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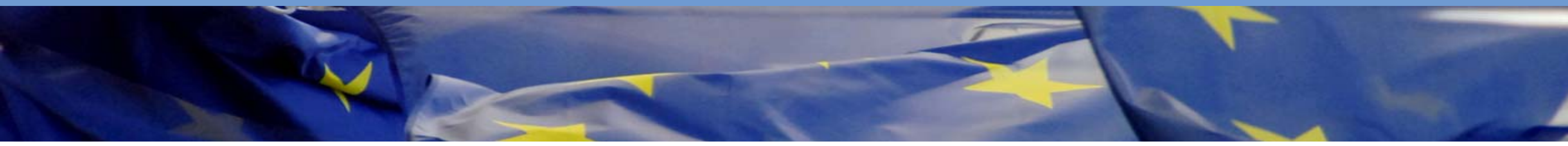

From the editor

Towards EMU@10

In May 2008 ten years will have passed since the final decision to move to the third and final stage of the Economic and Monetary Union (EMU), and the decision on which Member States would participate. On 1 January 2009, the euro will complete its first decade in existence. To mark these anniversaries the European Commission is undertaking a strategic review of EMU, under the heading EMU@10.

EMU@10 is an umbrella project embracing a range of research activities conducted by DG ECFIN focusing on the economic achievements of the first decade of the euro area, in order to identify the challenges for the years to come and to develop proposals for policies to address them. To get a wide variety of views besides the large internal research project, leading external researchers are involved and a series of essays and studies are being financed. DG ECFIN will publish the results of this project in the *EU Economy 2008 Review* on 7 May 2008. The Commission conclusions and policy proposals will appear at the same time in a Communication to the Council and the Parliament.

This issue of the *EE Research Letter* devotes particular attention to the research workshop "EMU@10 – achievements and challenges", which DG ECFIN organised on 26-27 November 2007. It reports on the papers that were presented at this first event on the 10th anniversary of the euro. The papers by external researchers as well as our own research will appear over the course of this year in a special series of DG ECFIN's *European Economy Economic Papers*.

Marco Buti
Deputy Director-General

The European Economy Research Letter provides information on current research projects of staff or visiting fellows of DG ECFIN. It appears three times a year.

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Workshop EMU@10 - achievements and challenges

DC ECFIN's aim with the EMU@10 research project is to analyse the experiences and implications of Economic and Monetary Union. In order to take into account results from most recent external theoretical and empirical research, the Directorate General organised a workshop on "EMU@10 – achievements and challenges" on 26-27 November 2007 in Brussels. It was attended by more than 100 economists, most of them from academia, the Commission and other EU institutions. The workshop sessions discussed the theoretical foundations of currency areas; economic performance and policy mix; monetary policy and financial markets; the international role of the euro; adjustment, stabilisation and fiscal policy; enlargement and governance; and historical perspectives[1].

João Nogueira Martins
Conference organiser
(Author)

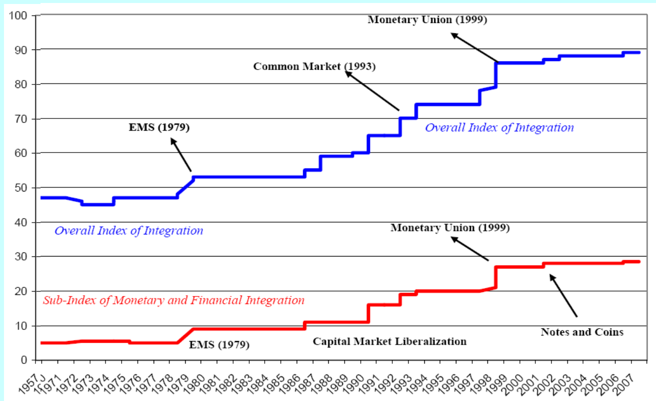
In his welcome address, Commissioner **Joaquín Almunia** noted that there was a consensus about the success of the euro – an achievement of which the EU could be proud. The single currency has provided Europe with stability and protection in a fast-changing environment. However, the potential of the EMU has not yet been fully exploited. Structural reforms, fiscal consolidation, better quality of public finance, acceleration in productivity growth, and the strengthening of economic governance were some of the topics he put forward for discussion.

Theoretical foundations of currency areas

Giancarlo Corsetti (EUI, University of Rome III, and CEPR) proposed '*A modern reconsideration of the theory of optimum currency areas*' (OCA) in the light of recent advances in open economy macro and monetary theory. His analysis focused on the stabilisation costs of monetary union and the conditions for an efficient single monetary policy. On the basis of a micro-founded model, the paper analyses the two key costs associated with joining a common currency – the loss of monetary autonomy and the loss of exchange rate flexibility – relative to a domestic monetary authority pursuing country-specific stabilisation. It is shown that these two costs are of the same magnitude as the costs associated with business cycles, but arguably smaller than the benefits of joining a currency area. As regards the efficiency of monetary policy, two conditions are identified under which, even without symmetry in national economic structures, a common monetary policy is as good as national policies. First, if exchange rates do not perform the stabilising role envisioned by the traditional theory. Second, if the share of national goods in the representative consumption basket in the currency area is close to the share of valued added in production across countries. Given the relatively homogeneous social, cultural and economic characteristics of Europe, it is argued that such a convergence of spending patterns is not an unrealistic condition in the EU.

When the euro was created, most European economies did not score high on several OCA criteria, but the OCA theory could not deliver clear guidance. However, the successful establishment of EMU might suggest that the early theory does not account fully for the net benefits deriving from monetary unions. This was the starting point for **Francesco Mongelli**'s (ECB) paper on '*European Economic and Monetary Integration, and the OCA Theory*' in which he reviews the synergies between OCA theory and EMU, and more generally EU integration (see Graph 1). Advances in economic theory have stimulated the development from

Graph 1: Index of Institutional Integration and Sub-Index of Monetary and Financial Integration (EU-6)



Source: Mongelli (workshop paper).

[1] The workshop papers are being circulated in the series European Economy – Economic Papers. They will also be published together with the comments of the discussants in a volume edited by Marco Buti, Servaas Deroose and Vítor Gaspar.

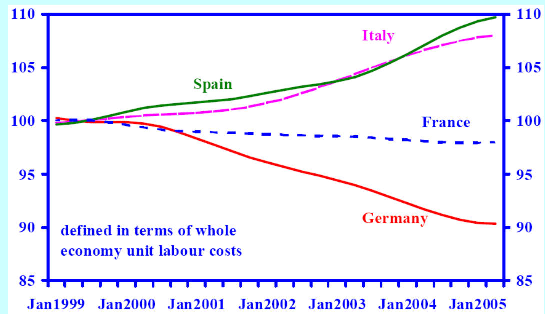
'early OCA theory' to 'new OCA theory', while significant advances in econometrics have made it possible to take into account some OCA properties that shifted the balance of judgement in favour of monetary union. In particular, the cost of giving up nominal exchange adjustment and national monetary policy seems to be rather low. The paper also pays attention to the endogeneity of optimum currency areas, a topic pioneered by Rose and Frankel: countries that participate in a monetary union will progressively satisfy the OCA criteria at some stage, even if they did not have those characteristics ex ante. Moreover, it is argued that due to exogenous factors (e.g. the Lisbon agenda) countries have improved their score in terms of the OCA criteria. There is, thus, in the author's words an 'OCA theory in reverse': EMU obliges Member States performing modestly under some OCA properties to adapt and reform so that their economies improve their performance.

