



## IZA Evaluation Dataset: Unique Resource for Evidence Based Labor Market Policy

As far as data on unemployment are concerned, the general public usually thinks of official statistics provided by a government agency, such as the Federal Employment Agency (BA) in Germany. Given their accuracy and fast availability, these data also frequently provide the basis for decisions made by policymakers and business leaders. In recent decades, however, independent labor market research has gained significance as an innovative source of data that contains additional information on current labor market trends.

In this context, the IZA Evaluation Dataset has come to play an important role. The creation of this pioneering dataset was made possible by a fruitful collaboration with the BA's Institute for Employment Research (IAB) in Nuremberg and special permission granted by the Federal Minister of Labor in 2002. The IZA Evaluation Dataset combines administrative data from the BA with an extended set of survey information on a large sample of entries into unemployment. This unique combination allows researchers to overcome the typical problems associated with the analysis of only one type of dataset. For instance, the BA's administrative data contain detailed information on the beginning and end of unemployment spells and the income earned throughout an employment history, but they contain little or no information on individual characteristics, attitudes, qualifications, or household composition – the kind of information that would be of great value for the evaluation of labor market policies.

While such information could be gained by conducting surveys, interview responses tend to be inaccurate when it comes to events and experiences that date back a long time. The unique setup of the IZA Evaluation Dataset solves this problem by combining the respective advantages of both types of data. IZA took this innovative ap-

proach several years ago and has since then put great effort into creating a dataset that provides a solid foundation for the analysis of various facets of labor market policy. The findings contribute a great deal to the understanding of job search behavior and the effectiveness of labor market programs for different target groups. The IZA Evaluation Dataset thus delivers important hints for labor market policy practitioners.

*"These data allow very high quality non-experimental evaluations. There is nothing like this available in the US or Canada."*

*Jeffrey A. Smith (Professor, University of Michigan; IZA Research Fellow)*



The potential of the dataset was highlighted at a recent workshop on "Policy Lessons from the IZA Evaluation Dataset" held at IZA in Bonn. The main goal of the workshop was to summarize the existing results based on the IZA Evaluation Dataset and to serve as a platform to discuss how data access and quality could be further facilitated in order to create the basis for evidence-based policy advice in the future. The clear message sent out by this workshop was that high quality research requires access to high quality data. *Klaus F. Zimmermann*, Director of IZA and co-organizer of the workshop, emphasized that this dataset is a successful attempt to provide adequate data to the research community, allowing new studies on a wide range of research questions.

During the first day of the workshop the focus was on scientific contributions based on the IZA Evaluation Dataset. Data users from different international institutions presented their frontier research. The second day of the workshop addressed a policy oriented audience by presenting empirical evidence and resulting policy implications

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In cooperation with the OECD and the World Bank, IZA held an international conference on activation policies in Istanbul. How to create and improve employment in developing countries was also the focus of a joint conference with the KfW Development Bank in Berlin. [Page 12](#)

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With its innovative format and high-class speakers, the IZA European Summer School in Labor Economics has become one of the most popular and renowned events for junior labor economists. [Page 17](#)



#### IZA HOSTS EALE 2012

From September 20-22, 2012, IZA will host the Annual Conference of the European Association of Labour Economists (EALE) in Bonn. The event will also feature the presentation of the 2012 IZA Prize in Labor Economics.

► [www.iza.org/eale2012](http://www.iza.org/eale2012)



based on the IZA Evaluation Dataset to policymakers and practitioners in order to illustrate the importance and value added of access to high quality data. The panel discussion with practitioners and policymakers at the end of the second day finally served as a forum to exchange experiences and ideas, and to express the expectations held by researchers and policymakers.

*"By improving our understanding of unemployed individuals' behavior, this dataset allows us to design better and more effective policies."*

**Marco Caliendo** (Professor, University of Potsdam; IZA Program Director)



After an introduction by Klaus F. Zimmermann, **Annette Bergemann** (University of Mannheim and IZA) gave the first presentation on the evaluation of ex ante effects of ALMP programs. For instance, individuals might prefer to avoid program participation due to different reasons and therefore increase job search activities. Those anticipation effects are usually hard to determine as this often requires unobservable information on the program assignment and the job search behavior of the unemployed. The IZA Evaluation Dataset provides the required information. Bergemann and co-authors find that anticipation effects exist in the sense that individuals adjust their reservation wage and search effort if they perceive a high treatment propensity.

IZA Program Director **Amelie F. Constant** (George Washington University) presented the findings of two papers. The first paper on "Ethnicity, Job Search and

Labor Market Reintegration of the Unemployed" adapts a recently developed concept of ethnic identity, the *ethnosizer*, to shed light on the native-migrant differences in economic outcomes. The IZA Evaluation Dataset includes information on a large number of migration and job search variables allowing Constant and her co-authors to investigate the labor market reintegration, patterns of job search, and reservation wages across unemployed migrants and natives. The findings indicate that "separated" migrants have a relatively slow reintegration into the labor market, which is mainly due to low search effort and moderate reservation wages compared to other groups of migrants. The second study presented by Constant analyzes if reservation wages increase from first to second generation migrants. The hypothesis derives from two extensions of the basic job search model, namely an unknown wage offer distribution and different reference standards. In both extensions, changing frames of reference are identified as a channel through which the phenomenon of increasing reservation wages may arise. In as far as language skills or self-evaluated returns to characteristics reflect a person's frames of reference, they indeed find empirical support for this mechanism to be present. Both studies clearly illustrate that ethnic identity has an important influence on the job search behavior and thus on labor market integration. Constant concluded that ethnic identity of individuals has to be taken into account when assigning unemployed individuals to ALMP programs.

The next session was devoted to studies on the job search behavior of unemployed individuals. **Ricarda Schmidl** (IZA) presented

empirical evidence on the relationship between social networks and the job search behavior of unemployed individuals. She emphasized the importance of the IZA Evaluation Dataset for this study as it contains extensive information on job search behavior and direct measures for the social network of individuals. The authors find that individuals with larger networks use informal search channels more often and shift from formal to informal search, which confirms the theoretical expectations.

*"By combining administrative data with survey data, IZA has been at the forefront of promoting evidence-based policymaking in Germany. These data are an indispensable asset for research and policy advice."*

**Klaus F. Zimmermann** (IZA Director)



**Arne Uhlenhorff** (University of Mannheim and IZA) addressed the question to what extent personality traits such as locus of control impact job search behavior. Standard job search theory assumes that unemployed individuals have perfect information about the effect of their search effort on the job offer arrival rate. The authors suggest an alternative job search model which assumes that each individual has a subjective belief about the impact of his or her search effort on the rate at which job offers arrive. The study indeed finds evidence that individuals with an internal locus of control search more. This has clear implications with respect to the assignment of ALMP. It suggests, for instance, that in particular unemployed individuals with an external locus of control need more job search assistance as they search less compared to individuals with an internal locus of control.

The presentation by **Ulf Rinne** (IZA) compared natives and second generation migrants among the unemployed with respect to economic effects of risk attitudes, time preferences, trust and reciprocity. The findings suggest that both groups mainly differ in terms of risk attitudes and positive reciprocity. Second generation migrants have a significantly higher willingness to take risks and they are less likely to have a low amount of positive reciprocity when compared to natives. Rinne discovered a significantly lower employment probability for individuals with a high willingness to take risks. Some evidence suggests that this result is channeled through reservation wages and search intensity. These results, as well, are highly important for the assignment process of ALMP programs.



