

## Occupational mobility and the role of job protection in Europe

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Occupational mobility, i.e. worker transitions from one occupation to another one, has been argued to play an important role for a number of issues such as job stability, life-cycle earnings profiles, wage inequality and aggregate productivity (Kambourov/Manovskii 2008). However, much of the literature has focused on analyses pertaining to individual countries (e.g. Carrillo-Tudela et al. 2016 for the UK, Kambourov/Manovskii 2008, 2009 for the US, and Lalé 2012 for France). International comparisons are rare and mostly confined to few countries (e.g. Longhi/Brynin 2010 who compare Germany and the UK).

The aim of this paper is therefore to provide a detailed analysis of occupational mobility in Europe for the time period 2011-2013, following the Great Recession, with a focus on cross-country differences and the importance of institutions in this context. In order to do so, we use data from the European Union Survey on Income and Living Conditions (EU-SILC) and proceed as follows. First, we compute descriptive evidence on job-to-job transitions, focusing in particular on the rates at which employed workers change their job as well as their occupation, where occupations are measured at the 2-digit ISCO-08 level (Eurostat 2014). We do so for virtually all EU countries. Second, we analyse to which extent occupational mobility goes together with the evolution of wages at the individual level, i.e. how often a change of occupation generally is accompanied by a wage increase or a wage cut. Third, we perform detailed cross-country comparisons of both occupational mobility as well as its link with wage changes, taking into account differences in labour-market institutions, with a particular focus on employment protection, as measured by the EPL index for regular employment by the OECD (2015). This allows us to draw conclusions on how institutions affect the occupational mobility of workers, as well as the extent to which institutions are linked to the occupational specificity of human capital.

For steps two and three, we conduct a multinomial logit regression analysis for occupational changes at the individual level, taking into account personal characteristics such as age, education, gender and marital status, as well as the number of children in the household. The inclusion of country fixed effects thus yields cross-country evidence which is not driven by compositional effects of the working population. Comparing these fixed effects to the raw mobility rates by country allows to determine the importance of compositional effects for between-country differences in occupational mobility. Furthermore, correlating fixed effects rather than raw probabilities of occupational change with the degree of employment protection at the country level improves the inference for the effect of labour market institutions on occupational mobility. The link between institutional labour market characteristics and occupational mobility is particularly interesting in the cross-country setting, since labour market institutions typically display a larger variation across countries than within countries over time.

The EU-SILC data set is exceptionally well suited for this analysis as the panel structure of the data set allows to follow individuals over time and to identify transitions between different labour market states, as well as individual and household characteristics. Given the international comparability of the data set, this makes it possible to contrast the labour market reactions across Europe taking into account composition effects, i.e. differences in labour force composition between countries.

First results show that the extent of occupational mobility differs substantially between European countries. The probability to change the occupation, measured at the 2-digit ISCO-08 level, amounts to 2.8% on average in Europe, but to more than 7% in Estonia. In countries such as Sweden, the UK

and Germany, it is also far above the European average. By contrast, it is below 1% in Romania and Slovenia, but also very low in Croatia, France and Denmark. Since occupational changes are also determined by more general measures of labour market mobility, in particular by the number of job changes, it is important to relate the probability to change the occupation to these measures. The resulting probability to change the occupation for job changers shows lower, but still considerable variance between countries.

To a certain degree, country differences in occupational mobility can be expected to be determined by labour market institutions such as employment protection. Our analysis reveals that the differences in the EPL-index explain a large part of the cross-country variation in occupational mobility of employed persons. This is even more pronounced for the probability of job movers to change their occupation which displays a correlation with the EPL index of -0.52. The correlation between the EPL-index and the probability to change the occupation for all employees (not conditional on job change) is weaker and amounts to -0.39. Both of these numbers indicate that employment protection is an important factor in the analysis of occupational mobility.

While the descriptive evidence already shows substantial variation in occupational mobility across European countries, which can partly be attributed to labour market institutions such as employment protection, the conference version of the paper will include more detailed econometric analyses for the link between labour market institutions, occupational and wage mobility.

## **Literature**

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