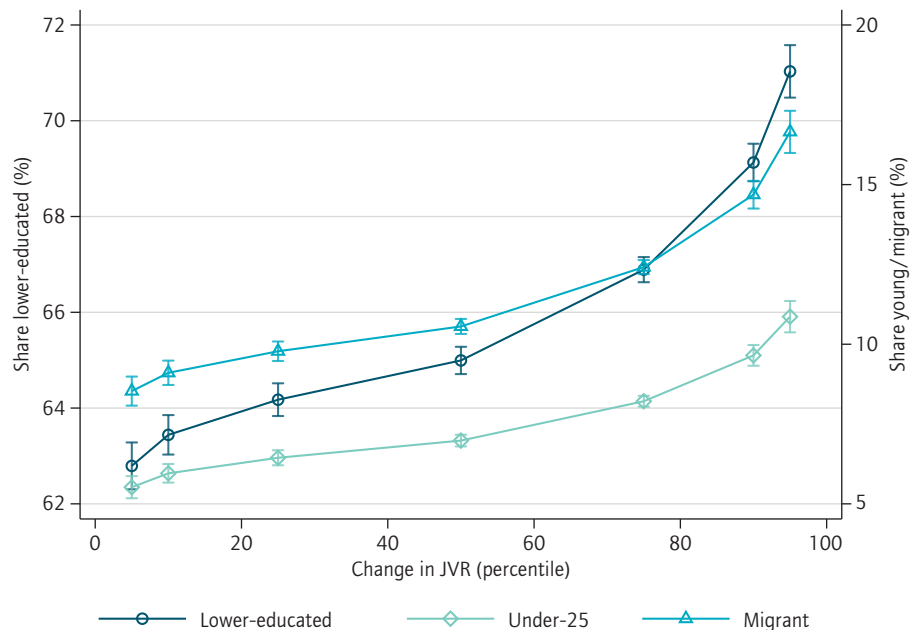
Note: Top panel shows the overall change in job vacancy rate for Industry, construction and services, excepting activities of households and as own use workers, extraterritorial organisations; and the unemployment rate for those aged 16–74 in the EU27. The bottom panel shows the change from 2019 to 2022 (Q2) in vacancy rates for selected sectors.

Source: Job Vacancy Statistics by NACE Rev2. Activity (JVS_Q_NACE2), downloaded in September 2022 from Eurostat; UNE_RT_Q for unemployment rate.

Covid-19 probably exacerbated labour shortages in at least three ways. First, as demand for products picked up and supply line disturbances were ironed out the demand for labour in production rose very quickly (Causa et al. 2022). Second, in order to curb the pandemic many governments closed the borders or discouraged mobility and migration. At the same time, many people returned to their home countries, and these flows of third-country migrants and EU mobile workers have not yet returned to their previous levels (De Wispelaere et al. 2022). Third, the pandemic seems also to have led to a fundamental shift in preferences, with a reduced tolerance for low quality or insecure jobs (Causa et al. 2022). This shift has been very clear among ‘frontline’ workers, who received praise, but very few benefits and were still expected to work in precarious positions. This has probably exacerbated shortages in sectors such as health care.

Figure 2 shows, first, that the sectors that had most problems finding workers – identified by having the highest increase in job vacancy rates from 2019 to 2022 – employed higher shares of relatively more vulnerable workers in 2019 (those without university qualifications, young and foreign-born people). These workers were relatively harder hit by the pandemic. Afterwards, provided with more choice, these workers may have found better positions.

Figure 2 **Demographic profile in 2019 of country sectors by change in job vacancy rate, 2019–2022**



Note: Share of non-tertiary educated workers, young workers and workers born in another country than the country of residence, as estimated from a weighted regression of the outcome on the squared change in job vacancy rates from 2019-Q1 to the last of 2022-Q2 or 2022-Q1 by country and sector, controlling for country fixed effects.

Source: LFS microdata for 2019, linked at country and industry level to job vacancy rates, available from Eurostat.

The debate: a shortage of skills ...