Participants of the Workshop "Lessons from the IZA Evaluation Dataset"

Deborah A. Cobb-Clark (University of Melbourne and IZA) gave the keynote speech on “Evidence-based Policy: Do We Have the Data Necessary to Recognize Good Policy if We See It.” Using the case of Australia as an example, she highlighted the improvement in data quality and availability during the last decades. Today researchers have different data sources available for scientific purposes, including surveys, administrative data and a combination of both. This improved data availability led to a remarkable increase in publications over the last decades. As a consequence, empirical evidence is available on various issues that are relevant to policymakers. However, the abundance of studies makes it difficult for policymakers to absorb all this information and distinguish between reliable and unreliable evidence. Cobb-Clark therefore presented an “evidence hierarchy for Australian policymakers” based on criteria such as publication in high-quality journals, use of Australian data, recent publication date, and relation to the policy being considered. Furthermore, empirical evidence based on randomized trials and natural experiments should be preferred over non-experimental evidence. In this regard, Cobb-Clark encourages more interaction between researchers and policymakers to conduct more experimental studies in the field of labor economics. Policymakers are interested in reliable evidence while researchers want better data quality and access. Improving the alignment of both streams of interests would have a positive impact on the future availability of data.

plementary qualifications such as their specific problem-solving abilities, their creativity and their language skills constitute an enormous economic potential. Rinne argued that an industrialized economy like Germany should recognize this potential of a diversified population and more thoroughly think about how to fully activate it. This includes a faster reintegration of unemployed individuals with an immigrant background. His empirical results revealed important differences between natives and migrants in the job search process that should be taken into consideration in the making of labor market policy. For example, intensified monitoring and job search assistance would accelerate the labor reintegration of specific groups.

*“Compared to other datasets, the IZA Evaluation Dataset enables a deeper understanding of the reasons behind the (in)effectiveness of policy measures. Research outcomes based on these data are of invaluable importance for academia, policymakers, and society at large.”*

Gerard J. van den Berg (Humboldt Professor, University of Mannheim; IZA Program Director)



the need for political support of initiatives like the IZA Evaluation Dataset.

Schneider looked back on progress made over the past years in terms of data provision for scientific research. In cooperation with the established Research Data Centers, it has become possible to create and access much larger anonymized datasets. However, the problem of a general prohibition of data retention in Germany remains unsolved, which continues to impede the scientific use of administrative data. Schneider called on policymakers to enable researchers to access the data necessary to uncover inefficiencies and undesired effects of labor market policies and to identify those programs that work. “This would imply, of course, that politicians may find their own policies proven wrong – but this is a risk they should take,” said Schneider.

*“The accuracy of administrative data, combined with the wide scope of information contained in survey data, opens up new ways for the analysis of labor market programs.”*

Hilmar Schneider (IZA Director of Labor Policy)



According to Hohmann, data access could improve in the wake of European legal harmonization. Zauner explained that access to administrative data in Austria is handled in a more pragmatic fashion without jeopardizing data protection objectives. It therefore comes as no surprise that international research has produced a number of important studies based on Austrian datasets. Vogel underscored the significance of facilitated data access for independent research from the viewpoint of policymaking in order to foster evidence-based evaluation of labor market programs. The experts agreed that this goal will become even more important in the future when it comes to analyzing the impact of demographic change on the labor market, employment and social security.

Marco Caliendo, Armin Falk, Lutz C. Kaiser, Hilmar Schneider, Arne Uhlenhorff, Gerard J. van den Berg, Klaus F. Zimmermann

[The IZA Evaluation Dataset: Towards Evidence-Based Labor Policy-Making](#)

IZA Discussion Paper No. 5400  
<http://ftp.iza.org/dp5400.pdf>

(published in: International Journal of Manpower, 2011, 32 (7), 731-752)



*“The unique combination of labor market outcomes and psychological markers makes this data set a fantastic source of information about causes and consequences of unemployment histories.”*

Armin Falk (Professor, University of Bonn; IZA Program Director)



The policy oriented part of the workshop started with presentations by IZA researchers Ulf Rinne and Steffen Künn. Rinne gave an overview of studies that analyze the role of migration background and ethnicity in the job search process. He emphasized the importance of the IZA Evaluation Dataset to conduct these assessments as it includes the required information on migration, ethnicity and job search behavior for a large sample of unemployed individuals. He pointed out that that ethnicity and cultural diversity have measurable impacts on economic outcomes. Furthermore, migrants' com-

Künn presented first empirical evidence on the effectiveness of ALMP for unemployed youth in Germany. Surprisingly, no empirical evidence exists so far although the number of youths participating in ALMP each year is substantial. Data restrictions are the main impediment to such an analysis because analyzing young people as a subgroup of the labor market requires a large dataset. The IZA Evaluation Dataset fills this gap. Künn and co-authors consider participation in a variety of different programs such as short-term training, job creation schemes or wage subsidies. The results indicate positive long-term employment effects for nearly all measures under scrutiny, with the exception of public sector job creation which is found to be ineffective.

The practitioners and policymakers who contributed to the panel moderated by Hilmar Schneider, Director of Labor Policy at IZA, included Eckart Hohmann (Former President of the State Statistical Office of Hesse and Member of the German Data Forum), Johannes Vogel (Member of the German Bundestag and FDP labor market expert) and Manfred Zauner (Expert for labor statistics at the Austrian Ministry of Labor and Social Affairs). The panelists commented on questions of data protection, access to highly sensitive data, and



# IZA Launches Five Open Access Journals: Ideal Outlet for Studies in All Areas of Labor Economics

Scientific research and policy advice strongly depend on the regular dissemination and exchange of methodological advances and new empirical findings. Cutting-edge research, however, is often published in renowned journals that have a considerable time lag until publication. Therefore, all major research institutions and networks have their own working paper series in which new studies are pre-published. In the field of labor economists, the IZA Discussion Paper Series has long established itself as the most popular and most influential outlet. Close to 7,000 papers have already been published in the IZA series during the past 15 years. IZA has also been actively involved in the making of important field journals, for example by hosting the editorial office of the Journal of Population Economics, co-editing the Research in Labor Economics series, and collaborating with other international peer-reviewed journals.

To complement these efforts, IZA has now launched a new series of open access journals in close cooperation with Springer Verlag, which has traditionally been an important partner in publishing. The aim of the new IZA Journals is to provide a high-quality, peer-reviewed outlet for papers

as an instrument to foster production of knowledge and scientific excellence in the areas where IZA sees need. We encourage in particular submissions that relate to the IZA program areas, such as program evaluation, personnel economics, institutional labor economics, migration and ethnicity, transition and emerging economies, jobs and development, future of labor, environment and development, and growth and employment in low income countries.

Obtaining quick publications is the objective of all researchers. One of the key characteristics of the IZA Journals is the fast decision making and publication process. Acceptance/rejection decisions are expected to be made within one month from the receipt of the original manuscript. The publication appears online within one month after the submission of the final manuscript. The fast process from the submission to the acceptance/rejection decision is guaranteed by (i) an advanced desk rejection policy and (ii) the fact that only those refereed papers that require minor revisions are accepted while those not accepted are rejected without a detailed referee report. This requires the submission of manuscripts which authors

consider ready for direct publication if found suitable by the editorial team. A limited number of 24 articles per journal per year will be published.

