



NEWSLETTER OF THE EUROPEAN NETWORK OF ECONOMIC POLICY RESEARCH INSTITUTES*

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The launch of ENEPRI

The European Network of Economic Policy Research Institutes (ENEPRI) was created in 1999/2000 at the initiative of the Centre for European Policy Studies (CEPS). ENEPRI brings together leading national institutes from a number of EU member states and accession countries. The network will foster the international diffusion of existing research, help to co-ordinate research plans, conduct joint research and increase public awareness of the European dimension of national economic policy issues. The activities of the network are coordinated and managed by CEPS. See the front page of this newsletter for a listing of the current ten member institutes.

The activities of ENEPRI include the organisation of workshops and conferences, the publication of working papers and policy papers and the formulation of joint research programmes. The network, in particular, intends to prepare common research proposals to be presented to European bodies and national sources of funding for economic research. A contract providing financial support to ENEPRI during its first three years of operation (2000-2002) under the 5th Framework Programme of the European Union was signed in February 2000 and the first operations were launched in September in Paris. The European Science Foundation funded an exploratory workshop.

A number of workshops and conferences have already been implemented which are profiled in this inaugural newsletter. Additional scheduled ENEPRI workshops include:

- Workshop on “Ageing populations”, 8-9 February 2001 in Berlin
- Workshop on “Social security reform, pensions and tax structure” 9 March 2001 in London, and
- Workshop on “Welfare, intergenerational distribution and generational accounting”, 24-25 May in Rome.

The 2001 programme of activities will also feature three additional workshops on “Simulation properties of models” (Paris, July),

“Portability of pension rights” (Brussels, September) and “Savings, Demographic Changes and World Growth” (The Hague, November).

A selection of the contributions to these events and, additionally, from the output of ENEPRI member institutes will be published as ENEPRI Working Papers, a series focusing on European policy issues. The titles of forthcoming ENEPRI Working Papers are listed on the back page of this newsletter. They are available from the ENEPRI website (www.enepri.org) and from member institutes.

Workshop on “EMU and asymmetries in labour markets”

This workshop was organised in Paris, 29-30 September 2000 by CEPII on behalf of the European Network of Economic Policy Research Institutes (ENEPRI). It was the first in a series of workshops and conferences dealing with European welfare systems and policy implications of an integrating European Union. The workshop also benefited from the support of the Fondation Banque de France pour la recherche.

Asymmetric shocks represent a key topic for research on the EMU. Within an Economic and Monetary Union monetary policy is designed for the Union as a whole and the constituent economies are not in a position to react to country-specific shocks (asymmetric shocks) by changing the stance of macroeconomic policy. Consequently, adjustment to such shocks must take place via labour markets and/or goods and services markets. Furthermore, even symmetric shocks (common to the whole EMU) may have asymmetric effects if economic structures are asymmetric. Analysis of asymmetric shocks has mainly concerned two areas: the transmission channels of the monetary policy, and the wage-setting mechanisms. This workshop dealt with the latter of the two areas.

The workshop was structured into three main sessions:

1. Existing asymmetries between European labour markets
2. The evolution of wage-setting mechanisms
3. Labour asymmetries and the conduct of monetary policy in EMU

Existing asymmetries between European labour markets

David Mayes (Bank of Finland) presented a paper written with **Matti Viren** (Bank of Finland) on the existing asymmetries in the euro area and the problems of aggregation they raise for policy-makers. Asymmetries could concern economic variables (output per head, inflation, unemployment, specialisation patterns), different coefficients of variables in functions (elasticities), different relations between economic variables and different policy responses. The paper stressed that these

asymmetries may increase the probability of asymmetric shocks although even symmetric shocks could entail asymmetric answers given the differences in reactions to shocks.

Eric Pentecost (Loughborough Univ.) presented a paper written with **John Sessions** on the determinants of labour market flexibility in the EU. They too found, using a time-varying methodology, that Phillips curves show significant differences across the main European Union member states.

Jean-Pierre Laffargue (CEPII) presented a paper written with **Stéphanie Guichard** on private sector wage behaviour in industrialised countries. Using a panel methodology, the authors show that the reaction of the wage rate to changes in productivity and in the employment rate show considerable differences across countries. The employment rate is found to be a better indicator of labour market tensions than the unemployment rate. In addition, they presented some evidence of nominal rigidity in wage behaviour and of a small fiscal wedge effect on wage setting.