Economic performance and policy mix

Ray Barrell (NIESR) asked about '*The Impact of EMU on Growth and Employment*' (co-authored by D. Holland, E. Khoman, I. Liadze and O. Pomerantz). Based on data from the EU KLEMS database (presented in the *EE Research Letter* in April 2007) the paper presents the estimates of a panel error-correction model for a number of euro-area countries, Denmark, Sweden, the UK and the US. The dependent variable is output per hour worked adjusted for skills. Stocks of both R&D and FDI are included in the equation along with the user cost of capital and a measure for risk. Dummies are included for participation in the European single market (or NAFTA in the case of the US), EU entry and the adoption of the single currency. A proxy for trade openness is also included. The key finding of the empirical analysis is that the euro had a direct positive impact on growth in the core euro-area countries (DE, FR, IT and NL) with EMU eventually raising the output level by nearly 3% in these countries. Moreover, the authors investigate whether there are additional indirect effects on productivity through reduced output volatility feeding into the risk premium on capital. This is tested with an equation for output volatility in which a single currency dummy is included alongside with controls for the volatility and inflation level, EU entry and the single market. Evidence is presented that the euro has a favourable effect on stability, with the strongest effects found in the smaller countries. Further work will investigate other channels, such as FDI and risk premia.

David Vines (Oxford) argued that an improved fiscal policy would result in better macroeconomic performance, though monetary and fiscal policies are not responsible for an unsatisfactory macroeconomic performance in the EU ('*Fiscal Policy, Intercountry Adjustment and the Real Exchange Rate within Europe*', co-authored by C. Allsopp). Weighing a number of arguments, the authors recommended fiscal policies to target the real exchange rate, as market-based adjustment via the competitiveness channel may not be sufficient (see Graph 2). This would require both tolerance of deficits during adjustment and a more active use of fiscal policy. And the policy proposal would require reliable information about potential output and the real exchange rate as well as knowledge of the impact of fiscal policy. But, as some workshop participants also argued, such knowledge is probably not available to policy makers and there is a trade-off between fine-tuning the real exchange rate and increasing the distortions associated with giving up tax smoothing.

Graph 2: Real exchange rates versus the rest of the euro area (1999=100)



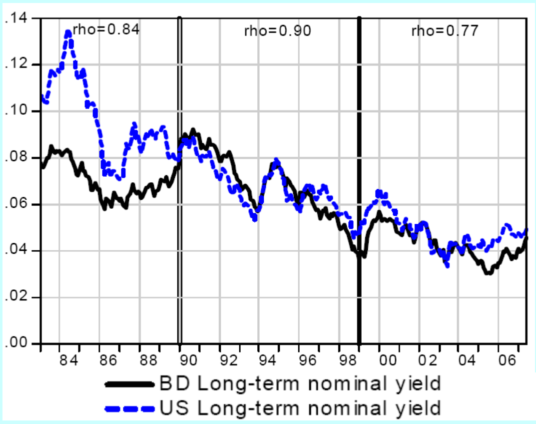
Source: Allsopp and Vines (workshop paper).

Andrew Hughes Hallett (George Mason, St. Andrews and CEPR) analysed the interactions between fiscal and monetary authorities using concepts from game theory ('*Coordination without Explicit Coordination: Monetary-Fiscal Interactions in an Era of Structural Change*'). Using a small model that suppresses spillovers between countries, he found that under a wide range of plausible assumptions, fiscal leadership and a central bank with instrument independence is superior to other institutional arrangements in terms of performance achieved. This finding is shown to be robust to a number of changes in structure, most importantly to the implications of structural reforms, demographic shifts and globalisation. However, the advantage of fiscal leadership might be jeopardised if the central bank has target independence – in addition to instrument independence – and might lead to fiscal sustainability problems when monetary and fiscal authorities have different objectives.

Monetary policy and financial market integration

Carlo Favero and **Francesco Giavazzi** (both Bocconi and CEPR) discussed the behaviour of long-term interest rates in the euro area and in the US, which have been highly correlated (see Graph 3), while short-term rates and policy rates have been less so (‘*The ECB and the Bond Market*’). Their paper aims at explaining this correlation and the observed convergence in long-term rates in the euro area and in the US. The results of a decomposition of long-term rates into their underlying factors (real rates, inflation risk premium, term premia, expected monetary policy and expected inflation) suggests that the convergence in the levels of long-term rates depends on the convergence of all components to lower levels. This convergence reflects more similar economic structures in the US and in the euro area, rather than a change in the distribution of shocks that hit the two regions.

Graph 3: Yields to maturity of US and German 10Y benchmark bonds



Source: Favero and Giavazzi (workshop paper).

Marco Pagano (University of Naples Federico II, CSEF and CEPR) gave a broad overview of research on ‘*Financial Market Integration under EMU*’ (co-authored by T. Jappelli) and presented a set of stylised facts relating to financial integration in the EU over the past ten years. The paper focuses on three main themes. (i) The reduction of barriers to financial integration by EMU and accompanying regulatory initiatives. This has spurred financial development by creating competitive pressure and opportunities for exploiting scale economies. Recent evidence shows that the regulatory harmonisation implied by the integration process has reduced dispersion in financial development across the euro area. There is also evidence that integration has been associated with an increase in cross-border investment activity within the euro area. (ii) Financial integration and economic growth in EMU. Many empirical investigations have confirmed a causal link from financial-sector development to economic growth, although the reverse causality may also apply. The evidence suggests that the growth dividend from integration has been larger for the more financially backward Member States, as well as for economic sectors that are relatively dependent on external financing. (iii) Financial integration and adjustment. The evidence on the role of financial integration and economic adjustment is less clear-cut. Theory predicts that increasing capital mobility should help to decouple saving from investment (Feldstein-Horioka) and income from consumption (risk sharing). There is convincing evidence of a decoupling of investment from saving in euro-area Member States, but the evidence on risk sharing is not conclusive.

The international role of the euro

The international use of the euro has steadily increased since its creation. Will it threaten the US dollar’s global status, given the US’s current account deficits and its negative net international investment position? This was one of the questions addressed by **Richard Portes** (London Business School) in the paper ‘*The International Role of the Euro: A Status Report*’ (co-authored by E. Papaioannou). In the past decade, the euro has not replaced the dollar as the main international currency – partly because not all EU members participate in the euro. However, within a decade from now the euro might be playing an approximately similar role to that of the US dollar, in an essentially bi-polar international monetary system. No reason was found why two or three currencies could not share the hegemonic position in the market. A reconsideration of the EU attitude towards the international use of the euro (“neither promoting nor hindering”) was recommended as there were clear gains, beyond seigniorage revenue, from being the issuer of an international currency.

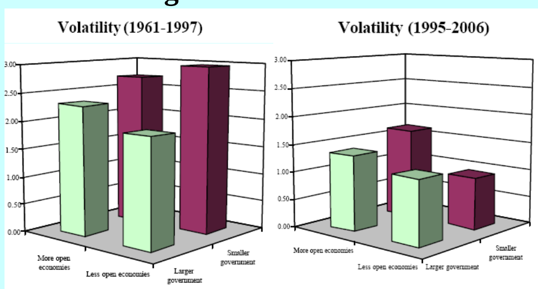
Stefan Gerlach (University of Frankfurt) and **Matthias Hoffmann** (University of Zürich) attempted a systematic exploration of the impact of EMU on macroeconomic and financial volatility within the euro area and internationally. In their paper on ‘*The Impact of the Euro on International Stability and Volatility*’ the focus is on three real variables (GDP, consumption and real stock market returns) and three nominal variables (short- and long-term interest rates and inflation) for a sample of industrialised countries, including 12 euro-area countries. They find that EMU has had a large impact on nominal stability (short- and long-term interest rates and inflation) but less so on real volatility (real GDP growth, stock market returns) except consumption growth. Moreover, EMU has helped reduce idiosyncratic volatility among not only EMU countries but also between EMU and other countries. The authors also pay attention to the possible impact of EMU on international risk sharing and consumption smoothing. They argue that, since consumption volatility in the euro area has fallen much more markedly than has output volatility, international risk sharing has increased. EMU, probably through its positive effect on financial integration and development, seems to have facilitated international risk sharing.