The IZA Journals will be accessible online through SpringerOpen. This implies that electronic access to all five new journals is provided freely and permanently worldwide immediately upon publication. IZA sees open access as a key channel to promote the dissemination of latest findings from research and policy. This will particularly benefit researchers and interested readers from less developed regions of the world. To make open access possible, moderate publication fees apply. These are waived for members of the IZA network, who are asked to participate in the referee process. This provides an additional collaboration incentive for IZA Fellows and Affiliates. Authors not affiliated with IZA are also exempt from fees if they provide several referee reports. In addition, no fees apply to authors, e.g. from developing countries, who are specifically invited by the editors.

The following is a short description of each journal. Information on the editorial boards can be found in the boxes below.



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The IZA Journal of Labor Economics covers research in all areas of labor economics. It publishes high quality theoretical and applied contributions on both micro-economic and macroeconomic oriented labor-related topics. In particular, the Journal encourages submissions in subject areas that are closely linked to the various IZA program areas, and are not covered by one of the other area-specific journals in the IZA Journal Series. Contributions on various topics such as evaluation of labor market programs, behavioral and personnel economics, labor market aspects of environmental issues, and labor market institutions, among others, are highly welcomed.

### IZA Journal of Labor Policy

The IZA Journal of Labor Policy covers all aspects of labor policy, including empirical, theoretical, and institutional approaches discussing concrete issues that are of value for policy formulation and decisions. A central theme of the Journal is the analysis of the role and effects of labor policy in influencing socio-economic outcomes. In addition, The IZA Journal of Labor Policy will publish studies that synthesize existing research to draw policy conclusions or suggest new frameworks for thinking about labor policy issues. Subject areas include evaluation of labor

market programs (including but not limited to active labor market programs) and educational or other interventions that affect labor market outcomes, analysis of the relationship between institutions and labor market outcomes, and all public policy aspects of labor, education, welfare and related social policies, and retirement, including effective policy implementation. Studies of labor policy issues from developing, transition and developed economies are also welcome.

### IZA Journal of European Labor Studies

The IZA Journal of European Labor Studies publishes high-quality international research on a wide range of issues of relevance for European labor markets. In its scope it is policy-oriented and focused on applied research work. The Journal aims at contributing to the current policy debate across Europe and within its various countries. This includes analyses of European labor policy dealing with concrete policy problems, reforms, proposals or issues that are of concern for policy-making. In general, the IZA Journal of European Labor Studies publishes high-quality original research articles. Occasionally the journal also invites articles that are reviews or syntheses of the literature which have clear policy relevance and which draw concrete policy conclusions.

### IZA Journal of Migration

The IZA Journal of Migration covers all issues related to the economics of migration and ethnicity in developed or developing countries. The journal constitutes the first platform dedicated to fostering the international debate and to promoting publication excellence in the field of migration economics. The IZA Journal of Migration publishes original theoretical and applied contributions, including topics such as the determinants and consequences of human mobility in both sending and receiving regions and the analysis of migration experience – including the assimilation of migrants and their children, their occupational choices, the role of immigrants' social networks and remittance behavior. Likewise, the journal encourages submissions of papers covering topics such as the economic analysis of ethnicity, ethnic identity, and language. At a broader level, the IZA Journal of Migration aims at providing policymakers with evidence-based insight on the economics of internal and international migration. As such, papers which focus on the role of migration policies dealing with the monitoring of immigration flows, the process of naturalization, and asylum or illegal migration are also welcome.

### IZA Journal of Labor & Development

The IZA Journal of Labor & Development covers all aspects of economic development related to issues of human behavior and/or the labor market of developing, emerging or transition countries, including both policy issues and more structural problems. In particular, the IZA Journal of Labor & Development encourages submissions in subject areas that cover all fields of labor economics in a development context. We welcome original high quality papers, both empirical and theoretical, that deal with issues related to labor and/or labor markets in developing, emerging and transition economies.

IZA Director *Klaus F. Zimmermann*: "We believe that our five new open access journals will stimulate cutting-edge research and its worldwide dissemination. A fast referee process and free online access are important features to spread knowledge and inform political decision-makers about new findings that help improve policy programs. The strong IZA network is a perfect asset to make this happen."

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# Reforming the Labor Market: What Can Be Learned from Germany?

After decades of mainly negative perception both from within Germany and abroad, the German employment “model” is attracting quite some attention again. This is mainly due to its success in weathering the recent global economic crisis: While other countries experienced major job losses, Germany witnessed decreasing unemployment rates and record levels of newly created jobs. In fact, after a long period of stagnation, Germany has now one of the highest employment rates in Continental European countries, closing up to such countries as Denmark, Sweden or the Netherlands and similar to the UK (▼ Figure). Quite unexpectedly, as Germany was often seen as a laggard with a persistent weakness in job creation, the country is now on par with former role model or benchmark countries. Furthermore, accelerated job creation in Germany cannot only be attributed to the emergence of an additional layer of “bad jobs” at the margin of the labor market due to deregulation, but it is also partly driven by structural changes encouraging the creation of many “good jobs” in skilled service sector occupations. However, the recent change in labor market conditions did not evolve over night. It is not sufficient to focus only on the impressive performance during the crisis. The overall improvement in labor market outcomes is the effect of a longer sequence of cumulative structural and institutional adjustments revitalizing some of Germany’s traditional strengths and adding some new elements. Particularly remarkable is the fact that most of these adjustments were not part of a long-term strategy, but rather short-term oriented. Instead of

relying on systematic economy-wide coordination, small steps of adjustment were taken in employers’ staffing policies and collective bargaining, as well as in public labor market policies and regulation.

## Key components of the German success

After a protracted period of change, the German employment system is fundamentally different from its previous situation which was characterized by a “welfare without work” dilemma. With the recalibration of the German labor market and production model – not in an ideal but in a second-best manner – Germany was able to essentially overcome mass unemployment, the persistent Achilles’ heel of the 1980s and 1990s, and has generated continuous employment growth over the last five years, even during the crisis. Germany seems to have found an arrangement that makes the most out of given and adapted institutional settings. The current arrangement seems to fit with the economic environment so that a better performance can be achieved in comparison to the situation some 10 to 15 years ago. Clearly, compared to that period, market mechanisms have become stronger, and the “buffering” role of law or collective agreements is more limited.

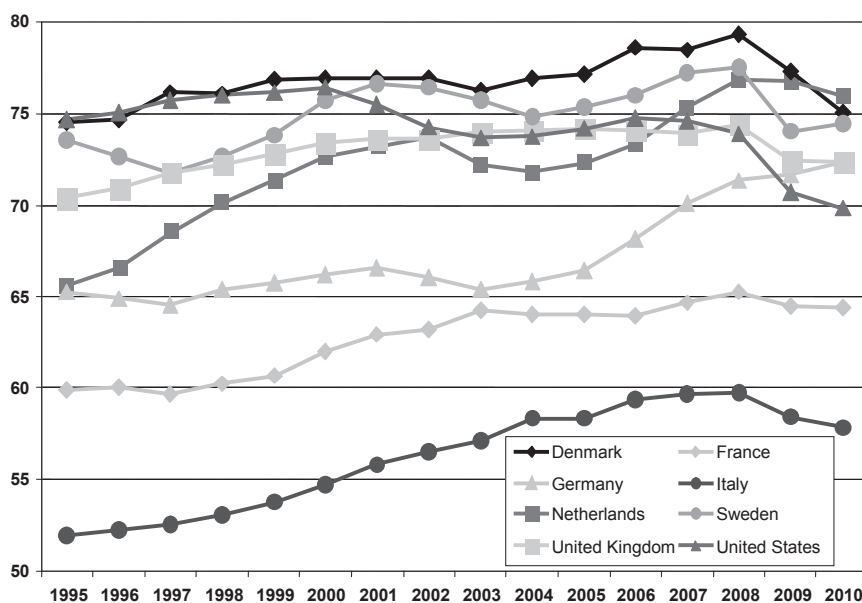
Regarding the core of export-oriented manufacturing, companies have redrawn their boundaries and reorganized the division between their core staff and the marginal labor force, and between workers on standard contracts and those with non-standard

