

## **The Labour Market Impact of the EU Enlargement: A New Regional Geography of Europe?**

**Floro Ernesto Caroleo and Francesco Pastore, eds.**

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This impressively formatted textbook consists of 342 pages divided into four main parts, plus an introduction and the editors' biographies and author and subject indexes at the end. The four main parts consist of eleven essays, most of which were presented at the session entitled "A New Regional Geography of Europe? The Labour Market Impact of the EU Enlargement" of the XXII Annual Conference of the Italian Association of Labour Economists (AIEL) that was held at the University of Naples, Parthenope, in September 2007. The session aimed to stimulate debate on the continuity/fracture of regional patterns of development and employment in old and new European Union (EU) regions. The editors of the book asked themselves whether, and how different, the causes of the emergence and the evolution of regional imbalances in the new EU members of Central and Eastern Europe (CEE) are compared to those in the old EU members.

After the acknowledgments and a detailed table of contents, a complete list of all 22 contributors, plus the editors Floro Ernesto Caroleo and Francesco Pastore, follows. Subsequent to the register of all the contributors, there is an alphabetical list of all abbreviations, which surely makes the reader's job easier. Afterwards, there is a consistent introduction written by the two editors in which they specify in thirteen pages the contents of the volume and the reasons why all eleven essays/chapters are organized into four main parts. They explain that every part of the volume addresses a specific question:

- Part 1: How has structural change affected the distribution of income growth rates and employment opportunities across regions?
- Part 2: After about 20 years since the onset of transition, do regional indicators tend to converge or diverge?
- Part 3: Has migration reduced or increased spatial imbalances?
- Part 4: What policy tools have been used to fight regional imbalances? Have they been adequate to the purpose?

Every essay ends with a wealthy reference list. After the last essay by Falk and Leoni, there is a one-page supplement with the editors' biographies. This inspiring volume ends with the usual author index and subject index.

Part 1 of this volume, named "An Overview of the Main Issues and the Role of Structural Change", consists of two essays. In the first essay, "Structural Change and Labour Reallocation Across Regions: A Review of the Literature", Caroleo and Pastore summarize the research on the causes of regional imbalances in the labor market focusing on the role of structural change and its spatially asymmetric impact on labor markets. The authors use the benchmark transition model to draw some conclusions about the structural change process and its effects on local labor markets. The results of the research on the link between local unemployment and worker reallocation are mixed: some studies find a positive correlation; others, no correlation; and a third strand, a negative correlation. Therefore, the authors

conclude that during periods of structural change, worker reallocation is more apparent, but it reduces at later stages. However, the lack of suitable data only rarely allows for the comparison of results over time. The authors stress that the more recent literature on transition in Eastern Europe has provided a new perspective that also invites one to reconsider the previous literature. The new approach to regional unemployment emerging from the previous analysis calls for state intervention on behalf of backward regions more than in the past. Two sets of interventions are envisaged. First, from the supply side, it is necessary to increase the factor endowment of high unemployment regions, through investment in the development of their human and social capital as well as of their infrastructure. Second, the process of worker reallocation should be made less costly for workers via passive and active labor market schemes.

In the second essay, “Organized Labour and Restructuring: Coal Mines in the Czech Republic and Romania”, Bruha, Ionascu and Jeong analyze a case study to understand the labor market impact of structural change due to economic transition from a planned to a market economy. In particular, they compare two episodes of restructuring coal mines localized in small regions with a similarly undiversified production structure but a very different tradition of local institutions: the Ostrava region in the Czech Republic and the Jiu Valley region in Romania in the 1990s. They ask and answer questions about the transition from a planned to market-based economy, which are typical of the debate since its beginning. What is the best strategy to cope with restructuring? Should restructuring be gradual or fast? And what is the role of local institutions in choosing the speed of the transition? The analyses show that restructuring has generated local unemployment in both regions, but with some important differences. In fact, the theoretical and empirical investigation shows that the actual restructuring path of Ostrava was close to the most efficient one, whereas the delay in restructuring the Jiu Valley mines was very inefficient. Gradual restructuring with severance payments would have benefited both the miners and the government. The authors point out that their exercise leaves an incomplete



programs and foreign aid in the literature. Furthermore, the evidence of the key role played by spatial dependence and geographical distance suggests that there is a need to reduce information and transportation costs for economic agents located in peripheral regions.