The evolution of wage setting mechanisms following the introduction of the euro

Karen Dury (NIESR) presented a paper written with **Ray Barrell** on the potential impact on the design of policy rules of asymmetries in labour markets in Europe. While acknowledging differences between European countries with respect to labour demand, wage bargaining and speed of response to shocks, the authors concluded that those differences appear to have little influence on the optimal setting of monetary policy of the ECB. Using different models of Europe (imposing labour market relations to be equal in all, some or none of the countries), the authors found the preferred rule for the ECB to be a combination of nominal aggregate and inflation targeting rules.

Alain Borghijs (Antwerp Univ.) presented a paper on the impact of EMU on wage-setting mechanisms. This paper showed that economic integration and product market integration might increase the incentives for trade unions to cooperate. But there are arguments against the “Europeanisation” of wage formation,

which stem from a risk of higher wage demands in a large, relatively closed economy such as the EU and from a decrease in the possibility for wage policy to adjust for asymmetric shocks. However the author showed that EMU did not always increase the incentives for trade union cooperation; moreover, the claim that wages would react less responsively when set jointly is no more supported by the model.

Wolfgang Scheremet (DIW) presented a paper on the convergence of wage policy after EMU. Using both econometric tests and analyses of wage-setting institutions, the author underlined that wage behaviour is still very heterogeneous in Europe. The convergence of inflation rates consequently implied a continuation of regional differences in unemployment rates. Only a few countries show a structural break in their wage formation process since 1970.

Steven Tanguy (Rennes Univ.) presented a paper on the degree of coordination between national trade unions. Economic integration has an ambiguous impact on wage formation: this will automatically be a move towards decentralisation of wage negotiations, which could increase wages. However, the intensification of international competition should discipline trade unions.

Labour asymmetries and the conduct of monetary policy in EMU

Nicola Viegi (Strathclyde Univ.) presented a paper written with **Andrew Hughes Hallett** on the importance of asymmetries in labour market institutions in the operation of a monetary union. The authors acknowledge the importance of asymmetries in preferences or in shocks, but, in their assessment, the main problem caused by asymmetries stems from differences in market structures and institutions. Countries with flexible (i.e. decentralised) labour markets should not be expected to wish to join a union of economies with less flexible (i.e. more centralised) markets. However, at the same time, the less flexible countries prefer only the more flexible to join. In addition, once countries have joined, there is little incentive to make markets more flexible.

Kari Alho (ETLA) presented a paper on the Finnish experience. The Finnish EMU buffer funds' goal is to maintain the social security contributions of employers during a possible recession in the EMU. However, their capacity to act as a stabilisation tool must not be overvalued and they may even lull participants to postpone necessary reforms. According to the author, to maintain employment during a recession, cuts in indirect labour costs, even at the cost of social security provision, may yield better results.

Richard Nahuis (CPB) presented a paper written with **Ashok Parikh** on the role of labour mobility and flexibility as an adjustment tool. Labour mobility can play a role in resolving regional disparities and absorbing shocks, especially in the absence of fiscal redistribution. However this is low in Europe relative to the US, and seems to stay low despite regional disparities.

Conference on "Economic and social dimension of EU enlargement"

This conference took place in Brussels on 16 November 2000 and was organised by CEPPI, CEPS and the French Ministry of Economics, Finance and Industry on behalf of the French Presidency of the EU.

The on-going accession talks raise many concerns both in the EU (fear of immigration flows and costs for the EU budget) and in the accession countries (costs of entry, evolution of social systems and unequal rights for member states).

The conference was structured into three main sessions:

1. The labour market in accession countries
2. Potential spillover between the labour markets of EU and accession countries
3. Social security reform: Is it a different issue for accession countries?

The labour market in accession countries

Tito Boeri (Bocconi Univ.) argued that the fears of social dumping were exaggerated, as accession countries in fact already had high contribution rates and a high degree of labour market security. Concerns rather arise from the

informal sector and from the still high level of corruption, spurred by soft law enforcement.

Marek Gora (Warsaw School of Economics) attributed the prevailing high level of unemployment in Poland, after several years of high growth, to the low level of productivity, high social security contributions and excessive labour market regulations. The pension reform of 1999 will not cause any substantial labour market effect in the short run; investment in education was in this respect one of the most effective measures to be taken.

Potential spill over between the labour markets of EU and accession countries

Claire Wallace (Derby Univ.) discussed the potential migration flows between the EU and the accession countries and argued that their magnitude is very hard to ascertain. However, even if temporary migration is on the rise, permanent migration seems to be decreasing. Furthermore, in this field, economic risks (brain drain, illegal immigration, and absorption problems for neighbouring countries) have to be weighed against political benefits and citizenship issues.