contracts. At the same time, there is now a stronger role of subcontracting as well as national and international supply chains. The “purified” core of those firms is characterized – and stabilized – by an elaborate arrangement of working time flexibility and more flexible remuneration policies within collective agreements. Co-management by works councils is crucial here as is managed decentralization of collective bargaining and more flexible collective agreements (regarding working time and wages). Hence, quite surprisingly against the background of earlier debates, many features that were seen as rigid or outdated a decade ago are currently reappraised: dual vocational training is still an effective instrument to ensure smooth transitions from school to work and to provide skilled labor; collective bargaining has been modernized and stabilized successfully via strong internal flexibility, which has made German manufacturing competitive again; co-determination and co-management help stabilize the productive core, which also benefited from the use of a publicly subsidized short-time work scheme. So with hindsight this must be seen as a superior response to the crisis as compared to relying mostly on external flexibility. Together with many “good jobs” in services, open-ended full-time employment – which continues to make up about 60 percent of all jobs – is remarkably stable. Thanks to wage moderation and internal flexibility, crowding out by flexible contracts was essentially stopped in major parts of the economy.

## Opportunities vs. risks

There are obvious benefits and trade-offs for different categories of workers. For the skilled core labor force in manufacturing and parts of the service sector, neither employment stability nor the pay level has deteriorated. Working time flexibility, organizational reshuffling and more flexible and moderated wage setting have contributed to the robust existence of these jobs that are crucial for the performance of high-productivity firms. Yet, work intensification and performance pressure have increased. The marginal work force faces a different situation: entry into the labor market, in particular into some specific categories of flexible employment, has become easier over time. This was due to deregulation of this type of employment on the one hand, and increased availability of such jobs as a result of structural change and employers’ adjustment on the other. Of course, pay and employment stability are less favorable in this case, and the marginal work force puts indirect pressure on those core members of

Employment/population ratios in selected countries, 1995-2010



Source: OECD.

the labor force that could rather easily be replaced. It should be noted, however, that most employees live in couple households. Stagnating wages in the main job (full-time, often male) could be offset by expanding labor supply (often part-time, mostly female) so that, despite some subjective discontent, the aggregate income figures for the medium stratum of society ("Mittelschicht") are remarkably stable. Still, a more substantial labor market integration of women is impeded by lack of external care services and high marginal taxation.

Overall, the risks of labor market flexibility are distributed unequally. Some groups bear more external flexibility (unstable jobs) and wage risks. At the same time, those on permanent contracts benefit from fine-tuned models of internal flexibility resulting in strong job stability in exchange. But in addition to concessions regarding wage developments and work intensification, there continues to be some competitive pressure on the core stemming from flexible jobs. Policies to deregulate the margin of the labor market – and activation policies, at least to some extent – have opened up a segment of cheaper and more flexible types of work, in particular agency work, fixed-term employment, freelance and part-time, most notably marginal part-time work. Job growth in the service sector can to some extent be attributed to the increased external flexibility of this partial labor market. But not all developments can be explained by institutional change. There is also a strong occupational logic of sectoral and labor market change as well as specific forms of labor supply in these areas. Put differently, many of these highly flexible jobs constitute a quasi-liberal part of the labor market – with few restrictions on employment stability and pay, particularly in segments with strong employer power and an absence of high skill requirements which would encourage longer tenure.

### What does the German case really tell us?

The German labor market underwent a fundamental transformation over the last two decades. However, while much attention is paid to labor market reforms, in particular liberalization of non-standard employment and activation policies, the role of micro-level adaptation of actors on the labor market is a necessary element in explaining change in employment outcomes. While changes both at the level of general public policies and at the level of individual companies or sectors need time to generate substantial effects, at some point a pattern of quite effective solutions may emerge that fits the current economic environment. This seems to be the case with the German labor market and political economy now. In this sense, the ad-

German labor market development, 2007-2012

	2007	2008	2009	2010	2011	2012 (medium IAB scenario)
Real GDP, %	+3.3	+1.1	-5.1	+3.7	+3.0	+1.1
Productivity change per hour worked, %	+1.7	-0.1	-2.5	+1.4	+1.3	+0.3
Hours worked, %	+1.6	+1.2	-2.7	+2.3	+1.7	+0.8
Total employment, %	+1.7	+1.2	+0.0	+0.5	+1.3	+1.1
Total employment, 1,000	39,857	40,345	40,362	40,553	41,100	41,551
Employees covered by social insurance, 1,000	26,943	27,510	27,493	27,756	28,431	28,942
Employees covered by social insurance, %	+2.2	+2.1	-0.1	+1.0	+2.4	+1.8
Unemployment, 1,000	3,760	3,258	3,415	3,238	2,976	2,843
Unemployment rate, %	9.0	7.8	8.2	7.7	7.1	6.8
Temporary agency workers in 1,000	614	612	560	742	n.a.	n.a.
Short-time workers, 1,000	68	101	1,144	503	152	140
Employment in manufacturing, 1,000	-	7,638	7,420	7,287	7,421	7,494

Source: Federal Statistical Office, Federal Employment Agency.

justment capacities of government, the social partners and companies seem to be stronger and more powerful than expected in the late 1990s or the early 2000s. Vocational training and collective bargaining have been modernized and are important elements of the "new" German model. Ever stronger managed flexibility regarding working time and wages in areas with strong bargaining capacities at the sectoral and plant level was complemented and supported by a dynamic service sector relying partly on different patterns of flexibility, some of them set by legislative provisions.

For other countries, which are currently searching for solutions to bring down (youth) unemployment and overcome labor market dualization, the German case shows the beneficial role of vocational training, sectoral and plant-level social partnership and labor market regulation which is less dualizing than in many Mediterranean countries. However, these features took time to develop and cannot be transferred instantly. In particular, they require the active involvement of employers and trade unions in a

pragmatic relationship regarding training, working conditions and employment adjustment. The longer-term perspective shows that public policies only had a limited influence on actual restructuring and employment creation. Cumulative change observed in Germany also shows that significant remodeling can be achieved without systematic coordination or a long-term political strategy – or a big societal and political deal as observed in corporatist countries. While the current pattern of labor market flexibility seems viable for the time being, institutional stability as such cannot be expected. In the face of various challenges arising from the ongoing process of globalization, the German labor market and the economy will undergo further remodeling along recent reform paths.

Werner Eichhorst

**The Unexpected Appearance of a New German Model**  
IZA Discussion Paper No. 6625  
<http://ftp.iza.org/dp6625.pdf>





# Pilot Project for “Anonymized Job Applications” Completed: Equal Opportunity to Get a Job Interview

An anonymized job application process can serve to reduce conscious or subconscious discrimination of applicants. This is the result of a pilot project carried out by the German Federal Anti-Discrimination Agency (ADS) and scientifically accompanied by IZA and KOWA (European University Viadrina). Together with *Christine Lüders*, head of the Federal Anti-Discrimination Agency, IZA Director *Klaus F. Zimmermann* presented the findings from the project to the public in Berlin. The analysis showed that anonymization of attributes such as name, photograph, gender, age and ethnic origin of the applicant is effective at creating equal opportunity for all groups to get a job interview.