Shortages are seen as a major issue in the European economies, indicated objectively by rising vacancy rates since the recession and then much more quickly since Covid-19, and by surveys showing that employers consider finding skilled workers as a major issue and a constraint on growth. The focus is correct, but the line followed by employers, as shown in reports and press releases from employers' groups, focuses on two key aspects: a lack of skills that should be addressed by more STEM and technical education, and a need for more mobility and especially third-country migrants to fill the skills shortages that remain. They even warn specifically against rising wages for fear of a so-called 'wage-price spiral'¹. The European Commission also seems to be following this course, as indicated by the focus of the year of skills and the green industrial plan, which explicitly mentions (1) upskilling and reskilling, as well as (2) facilitating access of third-country nationals to EU labour markets in priority sectors.

Skills shortages are not the only issue, however. A recent analysis of trends in shortages and unemployment showed that the major growth of vacancies and shortages following the pandemic recovery was not due to a shortage of skills (Kiss et al. 2022).

Skills are definitely important, especially alongside the looming green and digital transitions in Europe. As the required skills change rapidly it is doubtful that traditional education will be able to overcome these hurdles. There is a need for training and education throughout the life course, also supported by employers and firms, depending on their specific requirements. Importantly, this is not a crisis of general skills, as labour shortages are actually highest in sectors and profiles that are not highly qualified, and CEDEFOP estimated in 2018 that 39 per cent of adult EU employees are actually overskilled (CEDEFOP 2018; McGrath 2021). While there does seem to be a need for more vocational education, there is also a need to invest in workers' skills while they are working, to avoid obsolescence and allow for upskilling.

But the current focus on a lack of skills within Member States and especially the resulting policy solution of allowing more mobility or third-country migration to fix shortages is short-sighted and may be damaging to job quality. Migrants and even EU mobile citizens are often overqualified and underpaid, and would risk putting downward pressure on job quality and wages. It might also not work as many countries have similar shortages (McGrath 2021).

...or a shortage of workers to do bad jobs

Shortages in particular sectors, and especially the high shortages and slow recovery in some sectors following Covid-19, also reflect cyclical trends. In particular, they reflect a choice by workers to move away from relatively worse positions (Causa et al. 2022). Table 1 highlights that those sectors in which labour shortages increased the most from 2019 to 2022 tended to offer generally worse jobs. They were 0.5 to 1 percentage points more likely to be underemployed by

1. See <https://www.businesseurope.eu/news/labour-and-skills-shortages-remain-crucial-issue>

having a temporary contract or part-time contract for lack of a better option. They are more likely to report having no control over the order of their tasks. Importantly, they generally report being under more pressure and having less control over their time, being much more likely to have non-standard work times, to work under high pressure, and to be required to be flexible in their availability for work.

Table 1 **Differences in pre-pandemic job quality for sectors in which labour shortages rose more**

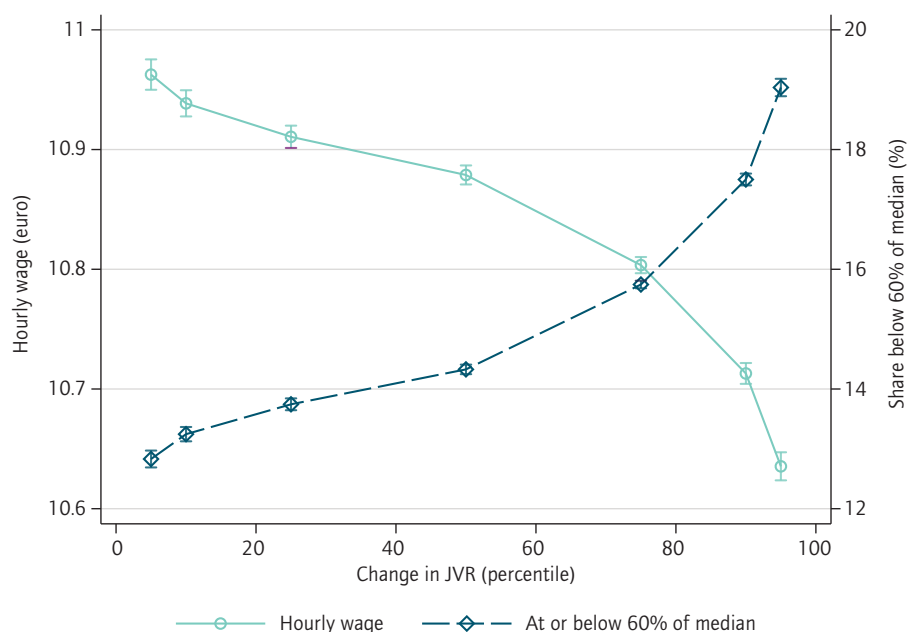
Outcome	Difference of conditions in 25% of sectors with highest change in job vacancy rates compared with the rest
Involuntary temporary contract	0.42 (0.19) **
Involuntary part-time contract	0.95 (0.14) ***
Work on evenings, nights, weekends, or shifts	8.89 (0.43) ***
Have no control over order of work	1.07 (0.38) ***
Have no control over content of work	-0.21 (0.4)
Work under high pressure	1.67 (0.25) ***
Worker is required to be flexible	2.10 (0.3) ***

