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## Book review of:

# The Labour Market Impact of the EU Enlargement: A New Regional Geography of Europe?<sup>1</sup>

Review by

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This book summarises the main results of the works presented at the XXII Annual Conference of the Italian Association of Labour Economists. The authors of the various essays included provide us with a thought-provoking book that raises many important issues relating to the structural changes and convergence process that have taken place in EU countries, but from the particular perspective of labour aspects. Europe has gone through a severe restructuring process since the collapse of the communist regimes prevalent in the Eastern European Block in the early 90s, barely 20 years ago. This process has entailed not only economic adjustment, but also adjustment in other spheres—the social, the political, the military, and so on—, and has affected all the countries and markets of Europe at both an individual and aggregate level. Of course, this restructuring process has been greater, deeper and more relevant in those countries that moved from a regime of central planning to one of a market-oriented economy, which led to profound change in all of their structures: from a dictatorial, governmental and centralised structure towards a democratic, decentralised and market-oriented one.

The two major questions addressed in the book can be summarised as follows: how did regional imbalances emerge among the new EU members compared to those present in the old, and does the lack of regional convergence apply to the new EU members as well? The contributions presented are grouped into four sections, each of which addresses a specific question concerning the principal aspects of the new situation of the European labour market and the relevant facts observed in the data, such as the differences in persistence in the labour market and the apparent lack of convergence among the member countries.

Part I, comprised of two papers, analyses the effects of structural change on the distribution of income growth rates and employment opportunities across regions.

The first paper, “Structural Change and Labour Reallocation Across Regions: A Review of the Literature”, by Floro Ernesto Caroleo and Francesco Pastore, introduces the key questions and summarises the on-going research into the causes of regional imbalances in the labour market, whilst focusing on the role of structural change. The

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<sup>1</sup> Floro Ernesto Caroleo and Francesco Pastore (Editors). *Physica* - Verlag Press. May 2010. 342 pages. ISBN: 978-3-7908-2163-5

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analysis presented calls for more state intervention in favour of backward regions than has been the case in the past, and also evaluates a number of proposals. The authors' argument effectively challenges the conventional wisdom on what fiscal policy should be. However, they also point out the deficiencies of traditional models in analysing the particular features of the region, and suggest the need to look at the latter from a more region-specific perspective.

Similarly, Jan Bruha, Delia Ionascu and Byeongju Jeong question the traditional view of labour unions as the key factor in causing stagnation in their paper "Organized Labour and Restructuring: Coal Mines in the Czech Republic and Romania". In contrast, these authors highlight the importance of initial conditions in determining the particular type of connection that develops between organised labour and economic progress during the restructuring process. From this perspective, the restructuring of production towards meeting the needs of a market economy could be optimal even in the presence of organised labour, depending on the path followed and other factors, such as the unions' history of militancy. Since this conclusion is inferred from a case study on two extreme situations, it would have been beneficial if the authors had discussed had discussed the applicability of their findings to more moderate conditions.

Part II investigates the convergence of regional indicators 20 years after the onset of the transition. The four contributions in this section focus heavily on both regional features and institutional change in explaining labour market performance in the transition countries. In general, the authors highlight the importance of a country's having the right institutions if it is to make a successful transition, and also the spatial dependence that exists between the countries of the EU.

In particular, the results of the first paper, "Labour Productivity Polarisation across Western European Regions: Threshold Effects Versus Neighbourhood Effects", by Roberto Basile, help to sharpen our understanding of the mechanics behind low-productivity traps, and expand upon the question of how to design successful programs to escape these. A great point of interest of this analysis is the joint effect of spatial dependence and nonlinearities in growth behaviour in determining the existence of convergence clubs and reinforcing the polarisation of labour productivity in the case of European regions.

The second paper, "Transition, Regional Features, Growth and Labour Market Dynamics", by Enrico Marelli and Marcello Signorelli, exploits a disaggregated dimension scarcely developed in previous literature, by using NUTS-3 level data. The main finding is that concentration due to the role played by direct foreign investment, foreign trade and human capital explains the coexistence of two apparently contradictory facts: the divergence across regions and the convergence of countries within a region. The authors point out that the trade-off that exists between economic growth and the distribution of income within a country could be explained by the spatial dependence observed within regions. Though their results are quite conventional, the level of disaggregation innovatively used by the authors makes their statistical investigation more meaningful.

The third paper, "Regional Dynamics of Unemployment in Poland: A Convergence Approach", by Joanna Tyrowicz and Piotr Wójcik, studies the dynamics of local labour market evolutions and tests convergence issues using NUTS-4 level data,

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thus making their analysis more significant since labour market policy in Poland is designed, implemented and evaluated at this very level. Finally, the fourth paper, "Spatial Distribution of Key Macroeconomic Growth Indicators in the EU-27: A Theoretical and Empirical Investigation", by Lucian-Liviu Albu, John M. Polimeni and Raluca I. Iorgulescu, deepens the analysis of the role of the spatial distribution of major macroeconomic variables within the E27. Their exploration adds to the literature by considering the convergence among key macroeconomic indicators as a prior to income and employment convergence. In this section, readers may not find convincing answers to the key question of convergence but are exposed to a variety of data-analysis methods to support what are a diversity of opinions.