Serge Feld (Liege Univ.) studied the determinants of international migration in Europe. According to the author, demographic and economic factors were almost totally disconnected from migration flows. The main determinants were of a political nature. However, the advancement of integration can be expected to trigger a surge in temporary immigration towards EU.

Social security reform: Is it a different issue for accession countries?

Michal Rutkowski (World Bank) stated that social security reforms were a different issue in accession countries, as potential benefits from such reforms were higher while costs were lower. Their move towards a multi-pillar pension system should be assisted by quicker reforms in the EU with respect to portability of pension plans. Furthermore, it should be acknowledged that pension reforms may legitimately induce higher temporary budget deficits and explicit debts.

Zsuza Ferge (Budapest Univ.) expressed her concern about the pressures from the Commission and the World Bank on the accession countries aimed at their non-adoption of the European social model for economic reasons: these double standards could entail political problems.

These presentations were followed by a panel discussion with political and business leaders, academics and high-level civil servants. The conference was concluded by **Jean Pierre Jouyet** (French Treasury Director).

Workshop on “Eastern enlargement and migration”

Full membership of the Eastern European countries will entitle them to benefit from the “four freedoms” enshrined in the Treaty of the EU. As of now, trade and capital flows are already, albeit with a number of exceptions, liberalised within the framework of the association agreements. Free movements of labour, on the other hand, will only be implemented after accession. The potential size, direction and nature of migration flows after EU enlargement are therefore important subjects of research on the effects of accession of the CEECs.

This was the focus of a workshop organised within the framework of ENEPRI in Brussels on 17 November 2000.

In an introductory contribution, **Jorgen Mortensen** (CEPS) recalled some basic concepts of migration in general and of labour mobility in particular. He argued that the modelling of labour movements ought to take account not just of the incentives but also of a number of obstacles, such as distance, age, portability of pension rights, flexibility of the housing market, culture and language. These obstacles probably constituted the main explanation for the comparatively low labour mobility within the European Union. He underlined, furthermore, that the study of labour mobility was hampered by a serious lack of data on the dynamic aspects of movements between the different categories of labour.

Witold Orłowski (NOBE) then presented a paper on *Migration from Central and Eastern European Countries after the Accession: Effects for Regions and Labour Markets*. Using a gravity model this paper looks at the regional impact of migration. Under two convergence scenarios, different regional impacts may be expected. Focusing on the movements between Poland and Germany, the paper argues that, in a scenario with low growth in Poland, immigration may concentrate on southwest Germany. In a scenario with higher growth in Poland, immigration may be distributed more evenly in Germany, whereas the overall number of migrants may not differ by much. The outflow of migrants will come mostly from the already better developed Polish West. Thus emigration will do little to alleviate labour market problems in Poland which are concentrated in the eastern part, with a high share of agriculture and ailing industries.

The next paper, by **Michiel Van Leuvensteijn** (CPB), focused on *Wage Convergence and Migration: Lessons from Germany for the EU Enlargement*. Using data on migrations from the German Länder, this paper analyses intra-German migration patterns after unification. The determinants of migration include such variables as regional wage and unemployment differences for blue and white collar workers as well as "amenities" such as hospital beds, housing prices, the rate of house rentals, cost of living and population. The results indicate a U-shaped relation between wage differences and immigration flows for white-collar workers and the reverse for blue-collar workers. These paradoxical results were discussed and the question was raised whether they would be incompatible with other, competing hypotheses concerning the behaviour of different categories of workers. It was also argued that the findings concerning German inter-regional migration could not necessarily be applicable in the field of migration between the EU and the CEECs.

A paper by **Herbert Brücker** (DIW), *Will EU labour markets be swamped by migrants from the East? Some lessons from post-war migration to Germany*, presented a model in which migration into the EU is determined by income and employment rate differentials between the country of

destination and the country of origin. This model is then applied to Germany, estimating the impact of these determinants of migration and then using the findings to project migration rates after Eastern enlargement, controlling for country-specific effects.

In the long run, it is shown that the stock of migrants in the host country is linearly determined by the income and employment differential. Migration flows, however, will depend negatively on the initial stock of migrants present in the host country. In the case of the EU's Southern enlargement, a considerable amount of migration had taken place before actual accession so that stocks were close to equilibrium. After accession, migration was consequently rather low. With Eastern enlargement, the picture is different. Although some migration has taken place since 1989, the main adjustment can be assumed to take place after accession.