“Empirical studies point to a serious extent of discrimination in the German labor market. Both hidden and open discrimination lead to an enormous waste of potential. Particularly the unequal treatment of women, migrants and older job applicants causes substantial economic damage. In view of the increasing shortage of skilled labor, we can no longer afford this waste of resources – not to mention the social and ethical aspects of unequal opportunity,” said Zimmermann.

A number of private-sector companies and public administrations voluntarily took part in the project and modified their application procedures for the purpose of anonymizing incoming applications. Within the 12-month project period, a total of 8,550 applications were screened, of which 1,293 applicants were invited to an interview or admission test. The goal of the project was to answer two key questions: Do anonymized job applications have an effect on the hiring process? And is it practically feasible to implement this type of application procedure?

## Anonymized job applications foster equal opportunity

The empirical analysis was carried out in two steps. First, it was investigated whether applicants are experiencing equal opportunity *within* the anonymous application procedure. Then, the counterfactual situation *without anonymity* was analyzed to identify possible causal effects.

The results of the first part of the analysis indicate that after personal details such as name, age, gender, indications of ethnic origin, and the photograph which is usually

required for job applications in Germany, are removed from incoming applications, there is close to equal opportunity within the group of applicants. The process of anonymized applications offers potentially disadvantaged groups – such as women of child-bearing age or people with foreign names – the same chance to be invited to the next round of the application process, at which they can bring into play their qualifications, work experience and other job-related characteristics.

In the subsequent part of the analysis, the comparison with conventional application procedures shows the effects on individual groups. For example, women tend to have better chances of being invited to an interview. There are indications that this is particularly true for job descriptions that require a minimum level of professional experience, whereas at entry level the effect is less pronounced. An anonymous application process therefore seems to benefit young women who may be discriminated against on the grounds of past – or expected – interruptions in their employment history due to childbirth.

For applicants who had an immigrant background the initial situation varied. Had they been consciously or unconsciously discriminated against previously, their chances improved after the introduction of anonymized applications. However, this modification did not have any effect on the immigrant group if systematic differences in the treatment of this group had not previously existed, i.e., active measures to prevent discrimination in hiring had already been successfully implemented. It must be noted that some of the organizations that volunteered to take part in the project had already actively promoted “ethnic diversity”. If potentially disadvantaged groups received preferential treatment before the modification, the anonymized process may in fact lower their chances to be invited, while preferential treatment was still possible in the next step of the hiring process.

## Limitations of the project

Although the empirical results provide important clues to the effects of anonymous application processes, further studies are necessary, particularly with respect to the identification of causal effects. Since it was not possible to carry out this pilot project as a social experiment, causal effects could not be analyzed by randomly

assigning applicants to anonymized and non-anonymized application processes. The use of control groups did provide important insights but did not permit a final assessment of causality. Moreover, the voluntarily participating organizations did not constitute a representative sample of all employers. Since many of them had already taken active measures to raise awareness among their recruitment staff, the method of anonymization only had limited potential in these cases and may lead to more significant results in companies with little awareness of the benefits of diversity. Moreover, the number of observations was too low to draw reliable conclusions with respect to the probability of receiving a job offer in the end.

## Practical implementation feasible

Judging from the statements of the human resource managers involved in the project, the anonymous application process can be implemented for many different job types, and good job matches can be found. The majority voiced no concerns that the lack of personal information, such as name, gender, age and marital status in the application documents posed any problem. Some emphasized that the absence of a photo drew the main focus on the relevant qualifications. It was also welcomed by many that the introduction of the anonymous application process triggered a discussion of current hiring practices in their organization.

With regard to the methods of anonymization, the use of standardized application forms proved to be the preferred solution, which basically suits all forms of organizations. The experience was consistently positive. On the other hand, manually removing or hiding personal details from conventional application forms was found too time-consuming if a large number of applications were received. Positive feedback also came from the applicants who participated in the pilot project.

## Outlook: After the pilot project

Whether or not to use an anonymous application will continue to be the employer's own decision. There are no plans to make this a legal mandate. Despite the limitations of the analysis, the findings are encouraging: For many companies, it may be worthwhile establishing an anonymous application process to identify the



best-qualified applicants without running the risk of accidentally sorting out particularly suitable candidates. Yet, changes in application procedures can only be one component of a larger strategy. At the same time, the job requirements as well as the selection criteria must be precise and transparent in order for a method like anonymization to unfold its full potential in putting qualifications at the core of the hiring process.

In the long run, it certainly makes sense to implement an anonymized – or at least “skill-centered” – application process. An option could be to do without personal details (photo, name, address, date of birth, place of birth, nationality and marital status) while tolerating further information that allows indirect conclu-

sions on aspects like age or ethnic origin. Removing personal details from the first page of the application might already serve to shift the focus on qualifications without preventing the attachment of official documents and certificates that contain this information.

This does not rule out establishing or continuing corporate recruitment programs that promote hiring underrepresented groups. Diversity strategies that are not too rigid, but take into account qualifications, can be applied further in order to counteract structural inequality. In this context, the anonymized application process provides only one aspect of diversity management in organizations. They can indeed reduce the disadvantages of particular groups at a critical stage and help

create more equality in the application process, but they cannot offset structural discrimination over the course of a working life, particularly in education or career development. This will require additional strategies. In general, it seems desirable to add transparency and objectivity to the hiring process.

Annabelle Krause

Ulf Rinne

Klaus F. Zimmermann

Ines Bösch

Ramona Alt

Pilotprojekt

“Anonymisierte Bewerbungsverfahren”

IZA Research Report No. 44

[www.iza.org/link/report44.pdf](http://www.iza.org/link/report44.pdf)



## IZA Workshop in the 2012 European City of Science Dublin: Recent Advances in Labor Supply Modeling

Do people reduce their working hours if governments decide to raise taxes? Do some of them withdraw completely from the labor market? These questions are of growing relevance in the light of the recent debates on fiscal consolidation. Labor supply estimations are extensively used for various policy analyses, yet their estimations still rely on very different methods. While natural experiments provide sound identification strategies, structural models can predict the effects of hypothetical reforms and are better suited for policy design analyses. In the past years, new quasi-experimental techniques to analyze the labor supply behavior suggest that people's responses to tax changes might be much smaller than commonly thought. Moreover, labor supply adjustments due to changes in work contracts or moves across firms are not well understood. This is partly reflected by differences in elasticities between macro and micro studies.

In order to demonstrate the state of the art in labor supply modeling and to compare the performance of quasi-experimental techniques with the established structural models, IZA invited about 20 top international researchers to a workshop in Dublin on May 18-19. The workshop was jointly organized by IZA Director of Labor Policy Hilmar Schneider, IZA Senior Research Associate Andreas Peichl and IZA Visiting Research Fellow Olivier Bargain (University of Aix-Marseille II). The workshop was organized in association

with the European Meeting of the International Microsimulation Association, which was part of the European City of Science hosted by Dublin in 2012.

In the first keynote speech, Richard Blundell (UCL/IFS and IZA) emphasized the importance of labor supply for consumption smoothing as a response to shocks. The aim of the paper was to understand the transmission mechanisms from wage

ernment policies) matter for consumption smoothing.