The contribution “Transition, Regional Features, Growth and Labour Market Dynamics” by Marelli and Signorelli is complementary to the previous one. The authors investigate patterns of convergence in regional growth rates and labor market performance in the eight transition countries that became EU members in May 2004, focusing on the role played by institutional change. Concerning institutional processes, a partial review of the vast theoretical and empirical literature on the “great transformation” focuses on the relations between institutional change and economic performance as well as on studies considering the regional features of the transition process. The first definite result is the clear process of concentrating production and economic activities in the leading regions of each country, coincidentally in the capital cities. Not only was the concentration of services a likely phenomenon, although the extent of which went beyond similar tendencies in other areas of the world, but a clustering of industrial activities was also found in the same leading regions. The leading (and richest) regions usually benefited from large domestic markets, good market access to other countries, the existence of advanced services and the availability of “superior” resources (human capital, know-how, research centers, public services, FDI attraction pools, good infrastructure and so on). In the end, the study confirms that policy should address the well-known trade-off between “equity” and “spatial efficiency”.

After looking at regional differences in productivity, growth and employment rates in a cross-country perspective in the previous chapters/essays, Tyrowicz and Wójcik, in “Regional Dynamics of Unemployment in Poland: A Convergence Approach”, focus on unemployment rates in Poland. The choice of Poland is dictated by the fact that this country is rather exceptional within the EU. Over the past two decades, unemployment rates have already reached the 10

and 20 percent thresholds twice. Despite recent improvements, the situation of the Polish labor market has been extremely difficult over the past years, with the unemployment rates consistently above the 16–18 percent thresholds, while the chance of continuing, long-term unemployment still exceeds 50 percent. In order to inquire into the nature of the evolution of local unemployment rates, the authors employed parametric econometric techniques (convergence of levels, B-convergence) as well as nonparametric kernel density estimates (convergence of dispersion, convergence). The distribution of unemployment rates in Poland was found to be highly stable over the sample period with only minor evidence in support of the convergence of clubs – high and low unemployment *poviats* separately. In addition, the data does not support any conditional B-convergence either, with some evidence of asymmetry between high and low unemployment *poviats*. In the end, they conclude that NUTS2 in Poland do not seem to use the fact that they distribute the active labor market policy financing effectively. Each of the Polish NUTS2 regions contains districts from the highest unemployment groups. Financing should be geared towards alleviating the situation in the most deprived regions by fostering higher effectiveness. Also, national authorities do not seem to enact sufficient monitoring activities to promote improvements in the most deprived regions.

Albu, Polimeni and Iorgulescu in their essay “Spatial Distribution of Key Macroeconomic Growth Indicators in the EU-27: A Theoretical and Empirical Investigation” study the spatial distribution of key macroeconomic growth indicators in the EU-27. This chapter/essay performs an exploratory analysis of long-term trends in the inflation-unemployment relationship for the EU-27. In particular, the authors investigate how fundamental macroeconomic variables are spatially distributed within the EU. Then, they apply a standard model, proposed by Ball and Mankiw (2002), to estimate the NAIRU for each current member of the EU and how it has changed during the last decade. The results, based on the application of different types of filters, do not show much change. The available empirical evidence examined of these three variables for the EU-27, using 3D

maps and contour plots, shows that a convergence process is taking place in terms of GDP levels. Convergence is the outcome of an above-average growth rate of Eastern European members of the EU. They find an inverse relationship between the level of pure productivity and the natural rate of unemployment, suggesting that an increase in the rate of productivity growth might cause a future reduction in the natural rate of unemployment.

Part 3 of this volume addresses the issue of the adjustment process and, in particular, the role of internal and international labor mobility. The essay “Internal Labour Mobility in Central Europe and the Baltic Region: Evidence from Labour Force Surveys” by Paci, Tiongson, Walewski and Liwiński focuses on internal labor mobility and its potential for reducing regional disparities in unemployment. It attempts to examine a small piece of the broader and complicated puzzle of imbalances in regional development by focusing on persistent regional labor market disparities and, in particular, persistent regional unemployment. Using individual-level data from the 2004 Labour Force Surveys (LFS), it attempts to explain why internal migration has not played a bigger role in mitigating regional unemployment disparities and to identify patterns and statistical profiles of geographical mobility broadly defined as (1) internal migration and (2) commuting. The research focuses only on internal labor movements and neglects the related growing flows of international migration and cross-border commuting. The LFS data confirms the conclusion of the previous literature that internal or interregional mobility (commuting and migration) in the Central Europe and Baltic regions has been generally low in comparison to other European and OECD countries. However, it also finds that inter-regional mobility rates in the EU-8 countries are comparable to those experienced by advanced economies with large regional unemployment disparities; namely, the Southern European countries including Greece, Italy and Spain. In addition, it finds that there is some heterogeneity within the region: in the Czech Republic, both migration and commuting rates are relatively high; while they are both relatively low in Hungary and Poland. In the Slovak Republic, commuting rates

