

# The OeNB's Conference on European Economic Integration 2008

## The Integration of European Labor Markets<sup>1</sup>

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On November 17 and 18, 2008, the Conference on European Economic Integration (CEEI) of the Oesterreichische Nationalbank (OeNB) took place in Vienna. Under the heading “The Integration of European Labor Markets”, the CEEI 2008 explored the effects of migration and more intensive trade relations on employment and wages, with the topic of migration being particularly relevant in view of the decision, due to come into effect in spring 2009, on the extension of the transition period for the restriction of free movement of workers from EU Member States in Central and Eastern Europe (CEE).

Although the ongoing turmoil in the international financial markets had tied up substantial staff resources at economic and political institutions, as many as 280 participants – including central bank officials, diplomats, representatives of national, European and international institutions and renowned academics – from more than 30 countries took part in the 2008 conference, which offered an intense program featuring 25 (mostly international) speakers. The participants’ expertise and keen interest in the topics under discussion contributed to lively discussions during the individual sessions, which addressed the latest scientific findings as well as a variety of political positions.

In his opening remarks, OeNB Governor *Ewald Nowotny* drew attention to the fact that migration and trade, due to their direct effects on macroeconomic variables such as labor productivity, wages and potential economic growth, are relevant for central banks. Unlike trade, however, migration can have an impact on the social situation in a country as it might stress cultural differences and entail linguistic difficulties. Against this background, further measures must be taken to promote the integration of migrants, for example by improving access to education and language training. At an institutional level, introducing a minimum wage might lessen the danger of “wage dumping.”

In his keynote lecture, *Klaus Zimmermann*, President of the German Institute for Economic Research (DIW Berlin) and Director of the Institute for the Study of Labor (IZA Bonn), differentiated between the consequences of migration for migrants themselves and those for the citizens in the receiving countries; he also stressed the significance of integration efforts. Zimmermann believes that Austria and Germany took the wrong decision by claiming transition periods for opening their labor markets as this kept highly qualified migrants from moving there. To enable higher selectivity in the field of immigration, he proposed a point system and an auction mechanism which would help identify the actual need for migration and, at the same time, raise funds for the financing of the necessary integration measures.

The first session, headed by Governor Nowotny, tackled the causes of migration and its institutional framework. *Ibrahim Awad*, Director of the ILO International Migration Programme, discussed the “Blue Card” for Europe, which

<sup>1</sup> Three papers presented at the CEEI 2008 were contributed by the OeNB's Foreign Research Division and are contained in this issue's special focus on “Wages and Migration”, pp. 6–83.

is meant to attract a highly qualified workforce from third countries to the European labor market, and the close connection between irregular migration and the informal sector of an economy. *Herbert Brücker*, Head of Department at the Institute for Employment Research in Nuremberg, stressed that the distribution of migration within Europe has changed significantly over the past few years. In particular, the traditionally high percentage of migrants from Central, Eastern and Southeastern European EU Member States in Austria and Germany has decreased, whereas countries such as Great Britain, Ireland or Spain have been accepting an increasing number of these migrants. Brücker believes that the main causes for intensified migration within Europe lie in the large income gap, which, however, is expected to decrease as a result of continuing real economic convergence. Another important factor was the reduction of transport costs, Brücker noted. Since 2003, approximately 250,000 people per year have migrated from the new to the old EU Member States. A substantial percentage of these migrants do not work in jobs that correspond to their qualifications, which results in a waste of human capital. Brücker expects migration within Europe to decrease slightly due to the financial crisis, the likely recession and the associated lack of opportunities in the labor market.

*Katarzyna Budnik*, Director of the Bureau of Macroeconomic Forecasts at Narodowy Bank Polski, focused on the question whether the migration decisions that have already been taken were rational. Taking Polish migration to the U.K. as an example, she identified the determining factors behind migration decisions and analyzed the respective income prospects of emigrants from Poland and persons who had decided to stay in Poland. According to this analysis, emigrants to the U.K. generally received higher incomes than they would have if they had remained in Poland. Budnik was also able to show that, from the income perspective, decisions to stay in Poland had not always been rational. *Rainer Münz*, Head of Research and Development at Erste Bank, presented long-term changes in European migration patterns. He stressed that a few years ago many EU Member States were facing net emigration, while now they have an immigration surplus. He believes that this tendency will continue and bring about net immigration also in Central, Eastern and Southeastern Europe (CESEE), where currently emigration still prevails. Along with differences in income, as mentioned by previous speakers, Münz pointed to cultural similarities and language skills as determining factors behind migration.

The afternoon session dealt with the topic “Integrating Newcomers, Replacing Leavers: Labor Market Effects of Migration” and was headed by *Doris Ritzberger-Grünwald* (Head of the OeNB's Foreign Research Division). The session focused on the effects of reinforced migration movements on wages and employment. *Radek Maly*, Head of Unit at the European Commission, opened the discussion by presenting an overview of the actual extent and socioeconomic features of migration after EU enlargement in 2004. He went on to explain that emigration is not the only crucial factor behind the lack of workers (particularly qualified ones) that can be observed in CESEE. *Wilhelm Kohler*, Professor at the University of Tübingen, and *Jumana Saleheen*, Senior Economist at the Bank of England, talked about the influence of migration on labor markets in Germany and Great Britain. Kohler addressed the question, among others, of how the German labor market would have reacted to an influx of immigrants similar to that observed in

the U.K. From a short-term point of view, he found that there would have been a negative, though very small, impact on wages and employment in Germany. From a long-term view, he calculated that the effect on wages would have been slightly positive and effects on employment would have been negligible. Saleheen analyzed the impacts of migration on wages in the U.K. in general and on wages of different occupational groups in particular. Contrary to other studies, most of which only consider the general wage level and report no significant effects, she found a small, but significant negative effect on average wages of different professional groups. The session ended with *Vesselin Mintchev*, Deputy Director of the Institute of Economics of the Bulgarian Academy of Sciences, presenting a poll among migrants who had returned to Bulgaria. Among other things, he found that these migrants exhibited an above-average willingness to go and work abroad again.

