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European Economy Research Letter

Marco Buti is DG ECFIN's new Director-General

We are pleased to announce that on 3 December 2008 the European Commission appointed Marco Buti as Director-General of DG ECFIN. We congratulate the former Deputy Director-General (and Chief Editor of the *European Economy Research Letter*) on his new appointment.

From the editor

Unusually Uncertain Times

These are among the most frequently used words in Brussels these days, and it is probably the same in Frankfurt, London, New York, or Hong Kong. We are living through a global financial crisis and, frankly, we do not yet fully grasp its implications. We are seeing its destructive phase which, as always, is ugly. But more importantly, it reveals many important relationships between financial sector development and economic growth that we do not yet fully understand. It is therefore very difficult to forecast developments or formulate economic policies at this stage.

As the report below on our latest Annual Research Conference shows, the profession's attention is rapidly shifting to these issues. We in ECFIN are also refocusing efforts to enhance our analytical capacities. We are further developing our QUEST III (DSGE) model to incorporate a portfolio choice model and an explicit financial system, as well as an energy sector and an oil price block — work we will report on in our next issue. We are also making progress with econometric models that can help better assess the exchange rates, external positions, and housing markets of EU economies.

The unfolding crisis has greatly increased demand for research-based policy advice and policy formulation. We must meet this demand while maintaining sound foundations for our work. Hence, we should look beyond mainstream theoretical models to understand the forces that drive the current crisis, and we should not lose sight of longer-term issues, such as global warming, either. To be successful in this endeavour, we need to maintain close collaboration with the profession. There are a number of ways in which we already achieve this, like our long-standing visiting fellowship and seminar programmes, or our Annual Research Conferences. We will add to this by organising a small meeting for European Research Directors next October to discuss research plans, since having the right focus is another essential element of success. Taking over at this juncture is a big challenge, but I have the privilege of working with an excellent and highly committed team. What else could an incoming Research Director wish for?

István P. Székely
Research Director

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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Subscription	http://ec.europa.eu/economy_finance/index_en.htm select "mail alert" and choose "European Economy Research Letter".
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DG ECFIN's 5th Annual Research Conference

Boosting growth and productivity in an open Europe: the role of international flows

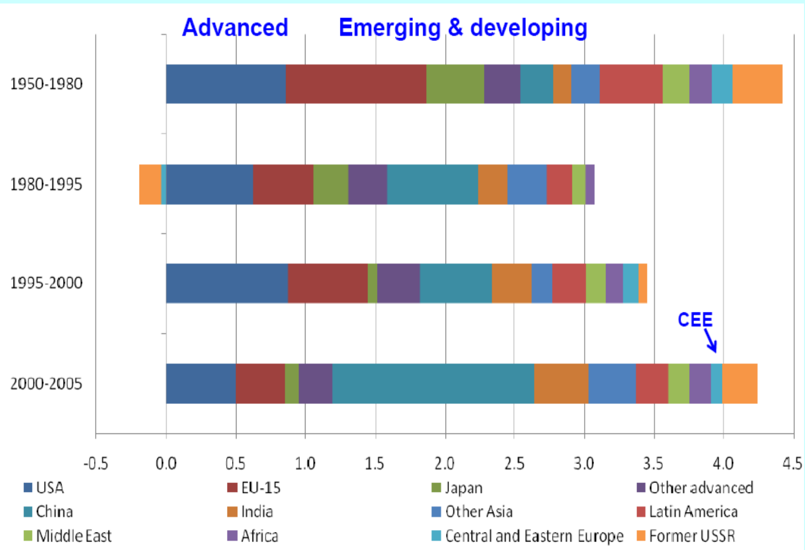
When DG ECFIN decided to devote this year's Annual Research Conference[1] *to the latest research on productivity growth, the idea was to look at different types of factor flows, to survey recent studies based on micro and macro data, and to learn more about the international and global dimension of economic growth. In the meantime, however, the crisis in financial markets shifted much of the interest of the profession to short-term issues. Thus, one of the questions of the conference became how short-term concerns and long-term needs could be reconciled. Several speakers addressed this issue and the final panel discussion (see pp. 6-7) was devoted to the medium- to long-term prospects seen from the current perspective in the midst of the financial crisis; the conclusion, as one of the speakers put it, was that "to get into the long run you have to manage the short run".*

In his opening address[2], Commissioner ***Joaquín Almunia*** emphasised the benefits of in-depth analysis of long-term issues despite the current focus on short-term crisis issues in financial markets. The observation that integration may ease the transmission of risks and shocks point to the need to assess the current model, but should not open the door to rolling it back. Tackling Europe's slow productivity growth is now even more important, vital to our prosperity and crucial to the challenges ahead, he added. And although many important determinants of productivity growth such as R&D are well-known, more research is needed to improve Europe's growth performance.

The international dimension of growth: where do we stand?

The financial crisis and the long-term outlook were at the heart of the keynote address delivered by ***Bart van Ark*** (Chief Economist, Conference Board New York and University of Groningen) entitled "*Working through the crisis from turbo growth to sustainable development: Challenges for international linkages and economic growth*". He discussed short-term aspects of the current financial market crisis and their impact on the growth of the world economy this year and next. Then he moved to the longer term, focusing first on the special characteristics of the growth process from 1995-2005, which were IT investment, productivity and the rise of emerging economies. He said that these special characteristics are not likely to extend into the next decade - even without the current problems in global markets. Then he indicated the importance of globalisation for the process of economic growth (see chart below) and the risks ahead in the coming years, notably the shortage of global talent. The final part of the presentation focused on the argument for sustainable growth and the need for global technological innovation to deal with climate issues, before coming back to the financial market crisis and the risk of financial conservatism choking off the channels which could furnish sufficient capital formation.

Graph 1: Regional contributions to global growth, 1950-2005



Source: Conference presentation by Bart van Ark.

Kieran McMorrow (DG ECFIN) presented a paper on *"The EU-US total factor productivity gap: An industry perspective"* (co-authored by Werner Röger

[1] Conference documents are available on the DG ECFIN website: **http://ec.europa.eu/economy_finance/events/2008/events/event12197_en.htm**

[2] Speech available on the Commission's website: **http://ec.europa.eu/commission_barroso/almunia/speeches/2008/press_speeches_en.html**

Keynote Speakers at DG ECFIN's 5th Annual Research Conference

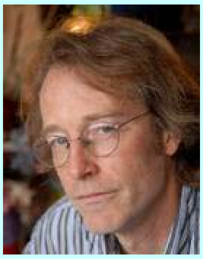
Session 1

Bart van Ark
The Conference Board

Session 2

Richard Freeman
Harvard and NBER

Session 3



Eric Bartelsman
Vrije Universiteit Amsterdam

Session 4

Tito Boeri
Universitá Bocconi

Session 5

Philip R. Lane
Trinity College Dublin

Session 6

Erik Berglöf
EBRD

and Alessandro Turrini). (For a more detailed summary see the article in this issue). The authors used the EU KLEMS database to explore the industry-specific determinants of the EU-US total factor productivity (TFP) growth gap, which started to emerge in the mid-1990s. They found that the bulk of this TFP gap is explained by the better US performance in a handful of market service industries (most notably retail and wholesale trade) and ICT-producing manufacturing, whilst the EU exhibits a considerably stronger performance with respect to a number of network utilities. Regarding the link between regulation and TFP, the paper suggests that product market regulations were related to reduced TFP growth but only in market services, most notably in the network utilities. In her discussion of the paper, ***Annabelle Mourougane*** (OECD) wondered whether problems in measuring regulation might have contributed to the latter result and alerted the authors to the forthcoming OECD publication of a new set of product market regulation indicators (including import indicators).