Projections based on this model indicate that, if all ten countries accede at once, the initial inflow of migrants to Germany will be around 220,000 persons in the first year but will fall to 95,000 persons per year at the end of the decade following accession. This will increase the number of EU residents originating from the CEECs from half a million in the initial position to 1.9 million at the end of the decade. Further migration will be much lower so that, in 2030, around 2.5m persons from the CEECs will reside in Germany. If accession takes place in waves, the initial profile of migration will be flattened but eventually the stock of migrants will remain similar. Also, results are robust to whether income differentials are calculated in purchasing power parities or in current exchange rates.

A final paper, by **Jan Fidrmuc** (ZEI, Bonn, and CPB), focused on *Migration in Transition Economies: Adjustment to Shocks?*. It looked at the role played by regional migration within a transition country, here the Czech and Slovak Republics, in adjusting to regional differentials in wages and unemployment. Based on highly detailed data on migration from Slovak counties, the paper finds that the efficacy of labour mobility as a means of adjustment is rather low. Unemployment rates and average wages seem to have significant effects on net

migration in Slovakia but not in the Czech Republic. Regions with higher average wages appear to experience higher migration in terms of gross inflows and outflows. This may be attributed to a higher mobility of high skilled and employed workers. Low-skilled and unemployed appear to be rather immobile.

Conclusion: The papers presented and the subsequent discussion seem to confirm the arguments that, after accession, migration between the present EU member states and the accession countries may be considerably higher than migration following the Southern enlargement. Furthermore, it is important to analyse migration flows at the level of individual countries and regions, and particularly so when flows between Poland and Germany are concerned.

The papers, however, also show that the accumulated migration flow is likely to remain small in proportion to the labour force in the EU and to reach an equilibrium level only after an extended period of adjustment. The profile of migration will also be determined by the rate of growth of activity in the accession countries and thus by the overall speed of and conditions for accession.

As the stocks of migrants are at present far below their equilibrium level, transition periods after accession may only postpone migration flows but not change much in their magnitude – unless the speed of macroeconomic convergence is very high.

Workshop on “Housing and labour mobility”

Labour markets in Europe are far from homogeneous and transparent. Segmentation is widespread both within and between countries. Moreover, demographic changes and rapid development of certain sectors are producing labour shortages in some localities while there are labour surplus and high unemployment in other regions. At the same time, housing in different European countries is undergoing important changes, both regulatory and structural, while most Europeans remain attached to their owned or subsidised homes throughout their lifetimes. This may well be one of the reasons why labour mobility across European frontiers and between regions is extremely low in comparison with other industrialised countries. This was the subject of a

workshop on “Housing and Labour Mobility” organised in Madrid by FEDEA on 27 November 2000.

The purpose of this workshop was to analyse these issues in sufficient detail to ascertain the opportunity to launch a European-wide research project exploring the link between labour mobility and housing in its many dimensions and implications, including an in-depth analysis of administrative, financial and cultural obstacles.

The subject was introduced by a lecture on “Housing and labour mobility in Europe: What are the issues?” by **William Peterson**, Professor at the Department of Economics, University of Cambridge, UK.

Labour mobility is in itself a complex issue. Compared to the US, Europe seems to lag far behind on this account. This is one of the reasons why the unemployment record in the EU fares so poorly. The design of policies to enhance mobility of the labour force thus represents a challenge for Europe. Many barriers may be at work such as, differences with respect to: language, financial institutions, welfare systems, schooling, housing. It is, however, also necessary to distinguish between several types of mobility, which each may present different policy issues:

- Short-distance mobility: does not affect labour mobility but affects household welfare
- Long-distance mobility: regional mobility is difficult to distinguish from long-distance commuting
- Age-related mobility: university students should be highly mobile and aged households would not be expected to move too much
- Skill-related mobility: manual workers rely on local labour markets; low qualified workers tend to stick to their rented housing arrangements (social housing); managerial workers tend to move more (housing is not a problem for them).
- Slump mobility: happens when a certain area experiences industrial or economic decline. There, people are discouraged from moving out and frequently lack the skills necessary for conversion.

- Boom mobility: low-skilled workers will not move into a booming region because house prices and rents there are too high.
- Frictional immobility: may happen even if flows in both directions are high but net flows are small.
- Migration

Housing seems to affect mobility, but statistical difficulties are important. As for the propensity to move, it matters whether one rents or owns one's home, but other household characteristics are important. This finding holds at least for the UK where social housing is important. Private renters tend to move more. Migration is higher among owners and private renters of unfurnished residences. However, data limitations are serious and many questions still remain unanswered due to a lack of adequate information.