Adjustment, stabilisation and fiscal policy

Alexandre Janiak (ULB and Sciences Po) and **Etienne Wasmer** (Sciences Po and OFCE) presented preliminary work carried out for their study on '*Labour Market Adjustment in EMU with a Focus on Labour Mobility*'. Their analysis highlights a lack of real adjustment, notably labour adjustment, stating that labour mobility is lower in Europe than in the US in geographic, sectoral and job-to-job terms. According to the authors' findings, the relatively low mobility does not seem to be due to a different nature of shocks, or to work-, family- or home-related reasons. Rather, it is barriers to mobility in Europe that explain the difference: employment protection legislation decreases job-to-job mobility and unemployment insurance reduces incentives to move, as does insufficient competition in the product markets. The authors recommend that policy priorities should focus on exploring solutions outside the labour market: increased competition in product market, for example, would increase recruitment. In addition, the authors recommend that policy makers should tackle bottlenecks arising from low geographical mobility, such as housing market regulation, passive unemployment benefits, and dependence on local councils for housing or transfers.

Jean Pisani-Ferry (Bruegel) and **André Sapir** (ULB and Bruegel) presented a paper with two overarching goals ('*Government Size and Output Volatility: Should We Forsake Automatic Stabilization?*' co-authored by X. Debrun): first, to provide a comprehensive and systematic review of the theoretical and empirical literature on the relationship between output volatility and the size of government; and second, to present up-to-date econometric evidence on such a relationship. The draft available for the workshop largely focused on a review of the literature, though the authors also referred to some preliminary empirical results. The pre-1999 literature on the need to respond to country-specific shocks in a monetary union argued that euro-area countries had large governments, and thus large automatic stabilisers. However, there was also concern about the need to reduce distortions in EMU with a view to enhancing adjustment mechanisms and efficiency. Therefore, there could be a trade-off between stabilisation and efficiency. Cross-section studies confirmed that countries with large governments tended to exhibit less output volatility, but also that there may be a threshold level of government size beyond which the negative effect disappears or even reverses (see Graph 4). In line with other results in the literature, that threshold is estimated at around 40% of GDP. But research on the 'Great Moderation', which very often exclusively addressed developments in the US, shows an important decline in output volatility with no increase in government size. According to the authors, their preliminary empirical analyses suggest the same phenomenon has also occurred in the EU. In other words, the negative relationship between volatility and government size will have disappeared after 1990.

Graph 3: Output volatility, openness and government size[a)]



[a)] Volatility measured by standard deviations of real GDP growth in more (left bars in both panels) and less open (right bars) economies with larger (green) or smaller (red) governments.

Source: Debrun, Pisani-Ferry, Sapir (workshop paper).

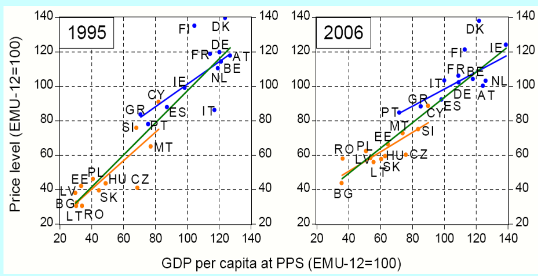
Charles Wyplosz (Graduate Institute of International Studies, Geneva) presented a paper on '*EMU's Decentralised System of Fiscal Policy*', co-authored by **Jürgen von Hagen** (University of Bonn), which asked, has the conduct of fiscal policy in the euro-area countries been in line with the macroeconomic objective of output stabilisation? Has fiscal policy changed with EMU? Is it desirable and feasible to establish a collective insurance system in EMU, which alongside the constraints of the EU fiscal frameworks, would help stabilise country-specific shocks? The authors examine the record of fiscal policies in the EU and find evidence they have become more countercyclical and more extensively used to restore competitiveness than before Maastricht. These findings are in contrast with previous work, which generally showed that fiscal policy in the euro-area countries had been mostly pro-cyclical. The divergence seems to be explained by the fact that the reaction function includes a variable that controls for the constraints imposed on fiscal policy during downswings by the 3%-of-GDP reference value for the nominal deficit. This is another way of saying that excluding the effect imposed by the constraints of the SGP, fiscal policy has helped stabilise output fluctuations. The authors then consider the properties of a mutual insurance mechanism at the EMU level reaching the conclusion that while a common insurance mechanism could make sense from a conceptual point of view, its actual design and implementation would pose a number of very difficult questions, such as moral hazard and identification.

While taxes are very actively discussed at the EU level, the creation of the euro area has not specifically raised tax-related issues. In their paper on '*Taxation policy in EMU*', **Julian Alworth** (Oxford and Bocconi) and **Giampaolo Arachi** (University of Lecce and Bocconi) investigated whether this "benign neglect" attitude is justified. They do not find strong empirical evidence of major changes in the impact, or on the determination, of tax policy following the introduction of the euro. The internal market has had a far greater impact. Nevertheless, they find certain specific aspects that deserve attention. The most important concerns the use of tax policy by individual EMU countries to achieve internal devaluations. A second aspect deserving attention concerns tax competition, for instance in corporate taxes. According to the authors, there is some tentative evidence that capital movements to and from euro-area countries have become more responsive to the levels of corporate taxation.

Enlargement and governance

Zsolt Darvas (Corvinus University of Budapest) and **György Szapáry** (Central European University; former deputy governor of the Hungarian central bank) analysed the main risks and challenges faced by the new Member States on the road to the euro and the possible impact on their strategies for euro adoption. The main thrust of their paper on '*Euro Area Enlargement and Euro Adoption Strategies*' is that the initial level of economic development as measured by per capita income (see Graph 5) and the speed of real convergence has a bearing on the strategies of euro adoption, including the optimal timing of entry into euro area. The authors argue that lower per capita income implies a larger price level gap to close and, at the same time, greater risks of credit booms and overheating. Against this background, a certain level of real convergence should be reached before euro adoption in order to ensure smooth integration into monetary union. On policy strategies in the run-up to euro adoption, the conclusion is that inflation targeting with floating rates appears overall better suited than hard pegs to manage the convergence process of catching-up economies. Countries with hard pegs face more significant challenges in containing boom-bust risks under rapid catching-up. The paper also reiterates the authors' proposal for a modification in the Maastricht inflation criterion.

Graph 5: Convergence of output and price levels, 1995 and 2006



Source: Darvas and Szapary (workshop paper).