Openness and growth

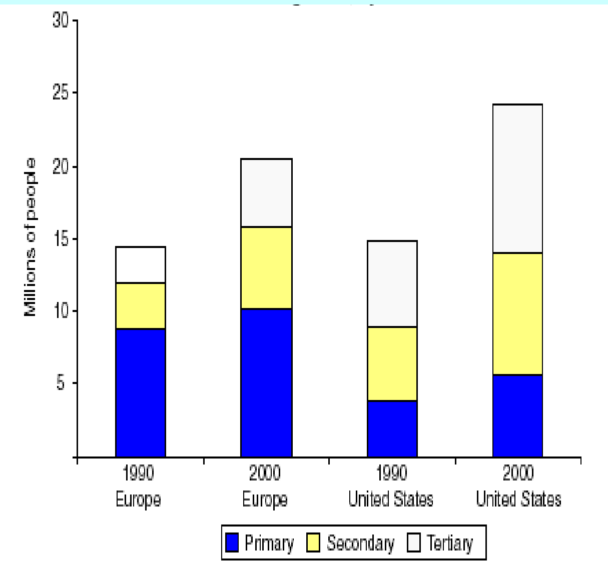
Richard Freeman (Harvard and NBER) analysed the implications and opportunities of globalisation of higher education and knowledge. In his contribution "*International students, university training, and multinationals in the flow of technology to China and India: Implications for growth and trade*" he argued that the international flows of students and highly educated migrants were more important than the traditional economic focus on flows of goods, capital and services recognises. Multinationals invest where the educated workers are and where science is being produced, he said. As technology had brought all countries closer to the technology frontier, wage differentials related to the rates of innovation should diminish ("the North-South model is no more"). In such an environment attracting international students becomes a major form of migration policy and universities become a competitive source of comparative advantage, he concluded. Here he saw a first mover advantage for the US due to its tradition of openness to accepting and building on foreign-created knowledge.

Werner Röger (DG ECFIN) used a semi-endogenous growth model to identify possible sources for the productivity and knowledge investment gap between the EU and the US (*"How to close the productivity gap between the US and Europe: A quantitative assessment using a semi-endogenous growth model",* co-authored by János Varga and Jan int' Veld). This framework allowed him to explain differences in productivity and R&D spending levels in terms of differences in taxation, subsidies to R&D, mark-ups, entry barriers, the skill composition and efficiency of the labour force. The analysis showed that goods market competition and entry barriers to innovative firms are likely to be important explanatory factors for both the lower productivity and the lower R&D share in the EU than in the US. ***Reinhilde Veugelers*** (BEPA, European Commission) wondered whether the results would be robust to alternative specifications that closer match the reality of R&D and innovation.

Sources of productivity growth

Eric Bartelsman (Vrije Universiteit Amsterdam) argued that research into the sources of productivity growth had taken many disparate routes, from theoretical modelling using an aggregate perspective, to empirical explorations using firm-level data. His paper on "*Searching for the sources of productivity: From macro to micro and back*" showed that models relying on the construct of the representative firm did not provide much scope to consider the effects of policy on productivity. He provided examples from the literature of the evidence against the representative firm assumption. Once the model is extended to include entry, exit, and heterogeneous firms, policy is able to affect aggregate productivity through many paths, including the efficiency of resource allocation and the margin of selection. As an example, some empirical explorations were provided for the effects of idiosyncratic distortions on firm profitability, the effects of exit costs, and the types of policy that may boost intangible investments.

Graph 2: Stock of immigrants, by education



Source: Conference presentation by Tito Boeri.

Massimo Sbracia (Banca d'Italia) examined the *"The selection effect of international competition"* (co-authored by Andrea Finicelli and Patrizio Pagano), particularly the relationship between international trade and the TFP of tradeables. He showed that the latter is equal to the autarky TFP, augmented by a measure of trade openness. A remarkable consequence is that, unlike Ricardian non-probabilistic frameworks, in this model openness always raises TFP. The result is due to the selection effect of international competition, which causes "some" high- and "many" low-productivity firms to exit the market, and is very robust to the assumptions about the distribution of firm productivities. The analysis delivers a model-based measure of trade openness, allows the magnitude of the selection effect to be easily quantified and TFP levels to be estimated relative to a benchmark country. For a sample of 19 OECD countries, the authors found that the contribution of international competition to the TFP of the manufacturing sector was, on average, 9.4% in 2002 (5.8% in 1985). ***Bas Straathof*** (CPB, The Hague) suggested taking innovation explicitly into account when talking about TFP and wondered how offshoring and intra-firm trade would affect the results.

The role of international migration and trade

Tito Boeri (Bocconi) asked *"Migration and growth: Is there a trade-off?"*. Since an increase in the labour force automatically affects GDP levels (unless there are implausible scale effects), but not rates of growth of per capita GDP, it is the skill composition of migration that matters. Insofar as migration raises the share of skilled workers in the population, it can be expected to have a positive impact on output per capita. To what extent that impact is affected by human capital externalities (e.g. transfer of migrants" human capital to natives) depends on the degree of migrants' assimilation (e.g. language proficiency, path to citizenship rights). Asking whether European economies have had the "right" type of migration in these terms, he found that the large cross-country variation in the skill content of migration was explained more by migration policies and labour market institutions than by "welfare shopping" on the part of migrants. Immigrants are found to be almost as skilled as natives where the immigration policy relies on a points system (e.g. Canada, New Zealand, Switzerland), while they are often substantially less skilled in more egalitarian countries (e.g. Nordic countries). He concluded that there is scope for adopting a points-based system for migration at the EU level.

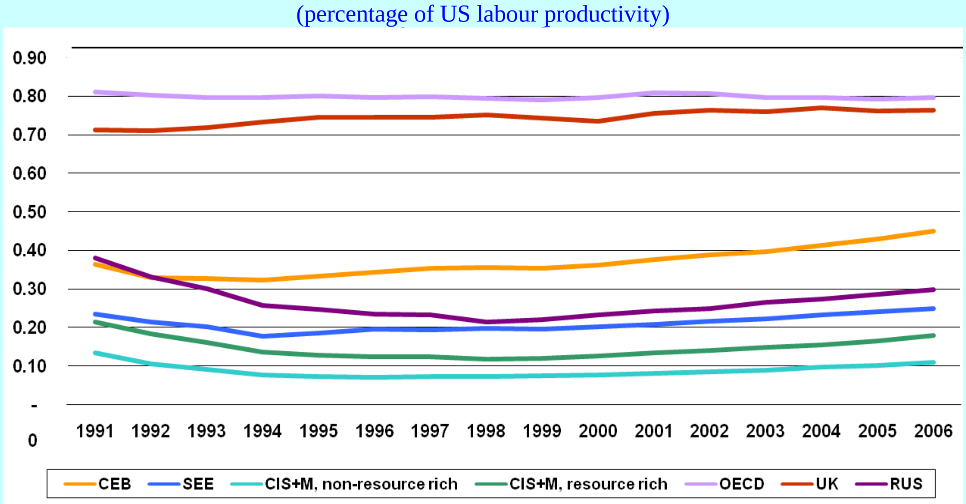
Catia Batista (Trinity College Dublin) focused on the experience of Portugal when asking *"Why doesn't labor flow from poor to rich countries? Micro evidence from the European integration experience"*. The starting point of her analysis was the observation that migration flows from southern Europe responded little to the opening up of free migration after EU accession in 1986, despite substantial differentials in real GDP per worker. The explanation she proposed for this puzzle was migration costs. She explored the implications of a costly migration model by combining individual information from two household survey datasets (Luxembourg Income Study and European Community Household Panel). In estimating wage differentials, she accounted for observable characteristics, unobservable heterogeneity, and the assimilation of immigrants. Based on the theoretical framework, individual migration costs were identified: they seem to be lower for the young and educated. Nevertheless, she found a negative pattern of self-selection: less able workers appeared to be more likely to migrate. These results were interpreted as pointing to the importance of individual characteristics of potential migrants in determining the effectiveness of free migration policies. ***Karl Pichelmann*** (DG ECFIN) expected results to vary greatly across EU countries, so that in-depth country-specific analysis would be required.

