

**Introductory Statement**

by Wilhelm Kohler, Project Director

- **Characterization of the Project**
  - Substantive focus
  - Methodology
- **Research Work**
  - The team
  - Research strategy
- **Results and program of today's final workshop**

**Thanks to Institute for Advanced Studies  
for hosting workshops!**

**General Characterization of the Project**

- **Basic research:** academic background and motivation
- **Starting point:**
  - Broad issues/problems to be addressed
  - Body of academic literature
- **Aim:** contribution to the literature in
  - Substance
  - Methodology
- **Not** aimed at merely applying standard tools to answer a narrow question defined in advance

## General Characterization of the Project

### Results:

- Valuable input for **policy discussion in Austria**

### In addition:

- Potentially large part of the results is **methodological** in nature
- extending well **beyond** the time span and immediate purpose of the project → **follow-up work**
- useful / received / acknowledged by **scientific community at large**

## General orientation / issues addressed

### 1. Pension reform alternatives

- under imperfect labor markets
- in a dynamic environment (endogenous investment and growth)
- in an environment of economic globalization
- Focus on public finance / fiscal policy instruments

### 2. Forms and effects of economic globalization

- EU enlargement
- Outsourcing / fragmentation
- Migration
- Wages / income distribution / efficiency and welfare

## Methodology

- **General equilibrium (neoclassical) approach**
  - Highlighting **efficiency** and welfare effects (often neglected in policy formation)
  - Key ingredient: **optimizing individuals** (firms/consumers/workers)
    - Reacting to market signals and incentives
    - Interaction of optimizing individual through markets
  - Incorporating **government budget** (fiscal policy)
  - Looking at **general equilibrium**
    - Simultaneous equilibrium in all markets
    - Rigorous incorporation of primary resource constraints
    - Rigorous incorporation of budget constraints

## Methodology

- **View of policy and policy effects**
  - **Government sets / changes instruments** (taxes, subsidies, trade barriers, migration quota ...)
  - Incentives change
  - Optimizing individuals react
  - Market adjustment
  - New equilibrium prices
  - **Allocation / distribution / employment / growth / welfare effects**

## Methodology

- **Defining and distinctive feature of the project**
  - Focus on **efficiency** and **welfare effects**  
 (not possible with conventional econometric models and „mechanical“ – i.e., non-optimization – models)
  - Due emphasis on **growth**
  - **Empirical implementation** of general equilibrium model by means of calibration
  - Numerical **simulation** studies

## Team and Research Strategy

- **Team (see website)**
- **Research strategy:**
  - Coordinated **individual efforts**
  - Brought together by regular **internal workshops**
  - Conference participation and discussion papers for early and regular interaction with **outside scientific community**
  - Academic publications (still under way / pending)
- **Division of labor:**
  - **Fiscal policy / pension reform:** Keuschnigg, Keuschnigg, Grafenhofer, Neck, Haardt, Ruthner
  - **Economic Globalization:** Kohler, Felbermayr

Final Workshop – presentation:

**Simulating pension reform alternatives for Austria**

Keuschnigg / Keuschnigg / Grafenhofer

**more details:**

<http://www.econ.jku.at/fwf>