Raj Chetty (Harvard University and IZA) delivered the second keynote speech of the workshop. He introduced a new methodological strategy to uncover the effect of the U.S. Earned Income Tax Credit (EITC) on earnings. Assuming that households living in areas with low levels of knowledge about the tax credit behave as if the policy did not exist, Chetty compared these low-knowledge households to households living in neighborhoods with widespread knowledge of the tax system. The very innovative and promising approach shows that households adjust their labor supply behavior in response to the EITC and considerably increase their earnings.

Apart from the keynotes, the workshop consisted of four sessions. The first session was on measuring the labor supply responses to policy changes. The researchers in the other sessions of the workshop mostly confirmed that tax payers adjust their labor market behavior to changing tax policies. While James Ziliak (University of Kentucky) estimates positive average elasticities of taxable income, Hakan Selik (Uppsala University) demonstrated for Sweden that observed positive elasticities are mostly due to self-employed workers who can more flexibly adjust taxable income through working hours.



Olivier Bargain, Richard Blundell, Cathal O'Donoghue, Andreas Peichl, Raj Chetty and Hilmar Schneider

shocks to consumption and labor supply decisions of two partners in a family. He showed that female labor supply plays an important role in smoothing permanent shocks to male wages. This indicates a substitutability of consumption and hours. In his empirical work, he found little evidence that external sources of insurance (such as savings, networks or gov-

Besides looking at quasi-experimental evidence to uncover the effect of tax policies on labor supply adjustments, another focus of the workshop was to compare the performance of long established structural models to natural experiments such as tax reforms. The presentations by *Trine Vatto* (Statistics Norway) and *Jorgen Hansen* (Concordia University and IZA) showed that carefully designed structural models are able to capture the true effect and match the quasi-experimental data quite well.

The last part of the workshop considered labor supply in a dynamic context. Using variation in the Austrian pension system with regard to the early retirement age (ERA), *Andrea Weber* (University of Mannheim and IZA) finds that extensive margin elasticities are quite large. Both men and women significantly respond to increases in the ERA and delay pension claims and job exits. Moreover, she presented evidence on spill-over effects on individuals not directly affected by the pension reforms. In addition to estimating the extent of behavioral responses to policy reforms, *Alexander Gelber* (University of Pennsylvania) has carried out research on the speed of adjustment to changes in the tax-benefit system. Exploiting a change in the U.S. Social Security Earnings Test he finds that the adjustment period takes one or two years at most.

Closely related to the adjustment of labor market behavior are the dynamics of life-cycle behavior that is affected by public policies. *Johannes Geyer* (DIW Berlin) presented his research on a recently intro-

duced parental leave reform in Germany that pays higher benefits for a shorter period of time. He finds that mothers' labor supply declines in the first year after childbirth, but increases in the second year due to the reform. *Victoria Prowse* (Cornell University and IZA) analyzed a cut in the generosity of unemployment insurance in Germany. She showed that a reduction in the entitlement period generates larger increases in employment than a reduction in the replacement ratio. *Monica Costa Dias* (Institute for Fiscal Studies and IZA) analyzed the long-term effects of in-work benefits in a life-cycle model of women's labor supply, human capital formation and savings for policy evaluation. She finds small but non-negligible anticipation effects on employment and education to recent policy reforms in the UK like the extension of the Working Families Tax Credit.

Towards the end of the workshop, Hilmar Schneider presented the "NEUJOBS" research project. Together with 28 partner institutes and universities, IZA is a key contributor to this project, which is funded by the European Commission under the 7th Framework Program. The objective of NEUJOBS is to analyze possible future developments of the European labor markets under the main assumption that European societies are facing major transitions that will have a strong impact on employment. IZA's contribution to the NEUJOBS project is to model structural and behavioral aspects of labor supply and demand in order to shed light on the important question how employment in European labor markets will evolve until 2025 or even beyond.

The workshop clearly showed that research on labor supply behavior has made tremendous progress. Among the different approaches to evaluate the labor supply effects of policy reforms, researchers need to carefully scrutinize which identification strategy is best suited for their research question. High unemployment rates in many European labor markets point to the need to improve labor market institutions, including tax and transfer systems. Credible research results can help policy makers to improve labor market regulations and to achieve the intended policy goals. IZA is determined to stay at the forefront of research in this area and to organize future workshops on this topic.

► [www.iza.org/link/Dublin2012](http://www.iza.org/link/Dublin2012)

► [www.iza.org/link/izapsimod](http://www.iza.org/link/izapsimod)

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Labor Supply Elasticities in Europe and the US

IZA Discussion Paper No. 5820  
<http://ftp.iza.org/dp5820.pdf>

Olivier Bargain  
André Decoster  
Mathias Dolls  
Dirk Neumann  
Andreas Peichl  
Sebastian Sieglösch

Welfare, Labor Supply and Heterogeneous Preferences: Evidence for Europe and the US

IZA Discussion Paper No. 6102  
<http://ftp.iza.org/dp6102.pdf>

## Ethnic Diversity, Integration, Innovation: 9th Annual Migration Meeting at IZA in Bonn

The Annual Migration Meeting (AM<sup>2</sup>) – the flagship of IZA's Migration program area – took place on June 3 and 4, 2012 at IZA in Bonn. Ten paper presentations covered topics in immigrant integration and labor market performance, ethnic innovation in host countries, reverse migration, immigrant and ethnic attitudes and trust, migration policies, and educational considerations of immigrants. IZA Program Director *Amelie F. Constant* (George Washington University), who organized the meeting, welcomed the participants and kicked off the meeting with the first session.

*Hans Bloemen* (VU University of Amsterdam and IZA) presented his paper on the

"Language Proficiency of Migrants: The Relation with Job Satisfaction and Matching." He empirically analyzed the language proficiency of migrants in the Netherlands to see if a lack of language skills may induce the migrant to work in jobs that require a lower education level than the level achieved by the migrant and/or may lead to a lower performance on the job. There is evidence of a positive relationship between indicators for language proficiency and satisfaction with work type and professional level for men, but it is not significant for women. Next, *Laura Pagani* (University of Milan Bicocca) presented her co-authored study on immigrants in Italy. "A 'Glass-Ceiling' Effect for Immigrants in the Italian Labour Market?" explores why

highly qualified immigrants are unable to earn as much as comparable native Italians.

The traditional highlight of the AM<sup>2</sup> is the Julian Simon Lecture. This year's keynote was given by the renowned sociologist and migration scholar *Guillermina Jasso* (New York University and IZA). Her research covers socio-behavioral theory, distributive justice, inequality, international migration and many others. In her speech entitled "Studying Immigrant Self-Selection," she explored her complex research into the reasons for immigrating.

*Meghna Sabharwal* (University of Texas at Dallas) presented groundbreaking ideas

on reverse migration in “Why One Leaves? Return Migration of Academic Scientists and Engineers from the United States to India.” Employing data such as the 2003 Survey of Doctorate Recipients (SDR), Sabharwal explained the results from the pilot study revealing some factors that might prompt return migration. The implications are relevant because, for example, it is important for universities to retain talent – of which a great deal is apparently returning to India. After this, *Max Nathan* (London School of Economics) explained the effect of diversity on innovation in the UK, the first paper of its kind outside of the US. In his paper “Same Difference? Ethnic Inventors, Diversity and Innovation in the UK” he used Patent Microdata from the UK to show that the effect was positive and significant: Immigrants filed for more patents, and diversity was correlated with more innovation. An important policy implication for the UK to increase innovation and thus productivity would be to allow more migration of diverse ethnic groups.