Financial globalisation and economic growth

Philip Lane (Trinity College Dublin) addressed the macroeconomics of international financial integration from a European perspective ("*The macroeconomics of financial integration: A European perspective*"). He first analysed the role of international financial integration in promoting economic convergence among members of the EU. Next, he turned to the implications of increasing financial linkages, both within Europe and between

Graph 3: Proximity to technological frontier

(percentage of US labour productivity)



Source: Conference presentation by Erik Berglöf.

Europe and other regions. Finally, he assessed how increased financial integration had altered the economics of external adjustment.

Marco Terrones (IMF) analysed the relationship between financial openness and total factor productivity (TFP) growth using an extensive dataset that includes various measures of productivity and financial openness for a large sample of countries. In his paper *"Does openness to international financial flows raise productivity growth?"* (co-authored by Ayhan Kose and Eswar Prasad) he stated that de jure capital account openness had a robust positive effect on TFP growth. The effect of de facto financial integration on TFP growth was less clear but one important and novel result did emerge. He found strong evidence that FDI and portfolio equity liabilities boost TFP growth while external debt was actually negatively correlated with TFP growth. The negative relationship between external debt liabilities and TFP growth was attenuated in economies with higher levels of financial development and better institutions. ***Paul van den Noord*** (DG ECFIN) said that the results were in line with those in ECFIN's *EU Economy: 2007 Review* (see the article issue 2-1 of the *EE Research Letter*).

European experiences, enlargement and growth

The final session of the conference looked at productivity developments in Europe and specific experiences with international flows. A broad overview on transition economies was followed by a closer look at offshoring of production and the impact of emigration on the Polish economy.

Erik Berglöf (Chief economist, EBRD) described the longer-run challenge as one of removing constraints to growth that are likely to become binding after the catch-up phase is over ("*Long-run growth and competitiveness in transition economies: An unfinished agenda*"). Such constraints on growth vary across countries, he said, but they involve common factors such as a lack of competitive structures after transition from state to market, gaps in the quality and coverage of education, infrastructure gaps, a product mix lacking diversification and the risk of financial disintermediation due to the current financial crisis.

Kari Alho (ETLA) analysed the convergence of the new EU Member States and the impact of offshoring (relocation of production to another country) on new and old Member States (*"Offshoring, relocation and the speed of convergence in the enlarged European Union"*, co-authored by Ville Kaitila and Mika Widgrén). Using a dynamic general equilibrium model he found that new Member States will maintain high growth rates with high inflation for the next decades while intensified integration leads to only relatively small gains in both regions. ***Júlia Lendvai*** (DG ECFIN) suggested broadening the analysis by not only looking at offshoring, but also at outsourcing, labour market decisions and other key variables that matter for offshoring decisions.

Katarzyna Budnik (National Bank of Poland) analysed the experience of a transforming economy through the lenses of the efficiency wage model (*"Do those who stay work less?"*) putting emphasis on two apparently distinct issues within a coherent framework: The evolution of the Polish economy from a highly dynamic environment, with excessive transitions between labour market states, to today's relatively stable one; and the transition to a heavily depleted source country of European migration after EU accession. Her model was fitted to the data using Bayesian methods and used to estimate the effect of the labour market transition. In this model set-up emigration trends were estimated to have contributed to a reduction of potential output by around 5-7% and of the employment level by around 8%. ***Ronald Albers*** (DG ECFIN) wondered whether cyclical factors and the policy stance deserved more attention. He welcomed the rich policy implications that could also feed into the broader discussion of the conference results.

Oliver Dieckmann and Lars Jonung
DG ECFIN, conference organisers

DG ECFIN's 5th Annual Research Conference

Looking ahead in times of crisis

"What will the future bring us?", ***Marco Buti*** *asked the five panellists, who were then invited to present their views on the financial crises and the outlook for the economy in the medium term. He started from the observation that the "megatrends" (globalisation, ageing, energy/ climate change) identified in ECFIN's study "EMU@10" (see issue 2-2 of the EE Research Letter) appeared to be manifesting themselves earlier than expected with financial market crisis as one aspect of globalisation and the integration of financial markets affecting the global propagation of shocks. Would this increase regulatory appetite, both domestically and internationally? Would it decrease the appetite for structural reform, result in increased differentiation within the EU, result in more demand for more global governance? And what is the outlook for future economic growth after a period of protracted adjustment, he asked.*

Learning from previous crises

Vítor Gaspar saw the crisis not as a financial shock, but as an adjustment to imbalances that had accumulated over time reflecting problems associated with the regulatory and supervisory framework as well as with rating agencies. This implied the need to learn from episodes that have allowed these balances to build up, he concluded.

Subir Lall presented results from his research on connections between financial stress and economic downturns based on comparisons of recent experience to earlier episodes (published in the IMF's World Economic Outlook in October 2008). His analysis indicated that financial stress that is rooted in the banking sector typically has more adverse economic effects than stress that emerges from stock markets or exchange rates. He suggested that changes in financial intermediation may have increased these effects. As regards the current situation he said that the relatively healthy non-financial corporate balance sheets observed in the US and Western Europe at the beginning of the current downturn provide a source of resilience, but that they would be at risk from a sustained period of financial stress.

Implications for economic growth

Michael Landesmann suggested keeping the topic of the ARC in perspective when looking at the crisis.

- *Financial sectors and growth*. He observed a strengthening of national safeguards in a rather effective process of ongoing coordination. Here the challenge for the Commission would be to follow the Single Market Agenda.
- *The EU growth prospects in a wider Europe.* After a period of transition to steady state, he expected now to see more differentiation across Central and Eastern European economies. But over a 5-10 year horizon integration would unfold and so would labour mobility.
- *Openness, trade and growth.* Long-run factors such as trade and FDI would remain important as considerable production differentiation and more trade integration was expected.
- *Migration and growth.* The reversibility of flows and the possibility of multi-migration would become the specific characteristic of Europe as a "migration continent".
- *Enlargement.* Further enlargement should not be excluded, in order to avoid diverting countries like Ukraine or Georgia as well as the Middle East, as these regions were important for European growth.

While more and more layers were participating in European integration, frictions might originate from the fact that not all layers were involved, he warned.

More differentiation across Europe?

As regards the outlook for more differentiation in the EU and particularly in EMU, ***Erik Berglöf*** reminded the audience how the current developments would likely have led to speculative currency attacks had the euro not been in place. It would be the task of international institutions to make sure that national approaches to the crisis did not result in an asymmetric treatment of companies across the EU, he added. ***Karl Pichelmann*** was concerned that not only national boundaries might affect treatment, but also location in (insider) or outside (outsider) the euro area. In addition there was a general concern that governments might not step out early enough with some speakers asking what could be done to bring them out, e.g. ***István P. Székely*** (DG ECFIN). ***Vítor Gaspar*** acknowledged these concerns, but stated that governments had never really left.

The failure of market mechanisms

Little hope was expressed for self-correction mechanisms in the markets. ***Subir Lall*** said that securitisation and financial integration had changed the nature of financial markets making it possible to sell inferior financial products. Thus, incentive issues should be in the centre of proposals to tackle the crisis. ***Tito Boeri*** supported this view. He argued that some market mechanisms had ceased to exist as the relationship between rating agencies

Panellists at DG ECFIN's 5th Annual Research Conference

Marco Buti	Tito Boeri	Vítor Gaspar	Subir Lall	M. Landesmann	Bart van Ark
DG ECFIN	Bocconi	BEPA	IMF	Vienna and Linz	Conference Board

and investment banks had completely changed. ***Vítor Gaspar*** pointed to the need for an efficient regulatory and supervisory framework mentioning Allan Meltzer's finding that banks had responded to the capital requirements of Basel I by moving risks off balance sheets. Work in this area had to be done at the international level, as already recognised by the European Council, he added.