Iain Begg (LSE) discussed '*Economic Governance in an Enlarged Euro Area*' and how EMU governance may need to evolve as the euro area is enlarged. Looking back to the first years the paper presents positive assessments of a number of elements of governance: the setting up and development of the EMU institutions; the achievement of greater fiscal discipline than in previous decades and the growing attention to the quality of public finances; the functioning of monetary policy and therefore the role of the ECB in achieving price stability; and the capacity of most Member States to learn how to adjust to EMU. It then identifies four main areas that have worked well or that could be improved: the international representation of the euro area; the political and distributive dimensions of policies; the degree of Member State ownership of and accountability for the EMU framework, and the linkages between the main policy domains. As for the future of the Eurogroup, the author considers that it cannot continue in its present format owing to the tensions in its relationship with the Ecofin and the issue of euro-area enlargement. As regards the latter the paper identifies areas of potential controversy: the definition of the inflation criterion for new entrants; the fact that real convergence may implicitly be a convergence criterion for new members; and the 'reserved' seats for big countries at the ECB Executive Board. The overall verdict on the system of economic governance from a political economy perspective is that there are things that require improvement in any case and particularly if the euro area is to be enlarged.

Historical perspective

In the session on the historical perspective of the common currency, two mutually complementary papers were presented that put EMU in the context of past monetary unions and asked about lessons that could be derived from past experiences.

Michael Bordo (Rutgers University) suggested a number of lessons that can be learnt from the historical precedents of EMU. The conclusions of his paper on '*A Long Term Perspective on the Euro*' (co-authored by H. James) concern the monetary governance of the euro area. It is argued that low economic growth could become a challenge for the management of the euro as it creates demand for a more politically controlled and more expansive monetary policy in some regions of the euro area. In addition, the response to financial sector instability with a potential need for bank bailouts could be a more general problem for monetary policy-making as contradictory pressures could emerge in different euro-area regions. Moreover, difficulties for monetary governance might emerge from fiscal problems leading to pressures for the monetisation of public debt, substantial regional strains, and tensions between the domestic and the international role of the euro. For each of these risks various scenarios are discussed that involve increased pressure on the euro. It is concluded that if all these threats are managed successfully and a process of gradual transfer of fiscal responsibility toward greater centralisation occurs, the euro area may be as successful as other late achievers of monetary unification, such as the US and Germany.

The basic message of the paper presented by **Barry Eichengreen** (Berkeley) is that there is no perfect or exact forerunner to the euro area. It is a unique construction, as expressed in the title of his paper, '*Sui generis EMU*'. He argues that monetary unions in the past, such as the Latin Monetary Union or the Scandinavian Monetary Union, represent only imperfect analogies. Three aspects in particular are identified that mark differences between the euro area and past experiences: financial integration; financial stability; and the probability that the monetary union might break apart exit and dissolution. Financial integration is illustrated by a comparison with the US record, which shows that the euro area is progressing more rapidly. Secondly, the greater emphasis on financial supervision would suggest that ECB has learnt the relevant lessons from the Great Depression in the 1930s. And thirdly, the message on the possible break-up of the Economic and Monetary Union, dealt with in the final section of the paper, is that leaving the euro area would be costly and disruptive affair, which would make it unlikely that a disaffected euro-area country would abandon the monetary union. Having searched for lessons for EMU from monetary history, the paper ends with a call for caution in drawing parallels. While history is useful to identify differences between the past and the present, it gives very few lessons for the euro because there is no historical precedent for the current situation in the euro area or, as the final quote in the paper states, "History is the science of what never happens twice" (Paul Valéry).

Conclusions

All papers generated lively debates, between the authors, their discussants and other participants. Despite the variety of topics discussed at the workshop, some general messages emerged. **Marco Buti** summarised them in his concluding remarks: (i) For EMU to function effectively it requires an enhanced surveillance mechanism which goes beyond macroeconomic and budgetary issues and considers developments in the real exchange rate and in the composition of government revenue and expenditure; (ii) globalisation increases the relative importance of structural adjustment relative to demand management in a monetary union; (iii) financial markets play a crucial role as their functioning has substantial implications for economic growth, adjustment, stabilisation and public finances; (iv) euro-area enlargement remains a challenge; (v) there is a need to capitalise on the euro area as a pole of stability in the world economy; and (vi) governance of the euro area is unfinished business and changes might be needed to cope with the a more mature and larger monetary union.

João Nogueira Martins

Interview with Niels Thygesen

Thygesen, professor of economics at Copenhagen University, has played an important role in the debate and in the preparations leading up to the creation of Economic and Monetary Union. He was a member of the Marjolin Group[1] and the Delors Committee. Over the years he has influenced policy-makers, academics and researchers alike. He took part in the EMU@10 workshop.

How would you summarise the major steps in your involvement with the common currency? What brought you into this field of work?

When my country (Denmark) joined the European Economic Community in 1973, I was invited by the European Commission to join a study group, chaired by Robert Marjolin, on the steps required to move to Economic and Monetary Union by 1980. Although some of my colleagues in the group had participated in the preparation of the Werner Report of 1970, we concluded in the Marjolin Report of 1975 that EMU was a long way off and that national politicians grossly underestimated what had to be done. This was an inspiring challenge to me as an early advocate of the potentially strong case for a common currency in Europe. From 1972 through 1983 I was adviser to the Governor of Danmarks Nationalbank, while maintaining my academic responsibilities at the University of Copenhagen, and this provided me with a unique opportunity to follow the very piecemeal initiatives taken during the 1970s to strengthen monetary cooperation in the EEC, including the EMS initiative, more closely than academic colleagues. So I was relatively well prepared when the discussion on EMU started in earnest in 1988 and was privileged to be nominated an independent expert member of the Delors Committee on EMU.

We are now celebrating EMU@10. What were your views on EMU at its inception back in 1988?

I was a firm believer that EMU would be an arrangement considerably superior to even a well-functioning EMS, but the discussions in the Delors Committee did not convince me that EMU would be realised. While the final stage of the EMU process was well defined, the weakness of the transition provisions, combined with the insistence by many policy-makers on parallelism between progress in the monetary and economic dimensions of the EMU process, seemed to me to make the prospects of arriving at the final stage very uncertain. But I had clearly underestimated the pull of attraction of the final stage and the readiness of governments to accept a degree of automaticity in starting that stage at a certain date, regardless of how many were ready to join, which was decided at the very end of the Maastricht Treaty negotiations. Without that provision EMU probably would not have started yet.

What has most surprised, impressed and/or depressed you when you look back at the evolution of EMU?

I am impressed, in particular, by the professionalism and collegiality of the Eurosystem governing bodies and staff. Prior to the start of the ECB there was understandable scepticism whether the new structure for monetary policy-making could operate without significant frictions. The experience of central banking in large federal countries, in particular the United States, but also Germany, with considerable regional diversity and elements of political competition, was not entirely reassuring. But such fears have largely – one has to be a bit qualified due to the occasional political sniping at the way the common currency is managed – been put to rest. The major disappointment since 1999 is that the EMU participants have not moved more decisively towards reforms of some of the structural features that hold back economic growth in the euro area. Optimists like myself had hoped that, with the disappearance of national monetary and exchange-rate policies, national governments would focus more on competing by improving the functioning of their labour and product markets, but this has been a highly imperfect effort so far, despite the prodding of the Lisbon Agenda for structural reforms.

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[1] Robert Marjolin (1911-1986) was adviser to De Gaulle's government-in-exile in the UK. After serving as the Secretary General of the OEEC (1948-1954), he led the French delegation at the Intergovernmental Conference for the Treaty of Rome. From 1958 until 1967 he was a member of the European Commission with responsibility for DGII (Economic and Financial Affairs). In 1974, he chaired the "Study Group on Economic and Monetary Union 1980" (Marjolin Group).

Of course, an economist must stand ready to propose better policies and better institutions. What measures would you propose to make EMU work better?