In her paper “Ethnic Concentration and Right-Wing Voting Behavior in Germany,” *Verena Dill* (University of Trier) found that ethnic concentration was inverse to “far-right” voting behavior. That is, in areas of high concentration of far-right voters (who voted for political groups openly hostile to ethnic groups), there are fewer ethnic groups. *Martin Ljunge* (University of Copenhagen) presented “Trust Issues: Evidence from Second Generation Immigrants.” Through a masterful and complex paper, Ljunge showed differences in trust between the regions of Europe, finding that there is significant transmission of trust on the mother’s side, and trust is strongest in Northern Europe. Building trust in Northern Europe for migrants takes longer while adjustment to the trust levels in Southern and Eastern Europe is fast.

In a session on the success of migration policies, *Giovanni Facchini* (Erasmus University Rotterdam and IZA) presented joint work entitled “Spending More Is Spending Less: Policy Dilemmas on Irregular Migration.” He developed a model of legal and illegal immigration, allowing for understanding the tradeoffs faced by a govern-

ment concerning costly enforcement of illegal immigration. The paper argued that when amnesty from the point of view of the destination country is more desirable, investment in enforcement is the appropriate policy. When amnesty is not desirable, the host country would be better off by not devoting any resources to policy enforcement, letting some foreign workers enter and stay illegally. Another paper presented by *Pierre M. Picard* (University of Luxembourg and IZA) looked into “Sustainable Migration Policies.” The authors considered whether countries might mutually agree on a policy of free movement of workers across countries. For the countries to agree, short-term costs must be outweighed by long-term benefits that result from better labor market flexibility

provided evidence for an optimal level of genetic diversity in a population that allows for the fastest pace of economic development. The United States is found to lie close to the optimum, as was ancient Rome. According to the authors, their findings “suggest that residual genetic diversity explains about 16 percent of the cross-country variation in residual log income per capita.”

In a session on educational considerations, *Massimiliano Tani* (Macquarie University of Sydney and IZA) presented his research entitled “Does Immigration Policy Affect the Education-Occupation Mismatch? Evidence from Australia.” His paper analyzed the impact of a change in Australia’s immigration policy, indicating that those who entered under more strict conditions have a lower probability of being overeducated than the first. Overall, the policy appears to have brought immigrants that reduced the over-under-education of Australia’s labor market.

The final paper was by *Stefan C. Wolter* (University of Bern and IZA). In “Migration Policy Can Boost PISA Results: Findings from a Natural Experiment,” the authors

used education data from Switzerland to assess the before and after effects of a new standardized test taking policy. Using a Blinder-Oaxaca decomposition analysis, Wolter found that almost 70 percent of the increases in test scores by first-generation immigrants was due to changes in the individual background characteristics of the new immigrants and improved school composition. The result indicates that internationally comparative analyses should more fully consider differences in national migration policies.

The papers presented at the meeting are downloadable at:

► [www.iza.org/AMsquared](http://www.iza.org/AMsquared)

In 2013 the 10th AM<sup>2</sup> will take place over four days in combination with the 4th Migration Topic Week.



Participants of the 9th Annual Migration Meeting

and income smoothing. The paper showed that free movement of workers creates negative externalities on local workers when countries produce some tradable goods, reducing incentives to create free worker movement. Thus in general, free migration policies are sustainable only in an economy with a low share of tradable goods with low congestion factors.

A special lecture was given by honored guest *Oded Galor* (Brown University and IZA), founder of the Unified Growth Theory. He presented his latest nontraditional macro paper “The ‘Out of Africa Hypothesis’, Human Genetic Diversity, and Comparative Economic Development.” Galor questioned how today’s economies are affected by the genetic diversity of a population, which is found to be largely influenced by the initial migration of modern humans from East Africa thousands of years ago. Through a complex and well thought out method of analysis using data from population density to migratory distance of ancient ethnic groups, he



# IZA/OECD/World Bank Conference: Activation Policies and Active Labor Market Programs

On April 30 and May 1, 2012, IZA's Employment and Development Program, in partnership with the OECD and the Human Development Network of the World Bank, organized a high-level expert conference on activation and employment support policies. The conference was supported by the Government of Turkey and hosted in Istanbul at the Bahcesehir University. It brought together around 120 participants including researchers and policymakers from Eastern Europe, Central Asia, Latin America, the Middle East and North Africa.

After the introductory remarks from *Arup Banerji* (World Bank) and IZA Director *Klaus F. Zimmermann*, the conference discussed the role that activation policies and active labor market programs (ALMPs) can have in fostering a quick re-integration of the unemployed back to work and helping to improve the matching between labor demand and supply in advanced as well as emerging and developing countries. The keynote address by *Torben M. Andersen* (University of Aarhus and IZA) provided an overview of the main lessons from the implementation of activation strategies in OECD countries. Andersen then focused on the Danish experience, particularly on the role that active labor market policies play in the Danish flexibility model – together with relatively lax employment protection but generous unemployment benefits.

A special session on the Turkish experience with active labor market policies was led by experts from the Turkish Employment Agency, the Ministry of Family and Social Policy and the Ministry of

Development. The following session reviewed the experiences in developed and developing countries, with presentations from IZA Program Directors *Stefano Scarpetta* (OECD) and *David Robalino* (World Bank). The contributions emphasized the different objectives due to the different contexts for activation policies and ALMPs. In advanced countries, activation strategies have helped to mobilize the unemployed back to work and thereby contributed to reducing structural unemployment. However, the lessons from advanced countries is that activation strategies work well in good times when labor demand is strong, but need to be adapted when – as at present – labor demand is weak and job opportunities especially for disadvantaged jobseekers limited. In middle and low income countries the main issue is not necessarily to provide incentives for unemployed or other benefit recipients to quickly return to work. As many job losers in these countries cannot afford to be unemployed for long and the large majority of the unemployed does not receive unemployment benefits or assistance, the focus must be on helping workers to “graduate” to more productive jobs in the formal sector.

The subsequent session focused on the design and implementation of unemployment benefit schemes and other income support schemes and their impact on incentives for beneficiaries to return to work. This was followed by a session on how to engage jobseekers early in the unemployment spell and on how to link clients to services in the context of activation strategies. In his lunch keynote address, *Jochen Kluge* (Humboldt University,

RWI and IZA) presented the highlights of a meta-analysis review of the evaluation of active labor market programs conducted with *David Card* (UC Berkeley and IZA) and *Andrea Weber* (University of Mannheim and IZA). While the analysis focuses on empirical studies for the OECD countries, Kluge also discussed the extent to which the OECD evidence is relevant for the design of active programs in developing countries and the emerging evaluation literature of these programs in developing and emerging economies. In particular, he pointed to the fact that the large majority of evaluations focus on youth training programs in the Latin American and Caribbean (LAC) countries and, on average, they tend to be effective in terms of employment probability and job quality.