The crisis as a selection process for firms

Bart van Ark described the crisis as the outcome of the period of very rapid growth since 1995 arguing that when the innovation curve levels off there is always a risk that the financial sector is providing too much capital. It may now be that the next innovation phase will be delayed by 5-10 years from now. The downturn could also be understood as a period of sifting out unsuccessful firms, but concern about the outlook for the more vulnerable small and medium-sized enterprises may nevertheless be justified. ***Reinhilde Veugelers*** was concerned that firms' cash positions would become the main criterion for their survival. ***Bart van Ark*** replied that there was also a risk that governments might be overconfident about their ability to identify the companies that deserve to survive. ***Philip Lane*** pointed to the banking and the construction sectors as having become too big in recent years. Their shrinking could allow the sector to become more sustainable, which would be good news for productivity.

The challenge for European policymakers

Vítor Gaspar saw the current crisis as a magnificent opportunity for structural change as flaws in the structure had become visible. This could explain why policymakers had already managed to achieve much more at the global, European and national levels than what was deemed possible earlier in the year. In this context it was key, he said, to preserve and strengthen the internal market, ensuring that the flexibility needed to cope with the crisis is anchored within the overall framework of European integration. Other speakers called for international institutions to play an important role, while concerns about a revival of nationalism were also expressed. ***Philip Lane*** pointed to the role the European Commission had already played in the case of the Irish responses to the financial crisis. As regards the potential lack of price-stability-oriented monetary policy, ***Bart van Ark*** warned of upside inflation risks as several of the factors that had pushed inflation up in the first half of the year were still in place (e.g. the growing demand for commodities from emerging economies).

The crisis and Europe's position in the world

In a global context, the US economy might be in a fairly good position to pull itself through the crisis, ***Bart van Ark*** said, whereas the outlook for Europe was not so clear as productivity was lower and structural weaknesses were greater. This would make Europe less relevant for the global outlook with about 90% of global growth in 2009 stemming from emerging countries, with China and India maturing further. So he expected emerging economies to come out of the crisis stronger than the advanced economies. ***Tito Boeri*** added that developments in China might also help prevent deflation.

Europe at a crossroads: two scenarios

Tito Boeri compared two scenarios: one with less integration and banks dominated by governments, closing down subsidiaries in other countries; and one with fewer banks, stronger competition in banking, and governments walking away from banks, large institutional investors and competition for highly skilled workers. Which of these scenarios materialised would depend on international institutions. Sequencing was also key, he said, and there should be a time frame for measures, for instance ensuring that state aid ends at a given point. The ECB could even lend directly to firms for some time. The response to the crisis has put the Stability and Growth Pact at risk as some reforms have required more spending than in "normal" times.

In his closing remarks, ***Marco Buti*** emphasised the role of international institutions in shaping the right exit strategy from the current wave of government interventions and ensuring consistency between short-term measures and longer-term priorities.

Oliver Dieckmann and Lars Jonung
DG ECFIN, conference organisers

Interview with Bart van Ark:

Restoring confidence is the first priority

At DG ECFIN's 5th Annual Research Conference, Bart van Ark delivered a keynote address on economic growth and the financial market crisis that inspired considerable debate as well as this interview.

What are the links between long-term growth trends and short-term crisis? Will the crisis be good for long-term global growth or will it impact negatively on the growth trend?

van Ark: I do not believe that disasters are a necessity for creating new growth opportunities – that is a too mechanical approach to real world events. But it seems true that systemic failures do occur periodically. It also seems that the financial sector has more than once had a tendency to overshoot in providing too much financial capital at a time when the potential for investment in productivity-enhancing technological change and innovation was already slowing. When the shock then finally hits, too large a swing in the other direction may choke off the provision of capital for new opportunities.

In your keynote address you stressed that high growth and high productivity growth in the US in the past 10 years was part of a bubble economy. Does this mean that we should revise the growth data for this period?

van Ark: To answer this question, we need the kind of monitoring system in place that the EU KLEMS growth accounts provide. If we had had good data for ICT investment, we would have seen much earlier how the ICT bubble was building up. The same is true for construction and real estate output measures. If we now seriously invest in better series for environmental production and investment, we may be in better shape to avoid a bubble next time.

Bart van Ark is chief economist at the Conference Board, New York, and part-time professor in economics at the University of Groningen. His research to date has focused on growth and productivity. He has been leader of the EU KLEMS project, sponsored by the European Commission (see *European Economy Research Letter*, issue 1-1, p.10).

How should policy-makers in the EU and the US deal with long-run growth during the present crisis?

van Ark: This crisis started because we failed to recognise and adequately assess the huge positive and negative externalities of financial innovations. We still lack, for example, adequate risk-adjusted measures of financial output. That has made it harder to agree on any type of regulatory framework. As the financial sector overshot, the sector faced a liquidity and confidence crisis, which unfortunately spilled over into the real economy. Restoring confidence is the first priority for governments, but after that the focus needs to be on creating a new financial architecture.

You warn for the risk of financial conservatism. Will the world be able to mobilise the capital needed for sustainable growth in the coming years? What policy measures would you suggest?

van Ark: The risk is that the new financial architecture will fall hostage to risk-averse behaviour, so that we end up with some kind of deposit-based lending system, which simply won't provide the capital needed for sustainable growth of the world economy. I have heard some estimates floating around that we would need only 2 billion dollars or so to meet the technological needs to cut CO_2 emissions to the desired levels currently under discussion. That seems far too little. It is the same as with ICT: the computers themselves may not cost much, but the organisational and human capital changes needed are many times more costly. Governments need to stimulate capital creation in new and innovative firms and industries. Competition is still a well-proven method to let new flowers bloom.

How will the crisis impact on the climate issue?

van Ark: The short-term effect is that slower growth may temporarily reduce CO_2 emissions. But we shouldn't take too much comfort from that, as a 2 or even 3 % slowdown in global growth still leaves emerging economies in particular with substantial emissions. In fact, even in the longer term when growth in emerging economies will come down anyway (no economy can grow at 8, 9 or 10 % for ever), the demand for energy will remain huge. So the main risk of the crisis is that we will not have the technology to deal with it.

How long will the recession last? When will the world economy be out of the crisis?

van Ark: The short-term recession in advanced countries will not necessarily be all that deep, but it may be unusually long and run well into 2009 or even 2010. The long-term crisis is at least as serious a matter, as the new financial infrastructure may change the way the "real economy" invests. The earlier we can begin to work on a new start for investment in technology and innovation, the shorter this will be.

Interview by Lars Jonung (DG ECFIN)

The EU-US total factor productivity gap: an industry perspective

Empirical analysis shows that over the last decade, the EU has experienced a productivity slowdown at the macro level relative both to previous time periods and to other developed economies across the OECD, most notably the US. A recent ECFIN study[1] shed more light on this development in the EU[2] by taking an industry perspective. This disaggregated analysis showed that, whilst this deterioration in relative performance was indeed a feature of the high technology segment of the manufacturing sector, it was particularly entrenched in the EU's private services sector. In terms of individual industries, a small group was highlighted as being responsible for the trends which emerged, namely electrical and optical equipment; wholesale and retail trade; and other business services, whilst the EU exhibited a considerably stronger performance with respect to a number of the network utilities. In terms of the nature of the reversal in productivity fortunes, the analysis showed that most of the EU-US differences were not to be found in investment patterns but were mainly driven by developments in total factor productivity (TFP), the structural component of productivity.

Whilst a growth-accounting approach based on EU KLEMS[3] is helpful in isolating those industries/sectors where the EU-US TFP differences lie, such an analytical approach has little to say concerning the underlying driving factors behind the divergences which emerged. Using a panel regression approach, the paper statistically assessed the relative importance of those TFP determinants which have been consistently highlighted in the literature as playing a role. Given the sample of countries used in the analysis, it is clear that the focus was on assessing the drivers of TFP growth at the frontier rather than on analysing catching-up effects (e.g. learning-by-doing and imitation effects), with the role of R&D, ICT and human capital as well as a wide range of regulatory indicators being of specific interest.