Michiel van Leuvensteijn and Pierre Koning (CPB, Den Haag) then presented their paper on *Oswald's theses revisited: The effects of house ownership on labour mobility in The Netherlands*. Using a hazard model estimating the probability of moving, these authors find that employed renters are twice as likely to move as employed owners. The opposite holds for unemployed and those in job transition. Social renters appear to be locked-in. Renters however have a larger probability of becoming unemployed or leaving current employment. As an explanation the authors conjecture that workers who are more committed to their job tend to suffer less from unemployment, participate more and are less mobile, which applies more to home owners. It is not clear, however, whether the causality is not the inverse: home owners who become unemployed may search harder for a new job.

Olavi Rantala and Namkee Ahn also contributed to the debate by describing the situation in Finland and Spain.

Overall conclusions: The general discussion of these papers and the subsequent panel discussion confirmed that the relation between housing and labour mobility, in general, is a promising area for research. Household decisions on housing should be more explicitly modelled, so that different characteristics can be analysed. Dynamic data can be better

exploited by exploring duration dependency issues and the behaviour of households when housing tenure changes. There are also strong arguments for exploring the regional dimension of these issues. It is also desirable to incorporate a wide range of variables, such as, for example, user cost of housing.

In general, it seems that studies undertaken so far suffer from a lack of data. For Spain, the labour surveys show some positive correlation between ownership and willingness to move. Other regression results show a negative relationship between housing prices and willingness to move. The duration of unemployment does not seem to affect the willingness to move.

Labour mobility is, in itself, a very complex issue and no single determinant factor can be detected. There is therefore a need to look for a wide array of causes, and housing may only be one factor among others. Labour mobility is not necessarily without costs but an increase in labour mobility may contribute to the adjustment process within EMU. Most EU member states suffer from severe imbalances between the demand and supply of labour, and enhancement of labour market flexibility may help to alleviate certain categories of such structural unemployment. Mobility and flexibility may also contribute to ensuring macroeconomic stability. Increased flexibility in the housing market may, therefore, working through its effect on the labour market, bring significant macroeconomic benefits.

Future ENEPRI workshops

Population ageing

A workshop will be organised in Berlin on 8-9 February 2001 by the DIW (Deutsches Institut für Wirtschaftsforschung) and FEDEA in the framework of ENEPRI. This workshop will focus on the subject of ageing populations.

Subjects envisaged: documentation of sustainability problems of existing welfare systems, presentation of approaches to settle the distributional conflict between generations based on experience of EU member states. See call for papers at <http://www.diw-berlin.de> For further information contact Dr. Erika Schulz at DIW (eschulz@diw-berlin.de).

Social security reform, pensions and tax structure

Workshop organised by the NIESR (National Institute for Economic and Social Research) on London on 9 March 2001.

This workshop examines how social security reform affects the distribution of income, firstly through intergenerational transfers via the tax/benefit system and secondly, within a given cohort. Also, political processes that determine the tax structure are explicitly taken into account, for the political choice of tax structure may itself depend on the prevailing social security system.

Call for papers on the website of NIESR (<http://www.niesr.ac.uk>). For further information contact Martin Weale at NIESR (m.weale@niesr.ac.uk).

Welfare, intergenerational distribution and households: What does generational accounting tell us?

Workshop organised by ISAE (Istituto di Studi e Analisi Economica, Rome) in the framework of ENEPRI, Rome, 24-25 May 2001.

Generational accounting assesses the financial burden of public finances on present and future generations. In this workshop the family will be considered as the tax unit. Family is modelled here as a nuclear family, where wage-earning children are taken as a different family even though they may be living in the parental household. Different types of families will be identified according to the number of children, occupation and education of the parents. This novel approach to generational accounting will lead to policy conclusions about intergenerational redistribution that are complementary to existing literature.

Call for papers on the website of ISAE (<http://www.isae.it>). For further information contact Dr. Maria Cozzolino at ISAE (m.cozzolino@isae.it).

Forthcoming ENEPRI Working Papers

Ulrich Thiessen, *Fiscal federalism in Western European and selected other countries:*

Centralization or decentralization? What is better for economic growth? (No. 1)

Ray Barrell and Karen Dury (NIESR), *Asymmetric labour markets in a converging Europe: Do differences matter? (No. 2)*

Michael Burda, *European Labour Markets and the Euro: How much flexibility do we really need? (No. 3)*

Sébastien Jean,
Trade on Labour-Demand Elasticities:

Agnès Bénassy-Quéré, Lionel
and Amina *Foreign Direct
Investment and Corporate Income Taxation in*

Andrew Hughes Hallett and Nicola
*Labour Market Institutions and
Monetary Policies in EMU: Do
matter? Countries during the Run-Up to
EMU*

*Housing and Labour
Mobility in Europe: What are the issues?*
Szapáry, *Maastricht and the Choice*

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