

# Review of: "The Shortage of Professionals/Skilled Workers: Its Impact on the Inflation Rate in the Eurozone"

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Potential competing interests: No potential competing interests to declare.

**Review report for the paper "The Shortage of Professionals/Skilled Workers: Its Impact on the Inflation Rate in the Eurozone" submitted to Qeios**

## General appraisal:

The paper addresses the pervasive issue of labor shortages among professionals and skilled workers in industrialized countries, with a specific focus on the Eurozone. The authors introduce the concept of the vacancy ratio, providing three alternative definitions and explaining its utility as a measure of labor market tightness and a proxy for the scarcity of professionals and skilled workers.

The theoretical model presented in the paper combines the Phillips and Beveridge curves, resulting in a "modified output gap" that is proposed as an explanation for the inflation rate in Eurozone member countries. The model is tested successfully for approximately 70% of the Eurozone member countries over the period 2006-2021.

The paper concludes by offering suggestions for economic policy aimed at sensibly reducing the vacancy ratio. It also provides a summary of findings and outlines potential avenues for future research.

Overall, the paper contributes to the understanding of labor market dynamics, particularly in the Eurozone, and offers a theoretical framework that aligns with empirical evidence. The incorporation of policy recommendations adds practical relevance to the research, making it a valuable contribution to the field. However, the effectiveness of the proposed policy suggestions would benefit from further scrutiny and real-world testing. Additionally, the paper could explore potential limitations or challenges in implementing the suggested economic policies.

The paper in its current format requires a major revision to meet the standards of publication in a journal. More specific comments follow.

## Specific comments:

1. The paper should be correctly formatted in terms of style. For instance, text needs to have a justified alignment and pages should be numbered.
2. The abstract reads as follows: "*This model is successfully tested for about 70% of the Eurozone member countries (2006-2021).*", while in p. 6, the authors say *"In principle, we were interested in a complete data set covering all*

members of the Eurozone and the time span between 1999 and 2022". Please make sure about the sample period of the study!

3. Please translate this quote to English: *'Das im IW angesiedelte Kompetenzzentrum Fachkräftesicherung (KOFA) nutzt ähnlich wie die BA und die KfW das Verhältnis von Arbeitslosen (U) und gemeldeten offenen Stellen (V) – wobei U/V auch als Engpassrelation gilt -, jedoch mit einem pauschalen Schwellenwert von 200 für U und 100 für V'*

4. The authors should be careful in their writing style. Please avoid asking questions and put forward directly the purpose or the objective each time in the paragraphs. For example:

In p.2 "What is the contribution of (V/U) to the measurement of labour market tightness?" can be replaced by "With regards to the contribution of (V/U) to the measurement of labour market tightness, we consider..."

In p.4 "Does the vacancy ratio or do other related figures correctly reflect the shortage of skilled workers or of professionals (SOSKOP)?" can be replaced by "Burstedde et al. (2020, p. 13) investigate the degree of reflection of the shortage of skilled workers or of professionals (SOSKOP) when the vacancy ratio is used"

In p.4, "How is the empirical evidence?" should be skipped.

In p.5, delete "What other influences may have disturbed this connection in the past?"

5. The empirical methodology should be further explained. For instance, Eq. (8) looks like a static panel model at first glance, but I understand later (in the Appendix) that a separate equation is estimated for each of the Eurozone countries. The method of estimation is also not indicated. Is it OLS (Ordinary Least Squares)? If so, there are no indications of tests conducted on the error term such as serial correlation, heteroscedasticity, multicollinearity, omitted variable bias. In either case, estimation techniques that handle those or some of the problems should be specified, and results for all these tests should appear clearly in the Appendix.

6. What is the motivation behind the choice of the Eurozone countries?

7. Please correct, it's (see Appendix), and not (see annex), in p.7

8. Please give the complete names of the countries in Table 1. A note should also be added for the complete definitions of the acronyms HICP, PPI, and CORE, respectively.

9. The authors did not mention the data used for the expected inflation. Are data collected from the World Economic Outlook, for example, or The Survey of Professional Forecasts, or is it simply a calculus based on the HP filter? In no part of the paper, I find such a clarification.

10. The authors proceed to a ranking of the countries based on the weights (coefficients in the regressions) attributed to the vacancy ratios in the estimated equations. I still do not get the point about this technique. Is such a procedure followed by some published articles? If yes, please cite them.

11. Please use the same notations for the vacancy ratios in the Appendix as they appear throughout the paper.

12. The footnote on p.14 reads as “*While it is quite uncommon to present the results in the way it is currently done in Table 1, this way of proceeding visualises a qualitative assessment of our findings.*” What are the common procedures, and why did the authors not use them? I suggest making a comparison between the common and uncommon procedures. This will add value to the paper’s contribution.

13. The paper should be proofread by a native English speaker.

14. Please replace “Literature” by “References” and use APA style for formatting all of them.

15. I suggest further adding some useful lectures: Barnow et al. (1998), Richardson (2007), Wiedner (2021), etc.

16. Please avoid redundancies and use simple expressions when writing the manuscript. For example:

“In the next, second section” should be “In the second section”

“Thereafter, the third section” should be “The third section”

“In the six chapter” should be “in section six” or “in the sixth section”

#### **References cited in the reply:**

Barnow, B. S., Trutko, J., & Lerman, R. (1998). Skill mismatches and worker shortages: The problem and appropriate responses. Urban Institute Policy Memorandum.

Burstedde, A., Flake, R., Jansen, A., Malin, L., Risius, P., Seyda, S., ... & Werner, D. (2020). Die Messung des Fachkräftemangels: Methodik und Ergebnisse aus der IW-Fachkräftedatenbank zur Bestimmung von Engpassberufen und zur Berechnung von Fachkräftelücken und anderen Indikatoren (No. 59/2020). IW-Report.

Richardson, S. (2007). What Is a Skill Shortage?. National Centre for Vocational Education Research Ltd. PO Box 8288, Stational Arcade, Adelaide, SA 5000, Australia.

Wiedner, J. (2021). Skill Shortage or Credential Inflation? Qualification mismatch in Great Britain and Germany, 1984-2017.