One statistically significant finding, of a general nature, to emerge is that TFP growth is increasingly associated, especially over the post-1995 period, with innovation and technological spillovers from countries positioned "at the frontier". With regard to the role of R&D and ICT, a significant role is only found if the industry dimension is taken into account, implying that a more targeted, industry-specific, policy approach is needed to maximise the benefits from the use of these knowledge-intensive resources. With respect to human capital, a direct benefit is not found using the more "sophisticated" TFP measure produced by EU KLEMS, with most of the gains from the secular rise in skill levels instead forming part of the contribution from labour services. However, human capital is found to indirectly facilitate innovation and spillovers at the frontier, especially in market services, with the impact being stronger the closer the economy is to the technological frontier. Regarding regulations, by limiting the sample to market services (most notably utilities), product market regulations appear to play a negative role for TFP growth, especially when the economy is further away from the frontier.

With respect to understanding the TFP trends in those specific industries where EU-US differences are concentrated, the regression analysis suggests that a relatively wide spectrum of factors are implicated. Whereas R&D intensity factors are linked with the relative underperformance of the EU's ICT-producing manufacturing industry (mainly semiconductors), cyclical factors and the better exploitation of scale economies are a feature of the divergences in the wholesale and retail trade industries. Finally, with regard to the EU's out-performance of the US in the network industries, there is evidence to suggest that these are mainly linked to one-off static efficiency gains associated with the sustained deregulation drive which occurred in these industries in many EU Member States over the last two decades.

Whilst the main policy-relevant conclusions from the regression analysis are undoubtedly tentative in nature, they are nevertheless in accordance with the emerging view in the literature that the TFP growth slowdown experienced by a large number of advanced European economies in recent years could be linked to a failure in Europe to effectively adapt its policies and institutions from its post-world-war-II phase of development. The analysis in the present study supports the view that being at, or close to, the technology frontier, demands a re-focusing of policies and institutions towards an innovation-based economic model, with less emphasis on the imitation of available leading-edge technologies and practices and more on sustained improvements in innovation capacity.

Kieran McMorrow, Werner Röger and Alessandro Turrini (DG ECFIN)

[1] The paper was presented at DG ECFIN's Annual Research Conference 2008. It is available at: **http://ec.europa.eu/economy_finance/publications/publication_summary13145_en.htm**

[2] EU15 excluding Greece, Ireland, Luxembourg, Portugal and Sweden.

[3] EU KLEMS stands for EU level analysis of capital (K), labour (L), energy (E), materials (M) and service (S) inputs. EU KLEMS is a research project funded by the European Commission as part of the 6th Framework Programme.

Public finances and economic growth: quality (also) matters

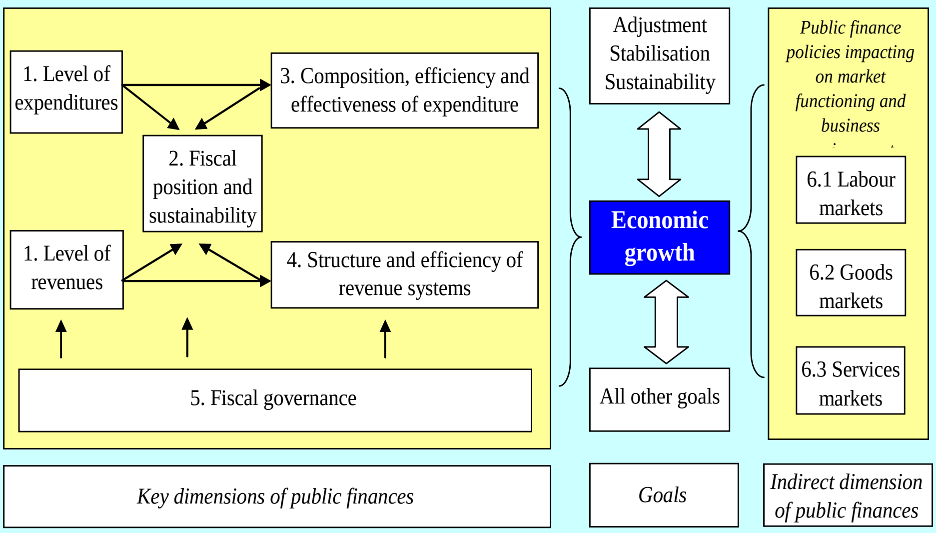
How can fiscal policy support sustained long-run economic growth, while at the same time ensuring the commonly accepted goal of sustainable fiscal positions? This question has emerged in recent years as a new focal point for EU policy-makers and is often captured under the heading of 'improving the quality of public finances' (QPF). In contrast to discussions on the short-term impact of fiscal policy on aggregate demand, QPF focuses on fiscal policy's role for raising the long-run growth potential and is thus concerned about its influence on supply. A general role for QPF has also been recognised in the EU's surveillance framework, in particular the Lisbon Strategy for Growth and Jobs and the revised Stability and Growth Pact.

A systematic approach that could serve as a basis for improving the implementation of surveillance has been missing, however. Academia and policy institutions have focused their analysis largely on individual aspects of QPF, such as the composition of expenditure or the role of fiscal governance[1]. The study in the *Public Finances in EMU – 2008* report (PFR)[2] attempts to bring these different pieces of QPF together and develop a comprehensive multi-dimensional framework of QPF. It defines QPF as all arrangements and operations of fiscal policy that support macroeconomic goals, in particular long-term economic growth. Key to this concept, which also distinguishes it from earlier Commission and other work, is the focus on the long-term growth objective and the acknowledgement of the various interlinked policy channels for fiscal policy (Graph 1).

The PFR study summarises the literature's key empirical findings on the links between QPF and growth, reviews how EU Member States fare in those aspects and analyses some links between QPF and growth based on a growth-accounting approach, using discriminant analysis. This work is part of the Commission's wider research agenda which also includes the development of composite indicators on QPF. Based on the analysis undertaken so far and the literature review, a number of empirical regularities have emerged, which, keeping in mind caveats, such as potential simultaneity of economic growth and QPF and time lags between the implementation of policies and their effects, can be summarised as follows.

The size of government tends to matter for economic growth, especially if large public sectors are combined with shortcomings in other dimensions of QPF. The size of the public sector reflects past and current political choices that go beyond the macroeconomic goal of sustained economic growth to take account, in particular, of income distribution and social cohesion considerations. However empirical studies find that, on average, when governments become too large they tend to hamper long-run growth as large government size often goes hand in hand with higher tax burdens and inefficient public administrations.

Graph 1: The quality of public finances: a multi-dimensional framework



Sound and sustainable fiscal positions are preconditions for growth over the medium and long run. The EU's fiscal framework draws on this link which is also confirmed by the empirical work in the PFR. The estimates of the discriminant analysis substantiate findings in the literature of a negative relation between public debt and growth (Table 1), but the issue of endogeneity of debt and deficits to growth conditions should not be overlooked. When looking in more detail at the channels through which fiscal policies influence economic growth using a growth-accounting approach, the evidence tends to suggest that in countries with higher budget deficits and debt, private investment is less of a driver of

[1]For an overview of recent academic and political work on QPF see Deroose, S. and C. Kastrop, eds., The quality of public finances, findings of the EPC Working Group (2004-2007), *European Economy Occasional Paper* No. 37, 2008.

[2]See **http://ec.europa.eu/economy_finance/ publications /publication_summary12834_en.htm**. See also Barrios, S. and A. Schaechter, Quality of public finances and economic growth, *European Economy. Economic Paper* 337, 2008.

growth. This indicates a possible crowding-out effect.

The composition and efficiency of public expenditure is an important conditioning factor for the impact on growth. Both theoretical and empirical research indicates that growth can be supported when public expenditure is oriented towards investment (see also Table 1). This can be particularly relevant for investment in human capital (through education and health spending), technical progress (R&D spending) and public infrastructure. However, evidence also suggests that the higher spending in these areas does not translate automatically into stronger economic growth, but depends largely on the ability to achieve the envisaged outcomes (e.g. higher education attainment, more private investment in R&D) and to overcome existing market failures without creating new distortions. Public spending must thus be highly effective and efficient in order to maximise the potential of government outlays and create fiscal space for other demands (e.g. from ageing populations).