There is no evidence that further institutional reforms are required, but we need to hold on to what we have and upgrade the monitoring of those national policies that have lagged, notably in labour and product markets, including the network industries. The erosion of the Stability and Growth Pact with the reforms of 2005 which changed the Pact from a few general rules to be observed by each government into a complex negotiation framework, has so far appeared less damaging than one might have feared, but it is essential that its remaining provisions are carefully observed, also when growth slows down in 2008-09. As regards monetary policy, the independence of the Eurosystem must be respected, but that does not preclude a more visible role for the Eurogroup, provided the group is indeed able to define a common position rather than leaving it to individual countries to speak up. The Eurogroup could usefully begin by endorsing the definition of medium-term price stability of the Eurosystem.

Looking into the future, where will EMU and the euro be ten years from now when we celebrate EMU@20? When will the age of the euro surpass the number of euro-area Member States?

Over the coming decade the euro area will expand by incorporating nearly all of the current 27 Member States, so it may take more time for the age of the euro to exceed that number. I find the current plans for adapting the governance structure of the Eurosystem and membership of the European Commission to the growing numbers less than fully reassuring, though politically understandable and possibly workable.

Lars Jonung

EU Economy 2007 Review: a trade-off between employment and productivity?

1. Overview

Tackling the root causes of slow labour productivity growth is one of the most pressing and complex economic policy challenges facing the Union. The *EU Economy 2007 Review* provides an in-depth analysis of productivity developments and policies to move Europe's productivity frontier forward. This brief article deals with some of the questions analysed in the *Review*, namely 1) whether differences in employment growth across countries are reflected in productivity growth differentials; 2) whether the relationship between employment and productivity growth is stable over time; 3) whether the recent focus on labour market policies could be held responsible for the weak productivity growth. Other chapters of the *Review*, briefly summarised below, discuss the nature of the pick-up in productivity growth in recent years; the determinants of productivity developments at the sectoral level; and the policies that promote a durable growth of both employment and productivity.

Alfonso Arpaia (Author)

Chapter 1 of the *Review* assesses recent productivity trends in the euro area and its four biggest Member States both at the economy-wide and at the sector level using a variety of statistical techniques. An analysis of the structural and cyclical factors behind the recent productivity pick-up suggests a cautious interpretation of the improvement as there are not enough data at present to confirm that it is of a structural nature.

Chapter 2 of the *Review* draws on newly available data from the EU KLEMS project to carry out a detailed analysis at the industry level. It reveals that the bulk of the structural productivity growth differential with the US is attributable to sluggish developments in only a handful of industries, mainly in services, with factors such as economic structures, comparative size of the industries and regulatory issues playing a key role. The analysis also shows that progress is increasingly associated with innovation and technological spillover from countries positioned at the technology frontier, thus confirming the crucial importance of investments in R&D and human capital.

The final chapter of the *Review* looks at policies to promote productivity growth under the headings of knowledge building, strengthening competition forces, and enhancing flexibility.

Simulation techniques are employed to assess the impact of specific policies, such as actions to support R&D investment, on GDP and productivity growth. This chapter highlights the scope for improvement in Europe's productivity, by promoting innovation, enhancing human capital and improving the regulation of product, labour and financial markets. It is concluded that all in all, moving Europe's productivity frontier forward would require policies that enhance innovation processes and the adoption of new forms of work organisation and production. This "high road" to productivity growth marks a significant change from the "lump-of-labour fallacy" which supposes that a fixed amount of labour exists and productivity gains can be obtained only at the expense of employment growth – or, conversely, that low productivity growth is the price to be paid for high employment growth.

2. Is there a trade-off between employment and productivity growth?

The simultaneous occurrence in the EU of low output and productivity growth in the first half of this decade gave rise to concerns about the feasibility of policy that aim at boosting both employment and productivity (see Table 1). The high rate of job creation recently observed in European economies' is a welcome development. However, it occurred against a background of falling productivity growth. The recent years of "growthless" job creation mark a significant change from the years of jobless growth, when economic growth was accompanied by only moderate job creation. Thus, it might be asked whether the productivity slowdown and employment growth are two related phenomena.

Table 1: GDP per capita, productivity and employment, annual growth 1996-2007

	GDP per Capita		Employment		Productivity	
	1996 -2000	2001 -2007	1996 -2000	2001 -2007	1996 -2000	2001 -2007
Euro Area	2.6	1.2	1.6	0.9	1.6	1.1
Germany	-1.9	-1.2	-0.8	-0.1	-2.3	-1.7
France	-2.5	-1.2	-1.4	-0.5	-1.6	-1.3
Italy	-1.9	-0.3	-1.0	-1.2	-1.1	-0.1
Rest of EU15	3.5	2.0	2.0	1.4	1.8	1.5
UK	-3.1	-2.2	-1.3	-0.9	-2.0	-1.8
EU15	2.7	1.5	1.5	0.9	1.7	1.3
EU10	4.9	5.4	-0.3	0.9	5.1	4.3
EU25	2.8	1.7	1.2	0.9	2.0	1.4
US	3.1	1.7	-2.1	-1.1	2.1	2.0

Source: *EU Economy: 2007 Review.*

Cyclical factors and labour hoarding during downturns may have played a role in the productivity slowdown. However, the low growth of TFP in many EU countries suggests that long-term factors may have played a role as well.

The productivity differences between the two sides of the Atlantic have recently spurred research on their causes and, especially, on the European productivity slowdown. For example, Allard and Lindert (2006)[1] study whether welfare and product market institutions can account for the evolution of a set of productivity and labour market indicators. They show that the relation between labour market institutions and job outcomes and productivity may be unstable over time, owing to complex interactions between effects of these institutions on the socio-economic composition of employment and the growing preponderance of outsiders in the labour force. Conversely Dew-Becker and Gordon (2007)[2] document the significant role played by European policies (i.e. tax wedge, employment and product market regulation, unemployment compensation and union density) in the dynamics of employment and productivity, and especially in the post-1995 productivity turnaround. Their results also imply that policy changes exert a stable effect on employment and productivity.

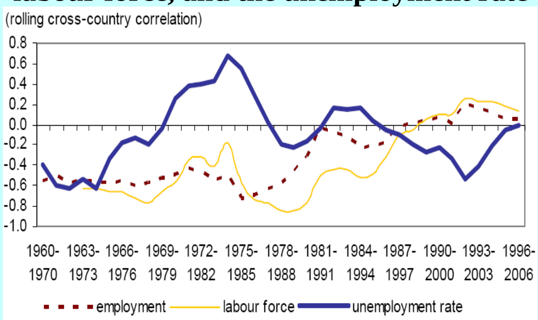
The measures proposed under the Lisbon Strategy to increase labour supply, promote investment in human capital, improve the adaptability of the workforce, encourage regulatory reform and stimulate entrepreneurship and innovation all aim at achieving higher growth via more and more productive jobs. However, this goal will be difficult to achieve if there is a strong and inescapable negative relationship between employment and productivity growth. This trade-off may hinder the efforts of policy-makers to raise the potential of the European economy.

From a theoretical viewpoint, a trade-off between jobs creation and productivity may indeed emerge in the short to medium term. For example, in the standard neoclassical growth model, in the steady state the capital per worker is growing at the rate of the exogenous technological progress. A temporary increase in labour force growth would entail a reduction in the capital-labour ratio which would reduce output per person employed. However, the decline in the capital per worker is only temporary. With diminishing returns to capital, the lower capital-labour ratio entails a higher investment per unit of capital which brings this ratio back towards its steady-state level.