Part III focuses on the effects of migration to and from the new EU countries. The differences observed across those countries appear to be both severe and persistent over time, for which a closer look at them is in order.

The first paper, "Internal Labour Mobility in Central Europe and the Baltic Region: Evidence from Labour Force Surveys", by Pierella et al, shows the patterns of internal migration and commuting in a broad set of countries, including those for which very few studies are available, such as Lithuania, Slovakia and Slovenia. Even though the results are in line with previous literature, it is interesting to note that migration is not related to a previous unemployment situation, suggesting that migration does not help solve unemployment situations. The profile of migrants (young and skilled) might help to reinforce regional disparities in the medium to long run. On the other hand, commuting has a higher response to economic indicators and there is a positive relation between commuting and unemployment in the previous period, suggesting that commuting is a more efficient means to address unemployment and wage differentials. Thus policy actions aimed at increasing commuting can be more effective in mitigating regional disparities. Due to problems in the data set available, migration is poorly defined and includes only those who have recently migrated (i.e. in the last year). Despite these problems, this contribution offers a valuable insight into the regional differences within transition economies and into the lack of internal mobility.

Following this line, the second paper, "Spatial Search and Commuting with Asymmetric Changes of the Wage Distribution", by Alisher Aldashev, deals with commuting activity and its determinants. The results suggest that if asymmetric changes in wage distribution are allowed, using classical search models to explain commuting will not suffice, hence a new theoretical model is proposed. The result is, in general terms, in line with previous literature. However, under this new model the reservation wage and search intensity might change in line with asymmetric changes in wage distribution, such that two distributions with the same mean could have different effects on commuting activities, depending on the tail asymmetries. The contribution offers a useful insight into the incentives to commute, calling our attention to wage distribution differentials. Since the model is a theoretical one it can be applied to other countries, such as those in transition economies, and help to explain commuting choices and in the design of appropriate policies. These first two contributions deal mainly with commuting activities, since even internal migration is only weakly defined in the first. This implies a lack of treatment regarding migration in general; in particular, international migration is not considered at all, despite its probably being a major issue in transition economies overall. The migration after the collapse of the communist regimes and the migration related to the elimination, or at least alleviation, of migration barriers due to

incorporation into the EU are certainly important elements in explaining the EU's internal differences and the impact of the European expansion on other European labour markets.

The only contribution that deals with international migration is the last, "Where Do the Brainy Italians Go?", by Amelie F. Constant and Elena D'Agosto, which shows the impact of different variables on the location choice of Italians moving abroad. However, due to the limited information of the database it is not possible to determine why Italians are choosing to live abroad rather than stay in Italy. Moreover, given that the results are limited to a single country, i. e. Italy, the article fails to provide any real understanding of what is probably a more significant issue: the brain drain observed in central European countries and its impact on country differences. On the whole, the lack of a proper treatment of migration issues leaves the reader disappointed. However, the treatment given to commuting activities in the two first articles is quite satisfactory. Though interesting, the last article does not, in our opinion, make any significant contribution to the main purpose of the chapter.

Finally, Part IV deals with the issue of finding the right policy tools to alleviate regional differences. There is a vast amount of literature available on such policies as applied in developed countries with mature markets, yet are those policies also applicable to transition economies with developing markets? If not, what policies should such countries apply in order to combat regional imbalances?

The first contribution, "Assessing Active Labour Market Policies in Transition Economies", by Hartmut Lehmann and Jochen Kluge, addresses this question, focusing on the use of Active Labour Market Policies (ALMP) in transition economies. The extensive review of the literature on the evaluation of ALMP applied in transition economies suggests that the most promising policy seems to be job brokerage—to efficiently inform and match those in unemployment—, in combination with training schemes. Public work programs, though popular and widely used, almost always display a negative impact on labour market outcomes.

In the last contribution, "Regional Female Labour Force Participation: An Empirical Application with Spatial Effects", by Martin Falk and Thomas Leoni, the determinants of female labour force participation are analysed. The interesting feature here is the inclusion of a spatial dependence approach using spatial econometric techniques. The results obtained are, in general, consistent with those expected, though as regards the spatial dimension it is interesting to note the negative and significant correlation of spatial interdependence, suggesting that those areas with a high rate of female labour participation are surrounded by areas that have a lower participation rate, that is, large urban areas with high participation are surrounded by areas of lower participation. Though this section does not deal with policy tools directly or use data from any transition economy, the results presented are useful for the design of policies aimed at increasing female labour force participation—for example, through child care provision—and policies aimed at reducing wage gaps. This section is particularly interesting, though somewhat short, including only two contributions, the first more interesting than the second. It also directs our attention towards the severe differences that exist between transition economies and mature economies, and the need to use different tools to address similar problems.

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In summary, after reading this book one is left with the feeling that traditional views on fiscal policy and state intervention are in need of review, and that a great deal of economic theory more suited to the features of the new members of the European Union needs to be developed. However, despite its title, the scope of the book is mostly limited to the effects of European enlargement and structural change on transition economies, yet this must also have had a significant effect on older European labour markets.