Moreover, the structure and efficiency of revenue systems can be a factor for long-run growth. Since the tax structure affects labour supply and demand, incentives for investment, risk-taking and human capital formation, it can hamper growth potential by creating various distortions. In addition to lowering the overall tax burden, which would have to go hand-in-hand with expenditure reforms, adapting tax structures in a revenue-neutral manner is a further important policy option. The 2008 PFR includes a simulation of a tax shift for the euro area using DG ECFIN's QUEST III model and finds that reducing labour taxation by 1 % of GDP, financed by an increase in VAT, would increase real GDP by 0.2 % in the long run. These results need to be interpreted with caution, however, since they are based on a number of assumptions. More generally, efficiency-enhancing tax reforms should also make tax systems more transparent and link them better to benefit systems.

Good fiscal governance can facilitate structural reforms and is beneficial for all dimensions of public finances. Fiscal governance represents the institutional side of fiscal policy as it comprises the set of rules and procedures that determine how public budgets are prepared, executed and monitored. The importance of fiscal governance has been confirmed in previous empirical studies by the European Commission, showing that EU Member States with strong fiscal rules, medium-term budgetary frameworks and independent budgetary institutions have had stronger budgetary positions and been more successful in fiscal consolidation. Against this background many EU Member States have started to strengthen their fiscal governance. For example, the number of countries using multi-annual fiscal rules has more than doubled over the past ten years.

Table 1: The sources of growth and the quality of public finances (1990-2004), discriminant analysis

	Canonical loadings (a)			
	GDP growth	Growth components		
	High vs low GDP growth	High vs low capital contribution to GDP growth	High vs low TFP contribution to GDP growth	High vs low-skilled labour contribution to GDP growth
Primary budget balance	0.018	0.076	-0.057	0.135
Debt	-0.332	-0.283	-0.075	-0.366
Public consumption	-0.422	-0.234	0.295	-0.233
Public investment	0.561	0.448	0.066	-0.104
Direct tax	-0.325	-0.127	-0.025	0.054
Indirect tax	-0.110	-0.284	0.543	0.040
Tax wedge	-0.293	-0.264	0.188	-0.255
Market flexibility	0.029	0.020	-0.173	0.120
Canonical correlation	*0.760*	*0.910*	*0.760*	*0.740*

a) Discriminant analysis is a statistical method measuring the extent to which the characteristics of a country (here aspects of QPF) can explain their membership of a group (here defined as either high- or low-growth countries). The coefficients (canonical loadings) indicate the weights of each variable in distinguishing the two country groups. The canonical correlation (between 0 to 1) measures how well the discriminant (i.e. QPF dimensions) can be considered a good predictor for growth (and sources of growth).
Countries covered: AT, BE, CZ, DE, DK, ES, FI, FR, HU, IT, JP, LU, NL, PL, SE, UK, US. The five countries with the highest growth belong to the group of high-growth countries; all others to the low-growth group.

Source: Data on GDP growth and its components based on the EU KLEMS (www.EUKLEMS.net) database and Commission services.

Non-budgetary items also form part of QPF, although indirectly, since public finance policies can impact the functioning of markets and the business environment. Well-functioning product, service and factor markets and low administrative burdens are usually conducive to a higher growth potential. The PFR study's empirical work suggests that total factor productivity and the skilled labour contribution to GDP growth are the greatest beneficiaries of economies with lower regulatory burdens (Table 1). These two growth components, in turn, have played a prominent role for growth over the past two decades.

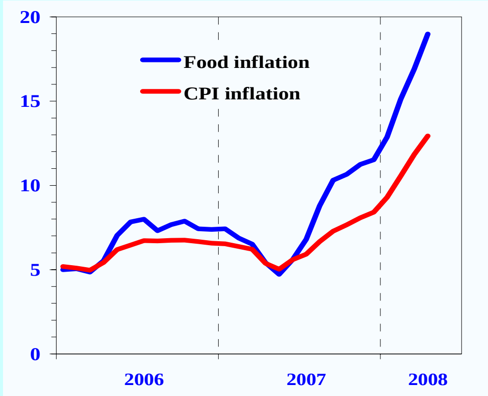
Overall, identifying the links between QPF and growth and their interactions is a complex task, but the many dimensions of QPF also offer policy-makers a broad set of policy options. For example, a rather large public sector can remain compatible with strong growth prospects if at the same time budgetary positions and debt levels are sustainable, public administrations work efficiently, and spending and revenue systems do not create too large distortions of product and factor markets. Achieving this can be supported by strong fiscal institutions.


Salvador Barrios and Andrea Schächter
(DG ECFIN)

Macroeconomic policy responses to soaring food prices in EU neighbour countries

Beginning in 2007, higher prices of basic food pushed up consumer price inflation worldwide. Among the economies hit by global food price shocks were the European Neighbour Policy (ENP) Mediterranean countries, the Commonwealth of Independent States and the Gulf Cooperation Council (Graph 1). A recent ECFIN study[1] looks in more detail at price developments in these countries, the factors behind them, and the policy responses.

Graph 1: Price developments in EU neighbour countries (until May 2008)



Source: *EE Occasional Paper* no. 40, p. 5.

Most of the countries have fairly liberalised markets and, being by and large middle-income countries, the income share spent on food is relatively large. In early 2008, in almost all these countries food price inflation accounted for more than 50% of total inflation. But food price movements in these countries are the result of a complex combination of both structural and temporary factors with a key role played by soaring energy prices. The highest inflation rates were recorded in countries maintaining a fixed exchange rate regime in combination with high capital inflows gained by oil exports.

Sharp increases in agricultural commodity prices have macroeconomic policy implications, for both fiscal and monetary authorities. Fiscal authorities of food-importing countries that subsidise agricultural commodities are facing higher fiscal expenditures. Monetary authorities with a strict price stability mandate are pushed towards monetary tightening although this might be ineffective in case of external food price shocks.

Policy responses to soaring food prices differed widely across countries. Some governments temporarily facilitated the purchase of cheap food, others subsidised food for low income groups or reduced or abolished import tariffs. In order to reduce domestic price increases some agricultural commodity-exporting countries imposed or raised taxes on, or banned exports of, some agricultural commodities. Some monetary authorities tried to combat inflation by raising interest rates or revaluing the currency. Some governments even raised wages in the public sector.

The policy conclusions of this study are that government intervention in commodity markets are not commendable from an international perspective. Beggar-thy-neighbour policies like export duties or bans reduce further the commodity supply on world markets and tend to raise world market prices.

Although the reduction of the mismatch in demand and supply of agricultural commodities has an international component (e.g. reviewing the promotion of biofuels), a big part of the solution is national. Removing domestic market imperfections, further liberalising product markets and breaking import monopolies will lower pressure on prices. Some countries could raise potential agricultural output by increasing the amount of cultivated land, and/or by improving land productivity. In addition, for those countries experiencing high inflation that is also due to external capital inflows, there may be scope for a reconsideration of their currency regime. Last but not least, fiscal authorities that currently use price subsidies and that already face high fiscal expenditures should gear these subsidies towards production expansion and targeted social safety nets as much as possible. Only these structural solutions will stimulate agricultural commodity production in the medium to longer term.

The expectations are that the global decrease in commodity prices arising from the unfolding financial and economic crisis will also diminish the pressure on food prices in the EU's neighbour countries in the short to medium term. The future development of food prices in those countries will, however, depend on appropriate policies to tackle food shortages.

Marga Peeters and Kiril Strahilov
(DG ECFIN)

[1]The study is part of the *2008 Economic Review of EU Neighbour Countries* that is available at: **http://ec.europa.eu/economy_finance/publications/publication13087_en.pdf**.

MICREF: The Commission's database on microeconomic reforms

The MICroeconomic REForms (MICREF) database has been developed to track and evaluate microeconomic reforms in Member States. It records the number of reform measures as well as qualitative information on those reforms, summarised by a set of descriptive features. The database, a user guide and more details are available at: **http://ec.europa.eu/economy_finance/db_indicators/db_indicators10938_en.htm**.