Note: Difference (with standard error) in job quality of country sectors in the highest quartile of changes from 2019 to 2022 compared with others, weighted. *: p<0.1, **: p<0.05, ***: p<0.01. Source: LFS microdata for 2019, linked at country and industry level to job vacancy rates, available from Eurostat.

Figure 3 shows the predicted wage, accounting for other characteristics of the job, by country and sector, depending on by how much labour shortages increased from 2019 to 2022. Labour shortages clearly increased more among jobs with relatively lower pay, even when comparing otherwise similar workers. Importantly, the share of workers who earn less than 60 per cent of the median wage – which is where the EU minimum wage directive would propose to set a minimum wage – is substantially higher in those countries and sectors in which job vacancy rates increased the most.

In summary, this policy brief highlights one key aspect of the current labour shortage, namely that it has become progressively worse in sectors providing relatively worse jobs. The current shortage may then turn out to be a shortage of people willing to work strenuous and badly remunerated jobs. The pandemic may have exacerbated this unwillingness to put up with worse positions (Causa et al. 2022).

Figure 3 Hourly wage and share of those for whom it is below 60% of the median, by increase in job vacancy rates, 2019–2022



Note: Predicted hourly real wages and share of workers with hourly wage at or below 60 per cent of the median wage as estimated from a weighted regression of log hourly wage on the squared change in job vacancy rates from 2019-Q1 to the last of 2022-Q2 or 2022-Q1 by country and sector, controlling for country fixed effects, occupation, education, firm size, gender, age, age squared, gender interacted with age and age squared.
Source: SES microdata from 2018, linked at country and industry level to job vacancy rates, available from Eurostat.

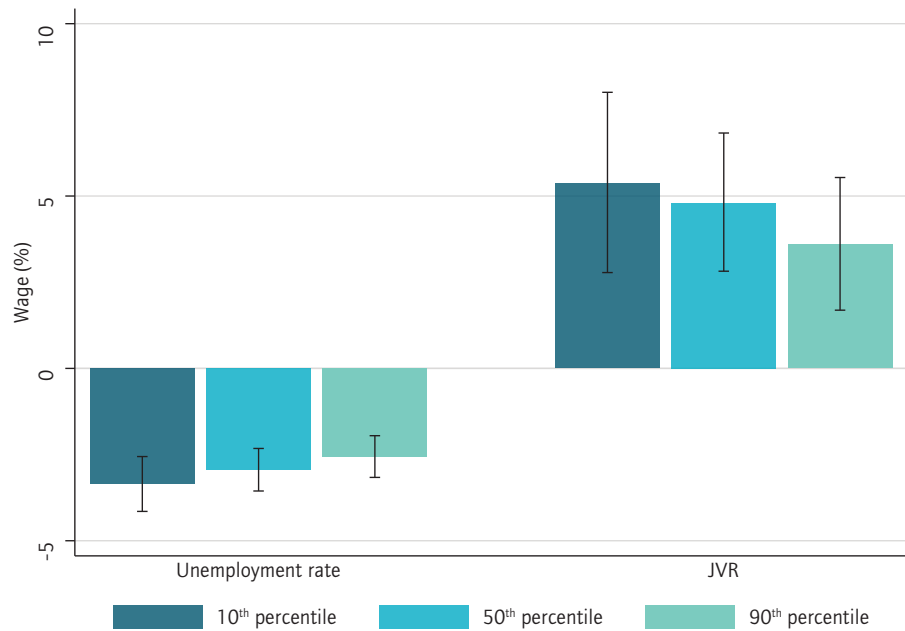
Tight labour markets as an opportunity for equality