[1] Allard, G.J. and P.H. Lindert (2006) "Euro-productivity and euro-jobs since the 1960s: which institutions really mattered", NBER WP No. 12460.
[2] Dew-Becker, I. and R. J. Gordon (2007), "The role of labor-market changes in the slowdown of European productivity growth".

Other reasons for a temporary trade-off have also been identified in the literature. The introduction of innovations with universal and far-reaching applications (the so-called general purpose technologies, GPT) has been invoked to explain how the interaction between technological adoption and technological opportunities may lead to a decline in productivity growth.[3] During the period needed to learn and apply new technologies in mass production, labour productivity growth may slow down as resources are not immediately profitable or their use is limited to few enterprises. The decline in productivity growth is temporary, but can be persistent depending on the lag between the invention and its adoption in mass production.

Graph 1: Correlation between productivity growth and employment, labour force, and the unemployment rate



Source: *EU Economy: 2007 Review*.

The tendency for the marginal product of capital to fall with the increase of the capital-labour ratio can be offset by technological progress and improvements in work practices, i.e. by what determines labour productivity in the long run. If labour and product markets function well and technological progress advances, high employment growth is compatible with high productivity growth.

From an empirical point of view, claims of a possible trade-off between productivity and employment seem to find some support in post-war economic history. In the 1970s and 1980s, the European Union combined relatively fast productivity growth with sluggish employment growth – while the United States conversely experienced fast job growth amid a productivity slowdown. During that episode the sharp rises in oil prices and the associated surge in real wage costs in many EU countries (as workers shifted higher energy prices forward onto employers via wage demands) triggered a substitution of capital for labour, which meant that fast labour productivity growth came with massive labour shedding.

The US experience since the mid-1990s appears to be at odds with the notion of a permanent trade-off between employment and productivity given that the US has performed strongly on both counts. The strong rises in productivity stemming from innovation and better work practices (TFP growth), which have been a feature of the US economic performance over the past decade or so, have made both labour and capital more productive and thus stimulated the demand for both. Hence, innovation does not harm aggregate employment at all, unless labour market institutions hamper the job relocation needed in the face of structural changes and firms face weak market incentives to adjust.

The key issue is to what extent trends and fluctuations in productivity relate to developments in employment. Graph 1 reports the cross-country correlation between rates of growth of employment and productivity (measured as GDP per person employed) calculated over a 10-year window starting from 1960. This correlation was strongly negative up to the mid-1980s when it started to diminish; countries with high productivity growth had low employment growth while countries with high employment growth experienced low productivity growth. This negative correlation between employment and productivity gradually vanished over time. The econometric evidence in the *Review* suggests that in cross-country comparisons the trade-off was more binding in the late 1970s and in the 1980s than in the mid-1990s. Compared to previous decades, in the more recent years differences in productivity growth across countries derive to a smaller extent from cross-country differences in employment growth Although, there seems to have been a reversal in recent years, the trade-off appears less binding than in the years of jobless growth that followed the supply shocks of the early 1970s and 1980s. Thus, employment growth differentials across countries are translated only to a small degree into a productivity growth differential.

Labour market reforms, including the introduction of flexible employment contracts and working-hours arrangements alongside more employment-friendly wage-bargaining practices, can cause labour productivity to slow down as the capital per worker falls; so can policies which address the issue of low labour-market

[3] Helpman, E. and M. Trajtenberg (1998), "A time to sow and a time to reap: growth based on general purpose technologies", in: E. Helpman, ed., General Purpose Technologies and Economic Growth, MIT Press: Cambridge and London, pp. 55–83.

attachment of specific socio-economic groups. However, the analysis in the *Review* suggests that this effect is fairly small, and that the recent intense job creation and productivity slowdown in fact have specific causes. Estimates of the trade-off, including simulations with DG ECFIN's macroeconometric model QUEST, suggest a range of a 10-40% loss in productivity for a given employment gain. The report uses information from the LABREF database[4] of labour market reforms to conduct a "policy experiment" on the effects of reforms targeting groups with low activity rates on employment and productivity. Econometric estimates show that policies affecting the job prospects of inactive workers, especially women, older workers and the low-skilled (for example, fiscal incentives for temporary and part-time work, targeted tax cuts for low-skilled/low-income workers, employment subsidies, direct job creation schemes and in-work benefits) may have raised employment by slightly over 1% over the 2001-06 period in countries where they were implemented, while reducing productivity by 0.35%.[5]

3. Policy aspects

Thus, both economic theory and the experience of EU Member States and the US suggest that there is no need for an exclusive focus on either employment growth or productivity growth. GDP per capita depends on both GDP per person employed and the employment rate. In the current situation in the EU27 the key objective is raising productivity levels using all instruments available to stimulate TFP growth, whilst encouraging the labour-intensive growth pattern over the medium term to move towards full employment. A higher employment rate implies an unambiguous increase in GDP per capita with no negative implications for the long-run productivity growth of the existing workforce. Reforms that increase the EU participation rate and the flexibility of the labour market do not impede efforts to stimulate investment and technical progress. Thus, there is no reason why policy makers cannot act on both fronts simultaneously.

The EU has not yet succeeded in reaping the full benefits from the adoption of new technologies. There remains considerable scope to boost Europe's productivity. Accordingly, policies in pursuit of a 'knowledge society' figure prominently on the EU's policy agendas. In this framework, Member States have included a host of policy measures aimed at strengthening TFP growth in their National Reform Programmes and associated Implementation Reports. These policies can be grouped under three main headings: (i) knowledge building; (ii) strengthening competition forces; and (iii) enhancing flexibility.

The evidence of the *Review* (Chapter 3) suggests that labour market reforms can indeed have led to some productivity losses, as less productive components of the labour force are employed, but the effect is small and of a temporary nature. However, there is no reason why improving productivity and increasing employment could not go hand in hand in the long-run.

[4] The LABREF database was presented in the *European Economy Research Letter*, Vol. 1, Issue 3.

[5] Dew-Becker and Gordon estimate that policy changes after 1995 lowered productivity in the EU15 by -0.23 per cent (Table 8 page 63); the actual change in labour productivity between post- and pre-1995 growth rates reported by the authors is -0.88. Thus, policies account for about 1/3 (-0.23/-0.88) of the actual labour productivity change observed after 1995 in the EU15.

The section on methodological tools is a regular feature of this publication. DG ECFIN, in collaboration with the Economic Policy Committee (EPC) and other research and policy fora, develops tools of surveillance which are made available to all interested parties.

The Harmonised EU Business and Consumer Surveys

Opinion survey data reflect economic agents' judgements about past, current and future economic developments. They are a key complement to quantitative statistics, which are often available only after significant delays. They provide policy-makers, economists and business managers with useful information to assess the current state of the economy and to forecast short-term economic developments. Timeliness and high frequency are among their main advantages.

Since the early 1960s, DG ECFIN has been managing a programme of harmonised business and consumer surveys in the EU Member States and the candidate countries. Over time, the scope of the programme has considerably expanded in terms of both countries and sectors covered. At present it covers five economic sectors (manufacturing industry, construction, retail trade, services and consumers) and comprises all the EU Member States as well as the candidate countries. Moreover, an EU-wide survey in the financial services sector, with a slightly different setup from that of the other harmonised business surveys, has recently been added to the Commission's survey programme.

Main features of the harmonised EU surveys

The harmonised surveys are carried out on behalf of the European Commission by partner institutes in each country. These institutes apply a common methodology, which consists mainly of harmonised survey questionnaires and a common timetable. This is essential to ensure the comparability of survey results across countries and to allow the calculation of meaningful business cycle indicators for the euro area and the EU as a whole.

