

Introduction to the Special Issue

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ABSTRACT: This introduction summarises the main contributions included in the special issue. These papers were discussed (among others) in the special session on «Wages and Regional Labour Markets» organised within the activities of the 51st Congress of the European Association of Regional Science (ERSA) and the 37th conference of the Spanish Regional Science Association held in Barcelona in August 2011. This special issue contains six of the nine papers discussed in the session, plus three additional papers clearly related to this topic that were discussed in other conference sessions or included at a later stage due to their relevance. Moreover, we also decided to include a brief discussion of each paper in order to incorporate other points of view and some additional thoughts on the topic.

JEL Classification: R23, J31.

Keywords: Wages, regional labour markets.

Salarios y Mercados de Trabajo Regionales: Introducción al monográfico

RESUMEN: Esta introducción trata de resumir las principales contribuciones incluidas en el monográfico. Estos trabajos formaron parte (junto con otros) de la sesión especial sobre salarios y mercados de trabajo regionales celebrada en el contexto del 51.º Congreso de la Asociación Europea de Ciencia Regional y 37.ª Reunión de Estudios Regionales celebrado en Barcelona en agosto de 2011. Este monográfico contiene seis de los nueve artículos presentados en dicha sesión, más tres trabajos adicionales claramente relacionados con este tema que se discutieron en otras sesiones de la conferencia o que se incluyeron en una etapa posterior, debido a su relevancia. Además, el monográfico también incluye una breve discusión de cada artículo con el objetivo de incorporar otros puntos de vista y algunas reflexiones adicionales sobre los temas tratados.

Clasificación JEL: R23, J31.

Palabras clave: Salarios, mercados de trabajos regionales.

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The 51st Congress of the European Association of Regional Science (ERSA), co-organised by the Catalan Association of Regional Science (ACCR), the Spanish Association of Regional Science (AECR) and the Reference Network for Applied Economics (XREAP), was held between August 30th and September 3rd 2011, at the Faculty of Economics and Business of the University of Barcelona. With more than 1000 participants from 50 different countries, 220 parallel sessions, 50 special sessions, a good environment and even a football match, the congress was an important event for European regional scientists. The invited speakers included the European Commission's Commissioner of Regional Policy, Dr. Johannes Hahn, as well as Richard Florida, Diego Puga, Maryann Feldman, David Audretsch and Piet Rietveld.

One of the special sessions was devoted to the analysis of «Wages and Regional Labour Markets». More than 25 abstracts were received in response to the «call for papers» launched in January 2011, and during the special session, we had the opportunity to discuss nine of these papers; eleven others were presented in the regular sessions. This special issue contains six of these papers, plus three additional papers clearly related to this topic that were discussed in other conference sessions or included at a later stage due to their relevance. Moreover, we also decided to include a brief discussion of each paper in order to incorporate other points of view and some additional thoughts.

Various reasons have led us to publish this special issue in the official journal of the Spanish section of the European Regional Science Association. First, during the ERSA conference, the Spanish Regional Science Association celebrated its 37th conference. Second, at the international and Spanish levels, regional labour markets are nowadays even more relevant from an economic policy perspective. Finally, the presented papers were of high quality.

The first contribution to the special issue, by Vicente Royuela, and the related discussion, by Charlie Karlsson, provide an interesting overview of the 51st ERSA Conference. By examining the characteristics of the conference, Royuela's article identifies the main trends in regional science and considers a broad array of information sources: delegates' demographic details, the conference programme itself, a satisfaction survey conducted among delegates, a quality survey addressed to those chairing the sessions and bibliometric information from all participants. One interesting result from Royuela's analysis is that the thematic area that overwhelmingly attracted the most attention was «Regional economic growth and development», followed by «Innovation, knowledge, economy and regional development» and the topics discussed within the «1st European Meeting of the Urban Economics Association». In contrast, a number of other themes included in the programme attracted little attention. Research on regional labour markets was not one of these themes, but it was also not a «trending topic». Three ordinary sessions and three refereed sessions were organised under the topic of «Spatial Issues of the Labour Market» and five special sessions considered «Cultural Diversity, Skills and Productivity: The labour market impacts of immigrants» and «Wages and Regional Labour Markets». In terms of different indicators (number of sessions, papers, presenters, registered authors), these sessions represented no more than 5% of the activity of the conference, although it is fair to

recognise that other papers related to labour market analysis could have been presented in different sessions.

However, regional differences in the functioning of labour markets are an important component of today's economic discussion. Regions have been affected by the crisis in different ways because they have specific characteristics and face different challenges. As shown by Eurostat data¹, the dispersion of regional employment and unemployment rates has substantially increased in recent years, breaking with the pattern of the last expansionary phase. Of course, regional specialisation patterns explain part of this difference, but differences in wage determination schemes have also contributed to this unequal regional labour market resilience.

This is the framework within which the research presented here should be contextualised. In addition to Royuela's article, the issue contains eight additional papers dealing with regional labour markets and wages and their respective discussions. Although three of these contributions analyse Spanish regional labour markets (the recent evolution of our unemployment rate clearly explains the academic and policy interest), most contributions focus on developing countries. According to the ILO Global Employment Trends 2012 report², more than 400 million new jobs will be needed over the next decade to avoid a further increase in unemployment and to prevent an increase in poverty levels, particularly for informal workers in developing countries. This clearly shows the relevance of attaining a better understanding of the labour markets of developing countries.

As highlighted in the discussion by Roig, the contribution by García-Mainar and Montuenga-Gómez focuses on a very relevant issue both from the academic and policy perspectives: wage flexibility. In particular, they estimate a dynamic wage curve using microdata from the Spanish sample of the European Community Household Panel (ECHP) and find that, due to its duality, the Spanish labour market is more sensitive to supply shocks than those of other countries where similar analyses have been carried out. The good news is that recent policy reforms are trying to change this particular feature of the Spanish labour market.