While labour shortages can be problematic for productivity and growth, they can also help to rectify the growing imbalance of power between workers, particularly the more precarious ones, and employers. In recent decades, most transitions – such as digitalisation and automation, or globalisation – have undermined the bargaining position of lower-skilled workers. At the same time, labour market institutions that strengthen workers – such as trade union density – have declined and the coverage rate of collective bargaining has fallen. The result is that wages increasingly depend on individual bargaining and reflect employer interests, resulting in greater inequality between firms (Zwysen 2022).

A tight labour market means that workers have more choice and so are able to reject certain jobs. Such outside options provide greater bargaining power. In a recent study, Aeppli and Wilmers (2022) show that wage inequality has declined in the United States since the Great Recession because a tight labour market helped workers at the lower end of the wage distribution to realise larger real wage gains. Similarly, Meloni and Stirati (2022) find a clear link between slack labour markets and the decoupling of wage growth from

productivity growth. It is then indeed the case that there are opportunities in a tight labour market for workers, and for trade unions (Ståhl 2022).

Figure 4 **Change in real wages over wage distribution for a 1pp change in unemployment rate or job vacancy rate, with 95% C.I.**



Note: Estimated effect of unemployment rate, or job vacancy rate, on real wages at country-year level at the 10th, 50th, 90th percentile within country.
 Source: EU-SILC 2007–2020, matched with unemployment rate and job vacancy rate obtained from Eurostat. Hourly wage as total earnings adjusted for time spent working part-time and full-time in the reference period – restricted to working age individuals who worked at least one month as an employee. Wages adjusted for breaks in the series as reported by Eurostat.

Taking a longer view of European labour markets since 2007 confirms this: tighter labour markets in the recovery after the Great Recession helped to increase real wages primarily at the lower end of the wage distribution. Figure 4 shows the estimated relationship between a 1 percentage point increase in the unemployment rate or a 1 percentage point increase in the job vacancy rate within a country on real wages at the 10th, 50th, and 90th percentiles in that country. This is in line with findings by Aeppli and Wilmers (2022) for the United States.

Conclusion

This policy brief makes the point that current labour shortages, besides reflecting structural issues of mismatch, also – and especially – reflect a crisis of low-quality jobs. This is very clear in the recovery after the pandemic, when the occupations and sectors that had most trouble recovering were those with worse conditions. The solution will have to include a commitment to good quality jobs, and unfortunately this requirement may only carry economic weight when workers have more options, and the power relations move somewhat towards workers again.

This provides an opportunity for rebalancing employer–employee power. This prospect of improving working lives and rebalancing the division of productivity between workers and employers is all the more important given the vast challenges facing Europe: the war in Ukraine, the energy crisis and the resulting cost of living crisis.

The worst shortages we are now seeing are not just a matter of skills or even finding workers. The problem is to find people who are willing to do these strenuous jobs for such low pay and under such bad conditions. But the policy debate is dominated mainly by the narratives of a mismatch in skills – with the question of which skills are necessary given the rapidly changing context of digital and green skills – and a need to incentivise more mobility and migration, which could undercut conditions by finding workers with few alternatives and weaker bargaining power.

Importantly, tight labour markets in general can provide opportunities for workers and shift the balance of power (Aeppli and Wilmers 2022; Paternesi Meloni and Stirati 2022), which has long favoured employers under pressure of financial markets, declining worker protection, digitalisation and globalisation, not to mention the rise of monopsonous employers (Zwysen 2022).

In this crisis both companies and workers must be supported, but it is important that the opportunity is also taken to improve people's working lives, and not to keep them in bad conditions and low pay. It is crucial to ensure that all jobs offer good enough conditions for workers to live dignified lives, which in turn will attract more workers. The EU already enshrines fair working conditions in the European Pillar of Social Rights and the Charter of Fundamental Rights, as well as regulating working time through the Working Time Directive. An important improvement could come through the minimum wage directive, particularly through the enshrining of collective bargaining for all workers. Collective agreements between workers and employers offer the best way forward to train workers and provide fair working conditions.

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