The surveys in the manufacturing industry, construction, retail trade and services sectors as well as the consumer surveys are conducted on a monthly basis. Some additional questions are asked on a quarterly basis in the industry, construction and consumer surveys. The fieldwork for the surveys is performed in the first two to three weeks of each month or quarter. Furthermore, an investment survey of the manufacturing sector is conducted twice a year.

The harmonised questionnaires cover a wide range of variables that are useful to monitor cyclical developments. Most of the questions are of a qualitative nature, and call for an assessment of recent developments, an appraisal of the current situation, or expectations for the near-term future. They usually require an answer according to a three-option ordinal scale: positive ("increase", "more than sufficient", etc.), neutral ("remain unchanged", "sufficient", etc.) and negative ("decrease", "not sufficient", etc.). Answers to a particular question are aggregated in the form of a balance statistic, defined as the difference between the percentages of respondents giving positive and negative replies.

Processing and publishing the survey results

DG ECFIN calculates EU and euro-area aggregates as weighted averages of the country results and seasonally adjusts the balance series. It then computes a set of monthly composite indicators, which summarise economic agents' perceptions and expectations about the current or future economic activity. First, for each surveyed sector, a confidence indicator is calculated as the arithmetic average of answers (seasonally-adjusted balances) to a selection of questions closely related to the reference variable the indicator is intended to track, e.g. year-on-year industrial production growth for the industrial confidence indicator. Second, the results for the five surveyed sectors are aggregated into the Economic Sentiment Indicator, whose purpose is to track real GDP growth at Member State, EU and euro-area level. Finally, DG ECFIN produces the factor-model-based Business Climate Indicator, which uses the results of the industry survey and is designed to assess cyclical developments in the euro area.

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DG ECFIN publishes the survey results on the last working day of each month in the form of two press releases. All the survey data (long-time series, non-seasonally-adjusted sectoral series and seasonally-adjusted sub-sectoral data) can be downloaded free of charge from:

http://ec.europa.eu/economy_finance/db_indicators/surveys9185_en.htm.

Use of the harmonised EU surveys

Due to their continuous harmonisation and wide scope, the harmonised EU surveys are an essential tool to monitor the economic situation in the Member States, the euro area and the EU. They are widely used by policy-makers and economic analysts in international organisations, central banks, finance ministries, financial institutions and big private non-financial companies. Within DG ECFIN, the survey results are extensively used for economic surveillance, short-term forecasting and business cycle analysis. An overview of DG ECFIN's use of survey data and more information on the harmonised survey programme can be found in: *The Joint Harmonised EU Programme of Business and Consumer Surveys*, European Economy, Special Report No. 5, 2006, European Commission, available at: **http://ec.europa.eu/economy_finance/publications/publication7568_en.pdf**

Nathalie Darnaut

List of recent external academic publications by DG ECFIN staff

Journal articles

Buti Marco and Mario Nava, "Constrained Flexibility" as a tool to facilitate reform for the EU budget, *Public Finance and Management* (forthcoming).

Jonung, Lars, Larch, Martin and Jonas Fischer (2008), 101 proposals to reform the Stability and Growth Pact: Why so many? A survey, *Public Finance and Management* (forthcoming).

Konrad, Kai A. and Sebastian G. Kessing (2008), Time consistency and bureaucratic budget competition, *Economic Journal*, Vol. 118, No. 525, pp. 1-15.

Papers in academic volumes and other series

Buti, Marco and André Sapir (2008), Fiscal policy in Europe: the past and future of EMU rules from the perspective of Musgrave and Buchanan, in: Barry Eichengreen, Michael Landesmann and Dieter Stiefel, editors, *The European Economy in an American Mirror*, Routledge: London and New York, pp. 233-258.

Ilzkovitz, Fabienne (2007), Le Marché intérieur, une étape cruciale mais inachevée de l'intégration économique européenne, in: *Milieux économiques et intégration européenne au XX^{e} siècle. La relance des années quatre-vingt (1979-1992),* sous la direction scientifique de Éric Bussière, Michel Dumoulin et Sylvain Schirmann, Comité pour l'histoire économique et financière de la France.

Jonung, Lars and Jonas Vlachos (2007), The euro - what's in it for me? An economic analysis of the Swedish euro referendum 2003, Report 2007:2, Swedish Institute for European Policy Studies, Stockholm.

Pichelmann, Karl and Werner Roeger (2008), Employment and labour productivity in the EU: reconsidering a potential trade-off in the Lisbon strategy, in: Barry Eichengreen, Michael Landesmann and Dieter Stiefel, editors, *The European Economy in an American Mirror*, Routledge: London and New York, pp. 128-142.

Recent Economic and Occasional Papers

European Economy Economic Papers

No. 301: The effectiveness and efficiency of public spending, by Ulrike Mandl, Adriaan Dierx and Fabienne Ilzkovitz (ECFIN), February 2008.

No. 300: Government expenditure and economic growth in the EU: long-run tendencies and short-term adjustment, by Alfonso Arpaia and Alessandro Turrini (ECFIN), February 2008.

No. 299: Hedging and invoicing strategies to reduce exchange rate exposure – a euro-area perspective, by Björn Döhring (ECFIN), January 2008.

No. 298: Imposing a unilateral carbon constraint on energy-intensive industries and its impact on international competitiveness – data and analysis, by Manfred Bergmann, Mark Hayden (both ECFIN), Katri Kosonen (DG TAXUD) and Andreas Schmitz (IPTS, Sevilla), December 2007.

No. 297: Fiscal Indicators, Proceedings of the DG for Economic and Financial Affairs Workshop, Brussels, 22 September 2006, edited by Martin Larch and João Nogueira Martins (ECFIN), December 2007.

No. 296: The euro – what's in it for me? An economic analysis of the Swedish Euro Referendum of 2003, by Lars Jonung (ECFIN) and Jonas Vlachos (University of Stockholm), December 2007.

No. 295: Where does capital flow? A comparison of U.S. States and EU countries, 1950-2000, by Sebnem Kalemli-Ozcan (University of Houston and NBER), Bent E. Sørensen (University of Houston and CPER) and Belgi Turan (University of Houston), December 2007.

No. 294: Growth and economic policy: Are there speed limits to real convergence?, by István P. Székely and Max Watson (ECFIN), December 2007.

No. 293: Asset booms and tax receipts: The case of Spain 1995-2006, by Carlos Martinez-Mongay, Luis Angel Maza Lasierra and Javier Yaniz Igal (ECFIN), November 2007.

No. 292: Price convergence in the enlarged internal market, by Christian Dreger (coordinator of the study), Konstantin Kholodilin, Kirsten Lommatzsch, Jirka Slacalek (all DIW, Berlin) and Przemyslaw Wozniak (CASE, Warsaw), November 2007.

European Economy Occasional Papers

No. 36: Progress towards meeting the economic criteria for accession: the assessments of the 2007 Progress Reports, by ECFIN, December 2007.

No. 35: Pensions schemes and projection models in EU-25 Member States, by ECFIN, November 2007.

Other publications

Country Focus Publication

Public finance reform in Hungary: Light at the end of the tunnel? by Laszlo Jankovics (Vol. V, Issue 4, February 2008).

FDI in Romania: from low-wage competition to higher value-added sectors by Stefaan Pauwels and Lorena Ionita (Vol. V, Issue 3, February 2008).