Hernández and Serrano introduce an additional issue in the analysis of the Spanish regional labour markets: differences in over-education. In a country where the human capital stock has substantially increased during the past decade, a scenario where highly educated workers do not find suitable jobs is particularly worrying from the policy point of view. Using microdata from the Spanish sample of the Survey of Income and Living Conditions (SILC) for 2004-2009, the authors analyse the wage gap between the adjusted and overqualified employees in the Spanish regions using standard Mincer equations, quantile regression and the Oaxaca-Blinder decomposition. Their results indicate that in Spain, there is a 28% difference between the

¹ Eurostat Regional Yearbook 2011.

http://epp.eurostat.ec.europa.eu/portal/page/portal/product_details/publication?p_product_code=KS-HA-11-001.

² http://www.ilo.org/wcmsp5/groups/public/@dgreports/@dcomm/@publ/documents/publication/wcms_171571.pdf.

gross hourly wage paid to overqualified and properly matched employees, of which 25 percentage points correspond to the discrimination effect and only 3 percentage points correspond to the characteristics of the individuals and the firms they work in. According to these results, the authors conclude that the effects of over-education on the regional economies are genuine, substantial and considerably heterogeneous.

Cruz and Naticchioni's article takes us temporarily away from the Spanish labour market. In particular, they use data from the National Household Survey (PNAD) of Brazil to investigate the dynamics of the urban wage premium and the relationship between the urban wage premium and trends in inequality. As highlighted in the discussion by Simón, the article provides novel insights on this topic for developing countries, but it also shows the relevance of agglomeration economies and urbanisation as a way of reducing inequality and reinforces the «place-based approach» that currently dominates the regional development debate.

Tello and Ramos' article provides empirical evidence about the relationship between income (wage) inequality and economic growth in Mexican regions. Usually, policy measures aiming to promote growth do not take the danger of the social exclusion of certain groups of individuals in particular regions into account. The article tries to recognise the link between these two dimensions (growth and inequality) and analyses intra-regional inequality in order to discount the well-known effect of institutional differences at the country level. Contrary to the findings of several studies, the authors find evidence of a positive relationship between changes in inequality and changes in growth (not a common result for developing countries), although they recognise that differences in estimation techniques, variables used in the analysis or data sources are an important source of the different conclusions of these studies. Perhaps the most relevant contribution of the paper is that the negative influences of inequality on growth are mostly associated with inequality in different parts of the income distribution. Many of the positive mechanisms can be linked to inequality at the upper end of the income distribution, while many of the negative mechanisms are associated with inequality at the bottom of the distribution. However, as Di Paolo suggests in his discussion of the article, there are clear directions for future research: the non-linearity of the relationship, additional explanatory factors and the application of recently developed decomposition techniques.

Although they perform a cross-country analysis, the paper by Castells-Quintana and Royuela has clear interest from a regional perspective. They analyse the effects of unemployment and income inequality on economic growth in 48 countries with different levels of economic development from 1990 to 2007. Their results suggest that although high initial unemployment rates do not seem to be statistically significant in explaining long-run growth, they do have a significantly negative effect when interacting with increases in inequality. They also find that increasing inequality seems to harm both growth and unemployment in countries with low levels of urbanisation. As highlighted in Ezcurra's discussion, this finding is particularly relevant in the context of the current economic crisis because there currently are numerous countries across the world with high unemployment rates and important increases in income inequality levels that could harm growth in future decades.

Bande, Fernández and Montuenga provide new evidence on regional differences on wage flexibility in Spain. Using data from different waves of the Structure of Earnings Survey (SES), they estimate regional wage equations, relating the observed wages received by workers to a group of personal and job characteristics as well as the unemployment rate. This analysis allows them to test for the existence of regional differences in the degree of wage flexibility, which may have an important influence on the evolution of regional unemployment, given its impact on the ability of the local labour market to absorb negative shocks. Their results lead them to conclude that regions suffering from higher unemployment rates exhibit lower wage flexibility. From the policy perspective, they recommend that collective bargaining reforms should pursue greater wage flexibility, especially in regions with high rates of unemployment. Although, as highlighted by Sanromá, the paper has some shortcomings, it represents clear progress in the analysis of regional labour markets and opens new directions for future research.

Konyali's paper also addresses wage flexibility, but from the perspective of a Blanchflower and Oswald-like wage curve for the Turkish economy. As noted by Sanz-de-Galdeano, the paper adds to the recently growing literature on low-and-middle-income economies where the informal sector plays an important economic role. Its main contribution is related to the estimation of disaggregated wage curves in this context.

The last article in the issue, by Majchrowska and Żółkiewski, tries to quantify the impact of the minimum wage on employment in Poland, disaggregating it by regions and groups of workers. As Tena explains in the discussion, this is not a new topic, but the paper is original in two aspects: first, previous research has not analysed regional differences, and second, the evidence for new European Union member states is practically inexistent. The authors find that minimum wage has had an adverse impact on employment and that it has been particularly harmful for young workers and workers in the poorest regions, a result that reinforces the policy conclusions from Bande, Fernández and Montuenga's paper.

Editorial work is not always easy, but in this case, it has been. We would like to thank all of the contributors (authors and discussants) for their excellent work and discipline in following very strict deadlines. We also have to recognise that, as authors, referees' comments are not always well received, but as editors, we would like to express our gratitude to the referees whose comments have clearly improved the overall quality of this special issue. Finally, we would like to express our gratitude to Juan Ramon Cuadrado, the editor-in-chief of the journal, who has offered his support during this year and encouraged us to produce this special issue from the beginning. We hope you enjoy reading it.