MICREF is a joint project of DG ECFIN, DG ENTR and JRC Ispra, with support from the Economic Policy Committee. It is managed by the authors of this article in unit B2 in DG ECFIN.

Rationale of MICREF

Product market reforms are at the heart of the Lisbon Strategy for Growth and Jobs, particularly since the 2005 review placed even more emphasis on the growth and jobs objectives. Product market regulations affect the degree of competition in product markets and are an important determinant of productivity and growth. Reforms in the regulatory framework can create a more dynamic business environment by making firms more efficient, more able to innovate, and hence more productive. The purpose of MICREF is to help monitor and analyse the product market reform process.

Contents of MICREF

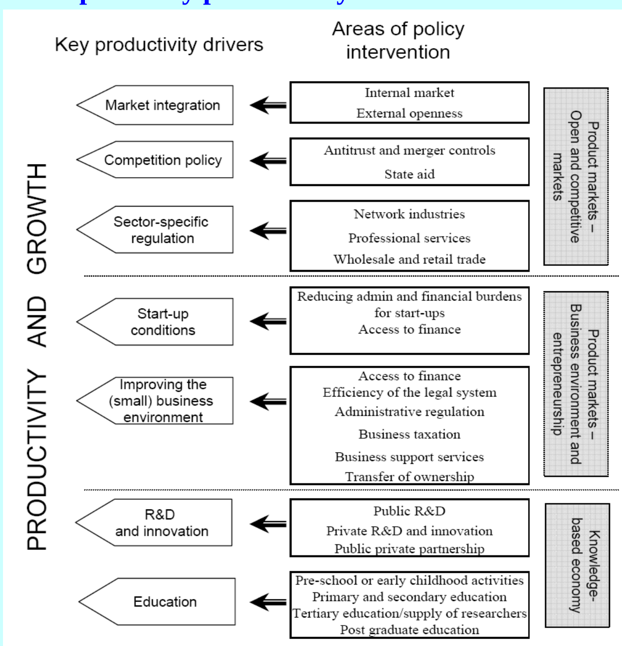
MICREF systematically records the actual implementation of product market reforms in the Member States on an annual basis. It is primarily based on information provided in the reports on the implementation of the National Reform Programmes (known as the Cardiff Reports until 2005).

The structure of the database reflects the logic underlying the integrated guidelines for growth and jobs that are at the core of the Lisbon Strategy. There are three broad policy domains: (1) open and competitive markets; 2) business environment and entrepreneurship; and 3) knowledge-based economy) that correspond to seven broad policy fields, namely market integration, competition policy, sector-specific regulation, start-up conditions, improving the (small) business environment, R&D and innovation, and education (see Graph 1).

For the time being MICREF only records the *number* of reform measures undertaken by Member States, which can be an imperfect indicator of the reform effort for several reasons. First, the scope of those measures may be different from one Member State to another. The Member States are therefore asked to register only *significant* reform measures in the database, 'significant' in this context being defined in the user guide. In addition, the number of reforms is complemented with a series of descriptive features. Another issue is that the number of reform measures taken in a given policy field may be small without this necessarily constituting a problem (if less reform is necessary in that particular field). This is why it is important to combine the number of measures registered in MICREF with further analytical work such as the market monitoring exercise (developed within the 2007 Single Market Review).

Since July 2008 information on reforms in all EU Member States over the 2004-2006 period is publicly available. The reform measures covering the entire 2000-2008 period will progressively be made available via a public search tool. Before publication of the database on the web page, all information is verified by the Member States via the Economic Policy Committee.

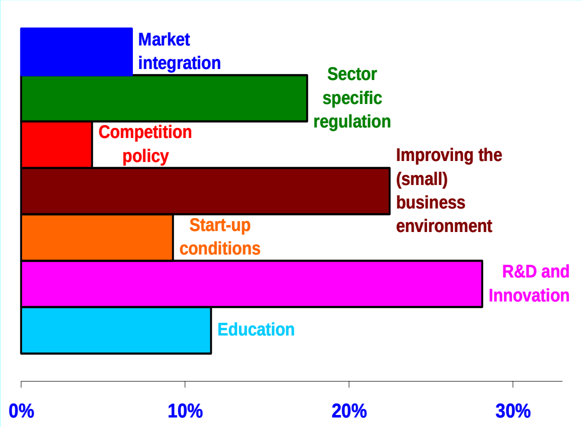
Graph 1: Key productivity drivers in MICREF



Potential uses of MICREF

Simply counting the measures contained in the database can show in which policy areas Member States have most or least focused their reform efforts, as well as revealing any patterns in terms of reforms undertaken across groups of countries or across time. For example, Graph 2 shows that most of the reforms undertaken by EU Member States over the period 2004-2006 were in R&D and innovation, while the fewest reforms were in competition policy. MICREF's information on reforms can be combined with the information from the market monitoring exercise to

Graph 2: Share of reform measures across policy fields (EU-27), 2004-2006



Source: MICREF database.

derive recommendations concerning areas where Member States should be more active in the implementation of reform measures.

MICREF facilitates the conduct of annual country reviews in the context of the Lisbon Strategy and can serve as a tool for assessing the implementation of the integrated guidelines covering the microeconomic domain. In addition, MICREF is useful for in-depth analysis, for instance by linking reform efforts to performance indicators.

Next steps

The literature on the political economy of structural reforms has shown that the successful implementation of reforms depends on the reform strategy preferred by the government, the degree of overall reform support, the characteristics of the institutions and markets to be reformed and the existence of external constraints such as international laws and regulations. The Commission is currently working to develop indicators based on MICREF information that will allow the examination of some of these different elements for each EU Member State. For example, a "comprehensiveness" indicator will assess the context in which a measure has been put in place. Work on these indicators began in 2008 and is expected to last until 2010.

Olivia Galgau and Barbara Mönch (DG ECFIN)

List of recent external academic publications by DG ECFIN staff

Journal articles

Beetsma, Roel and Heikki Oksanen, "Pensions under ageing populations and the EU Stability and Growth Pact", *CESifo Economic Studies*, December 2008, Vol. 54, No. 4, pp. 563-592.

Buti, Marco, Turrini, Alessandro, van den Noord, Paul and Pietro Biroli, "Defying the 'Juncker curse': can reformist governments be re-elected?", *Empirica*, forthcoming.

Jonung, Lars, Larch, Martin and Jonas Fischer, "101 Proposals to reform the Stability and Growth Pact. Why so many? A survey", *Public Finance and Management*, 2008, Vol. 8, No. 3, pp. 502-560.

Papers in academic volumes and other series

Jevčák, Anton and Filip Keereman, "Challenges for public investments in New EU Member States," in Schwartz, Gerd, Corbacho, Ana and Katja Funke, eds., Public investment and public-private partnerships, New York: Palgrave Macmillan, 2008, pp. 36-60.

Books

Jüssen, Falko, Meister, Christoph, Stierle, Michael H. and Jan Van Hove, eds., Potential growth and potentials for growth in Europe: Innovation, productivity and monetary integration, INFER Research Perspectives 4, 2008.

Recent Economic and Occasional Papers

European Economy Economic Papers

No. 349: Economic impact of migration flows following the 2004 EU enlargement process - A model-based analysis, by Francesca D'Auria, Kieran Mc Morrow and Karl Pichelmann (all DG ECFIN), November 2008.

No. 348: Costs and benefits of running an international currency, by Elias Papaioannou (Dartmouth College and CEPR) and Richard Portes (London Business School and CEPR), November 2008.

No. 347: The role of the euro in Sub-Saharan Africa and in the CFA franc zone, by Martin Hallet (DG ECFIN), November 2008.

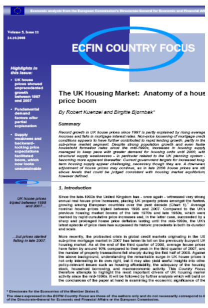
No. 346: Adjustment capacity of labour markets of the Western Balkan countries, by DG ECFIN and the Vienna Institute for International Economic Studies, 2 volumes, November 2008.