Business cycles, quality of economic policy and government revenues in Poland by Aleksander Rutkowski (Vol. V, Issue 2, January 2008).

Foreign investment in Russia by Lúcio Vinhas de Souza (Vol. V, Issue 1, January 2008).

Liberalisation and development of the Czech financial sector: more to come by Neil Kay (Vol. IV, Issue 12, December 2007).

The impact of fiscal policy in Hungary by Julia Lendvai (Vol. IV, Issue 11, November 2007).

Macro-Fiscal Assessments

Effective budgetary surveillance in the framework of the revised Stability and Growth Pact is a key pillar for the functioning of EMU. In this context, each Member State has to submit, to the Council and the Commission, a stability or convergence programme and annual updates thereof. Member States that have already adopted the single currency submit (updated) stability programmes and Member States that have not yet adopted it submit (updated) convergence programmes. DG ECFIN is currently assessing the 2007-2008 vintage of Stability and Convergence Programmes. As a result, a *Macro-Fiscal Assessment* is being published for each country. It includes in particular (in its section 2) a "Scene Setter" that analyses specific fiscal policy challenges faced by the Member State. The topics of the Scene Setters are the following (in regular EU country order):

Belgium: *How to reconcile the announced tax cuts aimed at reducing the burden on labour with the accumulation of budgetary surpluses*. **Germany:** *Tax revenues and medium-term fiscal planning*. **Ireland:** *Key policy challenges: population ageing and the public finances - strategies for improving sustainability*. **Greece:** *Overheating in Greece: what role for fiscal policy?* **Spain:** *Correcting external imbalances: what role for fiscal policy?* **France:** *Key challenges for public finances with a particular focus on public expenditure: past developments and current issues*. **Italy:** *Double challenge for fiscal policy: containing expenditure and enhancing its quality*. **Cyprus:** *Cyprus in EMU: a new role for fiscal policy?* **Luxembourg:** *Key challenges for public finances with a particular focus on sustainability and population ageing*. **Malta:** *Public expenditure: past developments and current issues*. **The Netherlands:** *Key challenges for public finances with a particular focus on fiscal policy and overheating*. **Austria:** *Reforming federal fiscal relations*. **Portugal:** *Adjusting in EMU: The role of public sector wages*. **Slovenia:** *Fiscal policy facing the challenges of euro area membership*. **Finland:** *Fiscal policy to prepare for slowing potential growth*.

Bulgaria: *External imbalances and catching-up: the role of public finances*. **Czech Republic**: *Key challenges for public finances with a particular focus on ageing, catching-up and fiscal sustainability – the case for pension reform*. **Denmark:** *Public consumption expenditure growth in view of the tax freeze*. **Estonia:** *Structural change and the sustainability challenge*. **Latvia:** *Fiscal policy and demand pressures*. **Lithuania:** *Catching-up and overheating - challenges for fiscal policy*. **Hungary:** *Key challenges for public finances with a particular focus on the reform of fiscal governance*. **Poland:** *Public finances and the labour market: the case for improving the quality of public finances*. **Romania:** *The impact of the 2005 tax reform on employment and budgetary revenue*. **Slovakia:** *Key challenges for public finances with a particular focus on the role of fiscal policy in creating favourable conditions for sustained and rapid catching-up*. **Sweden:** *Need for containing public expenditure*. **The United Kingdom:** *Public expenditure and efficiency challenges - containing public spending while improving public services*.

A first batch of assessments has already been published. All others are planned to be published by early March. They can be found at: **http://ec.europa.eu/economy_finance/sg_pact_fiscal_policy/sg_programmes9147_en.htm**

Visiting Fellows Programme

Under its Visiting Fellows Programme (VFP) and Economic Seminar Programme (ESP), DG ECFIN seeks to attract leading economists in academia, international organisations, governments and top research institutions to work with its own staff and give a seminar. Visiting Fellows in the first two months of 2008:

29/1 – 2/2	Pierre Siklos Wilfried Laurier University	Inflation and interest rate convergence among the new EU non-EMU economies

Information about the two programmes can be found on DG ECFIN's website at:
http://ec.europa.eu/economy_finance/eco_research/index_en.htm

Calls for tender or papers

Call for proposals ECFIN/2008/A3-003 - Joint Harmonised EU Programme of Business and Consumer Surveys. Submission deadline: 17 March 2008 (16:00)

The European Commission is launching a call for proposals for carrying out consumer surveys in Austria, Ireland and Malta as part of the Joint Harmonised EU Programme of Business and Consumer Surveys. The co-operation between the Commission and the successful candidates shall take the form of framework partnership agreements over a period of three years, from May 2008 to April 2011. The harmonised EU survey programme is designed to gather information on the state of the economies in the EU Member States so as to be able to compare their business cycles for EMU management purposes. It has become an indispensable tool in the EMU economic surveillance process, as well as for general economic policy purposes. For further information: **http://ec.europa.eu/economy_finance/procurements_grants/call4proposals10984_en.htm**

Conferences and workshops

13 March 2008

"Extending the Working life of Older Workers: A European Success Story?" (workshop in Brussels)

During the second half of the 1990s, the performance of the European labour market significantly improved for all socio-economic groups, especially for the older workers. Despite progress, sizeable gaps exist across countries in the older workers' employment and participation rates. The aim of the workshop is to bring together the views of experts from academia together with those of national and European policy-makers to discuss issues related to measures that increase the effective retirement age and improve older workers' participation rates. The workshop is organised in three sessions: (1) The impact of pension reforms on the decisions to retire and the older workers' participation rates; (2) Extending working life; and (3) Complementarities between labour market reforms and pension reforms. Better knowledge on these issues will improve the understanding of the key elements for successful labour market reforms. Contact: **ecfin-secretariat-e3@cec.eu.int**

15-16 May 2008

Brussels Economic Forum 2008: "Economic and Monetary Union in Europe: 10 years on"

This event brings together politicians, economists, academics and civil society to discuss timely and important issues facing the European Union, with an emphasis on economics. The 2008 Forum will focus on the ten years since the final decision to move to the third stage of EMU. On the agenda of the Forum there will be presentations by distinguished economists and policy-makers. More information will be available at:
http://ec.europa.eu/economy_finance/events/event12012_en.htm

16-17 October 2008

5th DG ECFIN Annual Research Conference: "Boosting growth and productivity in an open Europe: The role of international flows of goods, services, capital and labour"

While foreign trade flows have always been seen as a major determinant of growth, recently globalisation and enhanced European integration (including EMU) have impacted on the size and direction of international flows, not only of goods but also of services, capital and labour. This conference intends to add insights from state-of-the-art research including a micro- and a macro-perspective and a broad geographical coverage. Sessions will comprise invited (keynote) and contributed papers. Further information and a call for papers will be published on DG ECFIN's website in March 2008: **http://ec.europa.eu/economy_finance/events/event12197_en.htm**

November 2008

"Quality of Public Finances" (workshop in Brussels)

Based on the content of the forthcoming *Public Finances in EMU 2008* report, which will focus on the quality of public finances, the aim of the event is twofold. Firstly, it offers the possibility to draw attention on the topics covered and the findings presented in the report. Secondly, it is an opportunity to draw on the expertise of academics to broaden our understanding of the key issues related to the quality of public finance. Further information will be published on DG ECFIN's website: **http://ec.europa.eu/economy_finance/events/**

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Further, more general information about DG ECFIN's work can be found in its quarterly magazine *European Economy News*, which appears both in print and online. Subscription is free of charge. The online version can be found at:
http://www/ec.europa.eu/economy_finance/een/