are relatively high, but migration rates are relatively low. Across all countries, the analysis identifies a number of socio-economic and demographic variables that are systematically associated with geographical mobility. Perhaps more surprisingly, but in accordance with previous evidence, the authors find that, contrary to commuting, geographic mobility is weakly related to regional unemployment and employment rates and to other economic indicators. It is also interesting to note that previously unemployed individuals have a lower probability of migrating out of relatively deprived regions than already employed (and skilled) individuals. This may not be surprising because, among other things, migration requires liquidity. Some workers may be “too poor to move”. Nonetheless, policies aimed at enabling greater migration flows should not be neglected. In fact, the relatively greater magnitude of commuting flows relative to migration flows has sometimes been interpreted as an indirect confirmation of housing problems (including expensive housing, shortages in rental housing and so on) and as a barrier to migration. The challenge is to identify effective policy levers in an area where the impact of individual policies is difficult to predict.

Aldashev in his essay “Spatial Search and Commuting with Asymmetric Changes of the Wage Distribution” proposes a theoretical model where spatial search and commuting are influenced by asymmetric changes in the wage distribution. The research suggests that empirical models on commuting (which can easily be extended to account for migration) should take into account the inappropriateness of using the mean wage and mean-preserving spread and, instead, advocates using the median wage and the median-preserving spreads in the left and right tail of the wage distribution as regressors. In this essay, Aldashev presents a bi-locational search model where individuals have the option to commute if offered a job in a region other than their place of residence. He shows that if the wage distribution is not symmetric and variance in two tails of the wage distribution can change independently of one another, the implications of the search theory change. Namely, the dispersion in the left tail of the wage distribution reduces the reservation wage and search intensity, and the dispersion

in the right tail increases the reservation wage and search intensity. Moreover, the commuter flows also increase with the median-preserving spread in the right tail and decrease with the median-preserving spread in the left tail in the destination. The estimation results, based on commuter stream data between German regions, fully support the implications of the theoretical model. Hence, the study suggests that empirical models on commuting should take into account the limitations of using the mean wage and mean-preserving spread and advocates using the median wage and the median-preserving spreads in the left and right tail of the wage distribution as regressors.

Constant and D'Agosto in the chapter/essay "Where Do the Brainy Italians Go?" move the focus of analysis from internal to international migration. This essay studies the major determinants that affect the country location of university-educated, Italian scientists and researchers who live abroad in three alternative geographic areas: the U.S./Canada, the U.K. and other EU countries. The purpose of this analysis is to empirically investigate the major determinants that influence the country choice of Italian scientists and researchers who migrate abroad. Overall, the research finds that the average Italian in the sample is 38 years old, and the vast majority of the émigrés are males. Among the Italians in the U.S./Canada and the other EU countries, there is a higher percentage of scientists with a PhD and working experience from Italy. In the U.K., more than half of the Italians have a PhD from outside Italy. In all three country groups, Italians acknowledge that the number one pull factor is better economic conditions abroad. Lack of research funds is also the most serious push factor, especially for those who went to the U.S. The country sorting by field of specialization shows that humanities majors and social scientists are mostly in the U.K.; natural scientists, engineers and those in the agriculture/service areas are mostly in the other EU countries; and health professionals are mostly in the U.S./Canada. The Italians who go abroad for less than two years go to other EU countries; those who go abroad for 2–10 years maximum choose the U.K.; and only those who go abroad for more than 10 years choose the U.S. While close

to half of the interviewed Italians would like to go back to Italy, they would not go back without competitive remuneration and adequate research funds. These findings are interesting and support the growing literature on brain drain, but have limited power of explanation because the findings pertain to the sample and not necessarily to the target population.