No. 345: Global Impact of a Shift in Foreign Reserves to Euros, by Fritz Breuss (Europa Institut and Department of Economics, Vienna University of Economics and Business Administration), Werner Roeger and Jan in't Veld (both DG ECFIN), November 2008.
No. 344: Fiscal Policy, intercountry adjustment and the real exchange rate within Europe, by Christopher Allsopp (University of Oxford) and David Vines (University of Oxford, Australian National University), October 2008.
No. 343: Implications of EMU for Global Macroeconomic and Financial Stability, by Björn Döhring and Heliodoro Temprano-Arroyo (both DG ECFIN), October 2008.
No. 342: Promoting prosperity and stability: the EMU anchor in candidate and potential candidate countries, by DG ECFIN, October 2008.
No. 341: How product market reforms lubricate shock adjustment in the euro area, by Jacques Pelkmans (College of Europe and Vlerick School of Management), Lourdes Acedo Montoya (CEPS), Alessandro Maravalle (College of Europe), October 2008.
No. 340: Mobility in Europe – Why it is low, the bottlenecks, and the policy solutions, by Alexandre Janiak (Sciences Po, ULB, and Universidad de Chile) and Etienne Wasmer (Sciences Po, OFCE), September 2008.
No. 339: The EU-US total factor productivity gap: An industry perspective, by Karel Havik, Kieran Mc Morrow, Werner Röger and Alessandro Turrini (all DG ECFIN), September 2008 (see p. 9 in this issue).
No. 338: Labour Markets in EMU – What has changed and what needs to change, by Giuseppe Bertola (Università di Torino and CEPR), September 2008.
No. 337: The quality of public finances and economic growth, by Salvador Barrios and Andrea Schaechter (both DG ECFIN), September 2008 (see also pp. 10-11 in this issue).
No. 336: An analysis of the possible causes of product market malfunctioning in the EU: First results for manufacturing and service sectors, by Fabienne Ilzkovitz, Adriaan Dierx, Nuno Sousa (all DG ECFIN), August 2008.
No. 335: QUEST III: an estimated DSGE model of the euro area with fiscal and monetary policy, by Marco Ratto (JRC), Werner Roeger and Jan in 't Veld (both DG ECFIN), July 2008.
No. 334: Risk sharing and portfolio allocation in EMU, by Yuliya Demyanyk (Federal Reserve Bank of St. Louis), Charlotte Ostergaard (Norwegian School of Management and Norges Bank) and Bent E. Sörensen, (University of Houston and CEPR), July 2008.
No. 333: Time-varying integration, the euro and international diversification strategy, by Lieven Baele (Tilburg University, CentER, and Netspar) and Koen Inghelbrecht (Ghent University), July 2008.

European Economy Occasional Papers

No. 42: 2008 Fiscal Notifications of candidate countries: overview and assessment, by DG ECFIN, Nov.2008.
No. 41: The LIME assessment framework (LAF): A methodological tool to compare, in the context of the Lisbon Strategy, the performance of EU Member States in terms of GDP and in terms of twenty policy areas affecting growth, by DG ECFIN and The Economic Policy Committee, October 2008.
No. 40: European Neighbourhood Policy: Economic Review of EU Neighbour Countries, by DG ECFIN, August 2008 (see also p. 12 in this issue).
No. 39: 2007 Pre-accession Economic Programmes of candidate countries: EU Commission assessments, by DG ECFIN, July 2008.
No. 38: 2007 Economic and Fiscal Programmes of potential candidate countries: EU Commission's assessments, by DG ECFIN, July 2008.

Country Focus Publication



Germany: revisiting the budget rule by Carsten Eppendorfer and Karolina Leib (Vol. V, Issue 12, November 2008).

The UK Housing Market: Anatomy of a house price boom by Robert Kuenzel and Birgitte Bjørnbak (Vol. V, Issue 11, October 2008).

Cyprus: immigration, wage indexation and the adjustment in EMU by Polyvios S. Eliofotou (Vol. V, Issue 10, October 2008).

Ireland's housing market: bubble trouble by Jānis Malzubris (Vol. V, Issue 9, September 2008).

Exchange rate pass-through to inflation in Slovakia by Heidi Cigan, Anton Jevčák, Perceval Pradelle and Pavlina Žáková (Vol. V, Issue 8, September 2008).

Estonia: overheating and sectoral dynamics by Baudouin Lamine (Vol. V, Issue 7, August 2008).

Visiting Fellows Programme

Under its Visiting Fellows Programme (VFP) 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 second half of 2008:

14/07-18/07	Gianna Giannelli (Florence University): Have labour market reforms at the turn of the millennium changed job durations of the new entrants? A comparative study for Germany and Italy
01/09-19/09	Simone Mezzacapo (University of Perugia): The so-called "Sovereign Wealth Funds": policy issue, financial stability and prudential supervision
27/10-31/10	Klaus Wälde (Glasgow University): Does European unemployment maximize welfare?
16/09-14/11	Michele CINCERA (Université Libre de Bruxelles): Public R&D efficiency, product market reforms and TFP growth in the EU

For more information see: **http://ec.europa.eu/economy_finance/eco_research/index_en.htm**

Calls for tender

Mid-term evaluation of the EIB's external mandate, 2008/S 209-277162
http://ec.europa.eu/economy_finance/procurements_grants/call4tenders13310_en.htm

Financial instruments audit certification, 2008/S 224-297420
http://ec.europa.eu/economy_finance/procurements_grants/procurements7866_en.htm

Conferences and workshops

13 February 2009

"The Nordics in the EU- fiscal similarities and monetary differences" (country seminar)

DG ECFIN's Country Seminar on Denmark, Finland and Sweden will focus on their fiscal and monetary policy choices. These countries have succeeded in reconciling a highly-developed welfare state with healthy public finances. Is their strategy sustainable in the face of demographic pressure and globalisation? Can it serve as a model for other Member States? Are there lessons from the crisis these countries went through earlier? Further information will be published at: **http://ec.europa.eu/economy_finance/events/current_events_en.htm**

2 March 2009

"EU Enlargement - Five Years After" (conference)

On 1 May 2009, five years will have elapsed since the 2004 enlargement of the EU. The conference, organised in Prague by the Czech Presidency in co-operation with the European Commission, will discuss benefits, costs and challenges associated with enlargement. In the morning session high-profile speakers will draw political lessons. In the afternoon, parallel sessions zoom in on three specific aspects related to enlargement: (1) Macro-financial stability, (2) The functioning of the internal market and (3) Labour migration. More information will be available at: **http://www.eu2009.cz/**

March 2009

"Economic policy challenges in the Baltics: rebalancing in an uncertain environment" (workshop)

The workshop will focus on challenges to economic policymaking in Estonia, Latvia, and Lithuania. The workshop will be an opportunity to discuss preliminary results of a Baltics study being prepared in DG ECFIN and will help in the study's finalisation, expected in spring 2009. Three sessions are planned: (1) Assessing the boom and its aftermath; (2) Competitiveness developments and external account sustainability; (3) Raising the growth potential, including the role of public finances. A panel discussion on challenges and prospects will conclude the workshop.

Spring 2009

Country seminar on France

How can the French economy cope successfully with the economic challenges ahead? Participants will discuss strategies and reform initiatives to raise potential growth and take full advantage of globalisation. They will also discuss how to curb the negative evolution of certain components of public spending, enhance their quality, as well as achieve sustainable fiscal consolidation. In addition to sessions on growth and public finances there will be a panel on challenges and prospects.

15-16 October 2009

Crisis and reform (DG ECFIN's 6th Annual Research Conference)

The DG ECFIN is announcing its Sixth Annual Research Conference to be held in Brussels. More information about the structure of the conference, speakers, and registration as well as a call for papers will be made available at a later stage at the conference website: **http://ec.europa.eu/economy_finance/events/event13393_en.htm**

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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/**