The subsequent panel discussion was chaired by *Fritz Breuss*, Head of the Economic Section of the Research Institute of European Affairs at the Vienna University of Economics and Business Administration. *Herbert Buchinger*, Chairman of the Board of the Public Employment Service (Austria), *Marija Poglajen*, General Director of the Employment Service (Slovenia), and *Marek Kupiszewski*, Director of the Central European Forum for Migration and Population Research in Warsaw, discussed the challenges that result from the demographic changes related to the rapid ageing of the European population and labor market strategies as a response to these challenges. In particular, the discussion focused on the current regulations on access to Austria's and Slovenia's labor markets for foreign and, in particular, Eastern European workers. The subsequent controversial debate mainly focused on the economic impact of the transitional arrangements on the free movement of workers from CESEE that are still effective in Austria.

In the evening, Governor Nowotny presented this year's award winners with the Olga Radzyner and Franz Weninger Awards. Later, in his dinner speech, *Joaquín Arango*, Professor at the Universidad Complutense de Madrid, spoke about Spain's experience with increasing migration over the past few years and the resulting changes in its integration policy.

The second conference day started with two keynote lectures chaired by *Peter Mooslechner*, Director of the OeNB's Economic Analysis and Research Section. *Giuseppe Bertola*, Professor at the Università di Torino, demonstrated – theoretically and empirically – that the instruments labor market policy uses to safeguard against employment risks in fact raise labor costs and thus result in reduced employment. The increasing integration of labor markets in the context of European unification intensifies this effect, as labor demand reacts more strongly to wage changes in such a setting. *Henryk Kierzkowski*, Professor at The Graduate Institute in Geneva, stressed the increasing significance of acquiring foreign goods and services for domestic production. This fragmentation of the production process has been facilitated by deregulation and progress in communication technologies, particularly since the early 1990s. At the same time, the increasing international fragmentation of production weakens the impact that changes in the ratio of qualified to unqualified workers might have on wage levels.

Session 3, chaired by *Michael Steiner*, Professor at the University of Graz, addressed the connection between the labor market and intensified trade. *Peter Egger*, Head of Department at the Institute for Economic Research in Munich, showed that the rotation of skilled workers from one company location to another

is a phenomenon which complements foreign direct investment. *Éva-Katalin Polgar*, economist at the European Central Bank (ECB), and *Julia Wörz*, economist at the OeNB, presented their research on the impact of foreign trade on wage levels, in which they found that trade has a stronger impact on wages in CESEE EU Member States than in the EU-15. At the same time, trade integration resulted in a stronger dependence of wages on the international wage level in the EU-15, whereas wages in the EU-10 rather tend to reflect productivity developments. *Wolfgang Pointner*, economist at the OeNB, analyzed the effects of trade on wages and the wage distribution in different sectors of the Austrian economy. While imports from low-wage countries tend to put pressure on wage levels, high export rates also have a negative effect, in particular on the highest wage bracket. This seems to be due to the higher import intensity and the related reduction in value added in export-oriented sectors.

The closing panel discussion was chaired by *Michael Landesmann*, Director of Research at The Vienna Institute of International Economic Studies (wiiw). The panelists discussed the challenges posed by increasing labor mobility and intensified trade links in the EU. *Arnaldo Abruzzini*, employers' representative and Secretary General of the Association of European Chambers of Commerce and Industry, said he regretted the continued existence of structural barriers to labor mobility (e.g. complicated procedures for the authentication of examination certificates) and especially the lack of skilled workers in the EU. *John Monks*, employee representative and General Secretary of the European Trade Union Confederation, stressed that unions across the EU were against transitional arrangements that restrict the free movement of workers from the new EU Member States as such regulations would only result in an increase in illegal and unregistered employment. At the same time, Monks pointed out that the implementation of the internal market must not undermine national achievements in labor legislation. *Božidar Djelić*, Deputy Prime Minister of Serbia, spoke from the point of view of a potential EU candidate country, referring to the difficulties non-EU citizens have with entry and work permits. In view of the repeated call for more skilled workers in Western Europe, Djelić emphasized that Serbia's economy also lacked skilled workers. *Karl Pichelmann*, Research Advisor at the European Commission, stressed the challenges migration policy faces when it comes to striking a balance between efficiency and fairness in order to guarantee broad support for the integration process among the population. Pichelmann pointed out that the present financial crisis endangered this support. The panelists agreed that coordinating migration policy at a European level is mandatory and that the "Blue Card" should be implemented.

The conference documents (program, press release, lectures, presentations and papers) are available from the OeNB's website at [www.oenb.at](http://www.oenb.at).