Part 4 contains two essays that address policy relevant issues; namely, active labor market policy and services to raise female participation. In particular, the main question asked in the first contribution is whether proactive schemes designed for advanced economies are also applicable to transition economies, whereas that of the second essay is to understand the causes of persistent regional gaps in female labor force participation.

Lehmann and Kluge in the chapter/essay “Assessing Active Labour Market policies in Transition Economies” assess the role of active labor market policy in transition countries implemented by governments as a reaction to the sudden rise in unemployment. The study presents the main stylized facts of labor market in transition and considers the rationale of applying these policies in such labor markets. The main conclusion, taking into account these considerations, is that one has to be rather careful when transplanting ALMP measures from labor markets where the bulk of the unemployed consists of marginalized and marginal groups to labor markets where even the core of the labor force can experience prolonged spells of unemployment. Reviewing the evidence on the efficacy of such policies, they present rigorous macroeconomic and microeconomic methods of program evaluation, as they were applied in transition economies. Both these approaches have a *raison d'être* and should be understood as complementing each other. Macroeconomic evaluation that uses the “augmented matching function” as its workhorse can help establish the overall effect of a program on the aggregate unemployment rate, taking into account distortive effects such as substitution and dead weight loss effects. With the availability of large micro data sets, the microeconomic approach to program evaluation has certainly also gained the upper hand in transition countries. One important drawback of

micro evaluation studies is the fact that distortive effects at the aggregate level are not accounted for. Nevertheless, it is important to establish program efficacy at the individual level, since at this level a much more detailed analysis of programs can be undertaken than is possible with the macroeconometric approach. The most promising programs seem to be job brokerage and training and retraining schemes; while public works, which are politically popular in many of these countries, nearly always have a negative impact on labor market outcomes due to either the stigmatization of participants in the eyes of potential employers or due to “benefit churning”.

Last, but not least, Falk and Leoni in the essay “Regional Female Labour Force Participation: An Empirical Application with Spatial Effects” add to a comparatively new strand of literature that focuses on the determinants of female participation rates across regions (in 121 Austrian political districts). The gender gap in labor force participation differs widely in the single districts. This suggests that in their decision about whether to join the labor force, women are more sensitive than men to factors that are distributed unevenly across regions. Falk and Leoni ask whether mainly economic variables exert a decisive influence on labor supply behavior, or whether this behavior is dependent on other parameters, which are geographic and socio-cultural. This paper highlights the fact that a proper understanding of gender differences in labor force participation cannot disregard the regional component of this phenomenon. Accordingly, policies must also be set at a regional level. The importance of economic pull factors, as captured by the significance of wage levels, suggests that measures to enhance human capital and create employment opportunities are of paramount importance. An economy that shifts to more employment in the services industry and more part-time jobs has an upward effect on the labor force participation of women. Women benefit from the expansion of the services industry in the economy in terms of employment opportunities. However, they tend to become concentrated disproportionately in jobs and industries with lower productivity and lower earnings profiles as well as on part-time jobs. The findings suggest

that there is a clear cleavage between rural and urban areas in this respect. Policies aimed at increasing female labor force participation should, therefore, adopt a holistic approach and address cultural sensitivities as well as economic contingencies.

It is interesting to note that, although unintentionally, the book's chapters (essays) are able to capture the main issues under discussion, while also providing a comprehensive set of theoretical and econometric methodologies used in the field of contemporary regional economic research. It can be concluded that in the new EU members of CEE, structural change is still a consequence of the continuing process of transition from central planning to a market economy. In addition, new members also experience a source of structural change that concerns the old EU members more specifically; namely, the transition to immaterial production, which is also driven by the increasing globalization of world markets. Another common feature of the Eastern and Western regions of the EU is the concentration of the population and of economic activities in the most urbanized and advanced regions. This suggests that migration and commuting are strongly constrained in Europe. In addition, international migration, both within and outside of the EU, is much more important than internal migration simply because wage and productivity differentials *between* countries are much greater than those *within* countries.

In the end, what remains to be said is that I consider the fact that the editors of this volume have included all the major contributors' ideas in their introductory note to be valuable. The book is useful to all academics, university students of economics - especially labor economics - as well as bureaucrats in international organizations and policy makers and union members interested in these themes. Thus, they can broaden and enrich their knowledge of such important issues of the day.

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