The remaining sessions focused on the design of different programs including employment services, training, wage subsidies, and support to self-employment and small scale entrepreneurship among low skilled workers and beneficiaries of social assistance programs. There were also presentations on general implementation issues such as setting-up public/private partnerships, as well as on the results of recent evaluations of ALMPs, such as training for vulnerable youth in the Dominican Republic, support to adolescent girls in Liberia and Uganda, and entrepreneurship and self-employment support programs in Tunisia. Most of these evaluations are downloadable from the online program of the conference:

► [www.iza.org/link/ALMP2012](http://www.iza.org/link/ALMP2012)

The closing panel chaired by Arup Banerji included Klaus F. Zimmermann, Ana Revenga (World Bank), Seyfettin Gürsel (Bahcesehir University), Erhan Batur (Ministry of Labor and Social Security, Turkey), and Valentin Mocanu (Ministry of Labor, Family and Social Protection, Romania). The question posed to the panelists was whether developing countries should further invest in activation policies and ALMPs. There was a consensus that these policies and programs have a role to play in facilitating labor market transitions – from school-to-work, from inactivity to employment, out of unemployment, and between jobs. But the main challenge in these countries remains improving the productivity of the jobs that are already there.





# IZA/KfW Conference in Berlin: Employment Creation as a Key to Effective Development Cooperation

Sustainable and decent employment is increasingly recognized as an important end as well as a means of development. Recent events in North Africa have shown that lack of employment is a serious socio-economic and political challenge. Successful employment, on the other hand, involves not only income and poverty reduction, but also contributes to social security and cohesion and can provide a basis for economic development. To achieve more and better employment, partner countries and donor agencies need a better understanding of the causes of unemployment and the interactions between employment, growth, poverty and other factors. At the same time, drawing on practical experience, research can identify knowledge gaps that still pose limits to successful employment creation policy.

These issues were addressed at the conference on “Employment and Development” (Berlin, March 15-16, 2012) organized by IZA in cooperation with the KfW Development Bank, the German government’s agency for financial cooperation with developing countries. The conference consisted of a half-day public event with a distinguished keynote speaker and a high-level panel discussion, in which the challenges of employment were debated. The second day included a result-oriented working symposium at which leading academics presented the state of research. Subsequently, the participants discussed in parallel workshops how current knowledge can inform policymakers about innovative and more effective programs, and how this can be improved by

further research and research-practice cooperation.

Participants stemmed from a wide range of research and practice organizations, including international organizations such as the World Bank and the International Labour Organization (ILO), policy-makers from partner countries, German development cooperation agencies, political foundations and non-governmental organizations. Among the attendees there was a broad consensus that productive employment is key to fighting poverty and unequal

fast-growing sector, a sweeping reduction of the informal sector could be counter-productive for the poor. On the other hand, informal work is often characterized by low wages and labor standards. As a strategy to take advantage of the existing informal sector and gradually improve the working conditions, the KfW Banking Group uses instruments of microfinance and the promotion of small and medium enterprises. Moreover, the KfW Development Bank considers employment creation as a cross-cutting task including all sectors and regions.



Dani Rodrik, Ghada Waly, Raymond Torres, Klaus F. Zimmermann and Namrata Bali

ity. Keynote speaker *Dani Rodrik* (Harvard University) argued that countries should focus on creating a growth-enabling environment and labor markets. By contrast, some experts from the ILO favored the promotion of such forms of growth that directly serve the creation of decent employment.

The role of the informal sector was discussed controversially. Since it is in many developing countries an important and

IZA Director *Klaus F. Zimmermann* pointed out that the high-level conference helped bring together internationally available knowledge of development research and development practice. The conference thus contributed to building a catalog of innovative approaches in order to derive concrete recommendations for action. The expert meeting complemented IZA’s extensive activities in the field of development research. IZA has been cooperating for many years with the World Bank within the program area “Employment and Development”.

In addition, the UK Department for International Development (DFID) recently commissioned IZA to coordinate research projects worth over ten million euros dedicated to the analysis of “Growth and Labour Markets in Low Income Countries”.

The conference program is available online:

► [www.kfw.de/employment-conference](http://www.kfw.de/employment-conference)

## FEDEA/FRDB/IZA Conference in Milan: Dual Labor Markets and the Single Contract

European Governments made substantial efforts to reform labor market institutions when walking away from the Eurosclerosis of the 1980s. To achieve political viability, the reforms mostly entailed changing the rules only for new hires and introducing a wide array of new flexible, fixed-term, contractual types or expanding their scope where they already existed. There were

hardly any changes in rules on regular, open-ended contracts. This created two parallel labor markets – a labor market largely insulated from shocks (workers with permanent contracts) and a labor market of temporary workers, where all risks are concentrated. In order to complete the reform path, governments are now facing the challenge to fight dualism in European labor markets.

In April 2012, an IZA Conference in cooperation with FEDEA and Fondazione Rodolfo De Benedetti was held in Milan to discuss “Dual Labor Markets and the Single Contract”. The event was organized by *Samuel Bentolila* (CEMFI, Madrid), *Tito Boeri* (Bocconi University and IZA), *Juan Jose Dolado* (Universidad Carlos III de Madrid and IZA), IZA Program Director *Pierre*

*Cahuc* (Ecole Polytechnique, Paris) and IZA Deputy Program Director *Konstantinos Tatsiramos* (University of Leicester).

The conference brought together leading researchers in the field who presented their work on dual labor markets and on reforms targeted at fighting dualism. The first session of the conference was devoted to the modeling of a single contract that makes job security provisions increase smoothly as workers acquire tenure. *J. Ignacio Garcia Perez* (Universidad Pablo de Olavide) analyzed the effect of introducing a single open-ended contract in Spain. Simulating a search and matching model of job creation and job destruction, which is able to generate the main properties of labor market segmentation that exist in Spain, the authors of the paper find that the introduction of the single contract decreases steady-state unemployment and job destruction and smoothes both the probability of being fired and tenure distribution, as severance payments are smoothed. *Pietro Garibaldi* (University of Turin and IZA) presented a paper that shows under which conditions a mandated transfer from the employer to the worker in the case of an unfair dismissal is optimal, and how efficient severance relates to monitoring technologies and jurisprudence. The authors also evaluate the empirical implications of the model as to the relation between graded employment security and the wage tenure profile in countries with and without man-

dated severance in case of fair economic dismissals.

The second session of the conference focused on the analysis of dual labor markets covering issues such as the effect of temporary employment on productivity and labor turnover. *Juan Jose Dolado* presented evidence from Spain showing that when the employment protection gap between permanent and temporary jobs is increased, workers face lower transition rates from temporary to permanent jobs, which in turn lowers firms' productivity. *Marco Leonardi* (University of Milan and IZA) analyzed the effect of reforms in temporary employment in Italy providing evidence that there is substantial substitution across different types of temporary contracts induced by these reforms. This substitution may have differential effects on firm productivity and should be taken into account by policy makers when evaluating the effectiveness of policy interventions. *Franck Malherbet* (University of Rouen and IZA) analyzed the decision of the firm between creating a permanent and a temporary job taking into account an important feature of the legislation, which is that although temporary jobs have no firing cost, employers cannot dismiss temporary workers before the date of termination of the contract. Considering production opportunities with different horizons, in the presence of large firing costs, firms will hire permanent workers for long-term projects and temporary

workers for short-term projects, which induces higher labor turnover for temporary workers, small negative effects on employment but large negative effects on aggregate production. *Alvaro Novo* (Banco de Portugal and IZA) examined the effect of a reform in Portugal, which increased the employment protection of open-ended contracts, finding an increase in the share and in the excess turnover of fixed-term contracts. These results suggest a high degree of substitutability of workers on the two types of contracts and an increased burden of adjustment placed on the more flexible contracts. *Cristina Tealdi* (IMT Lucca) performed a welfare analysis of the introduction of a fixed-term contract. Comparing the average income of different groups of individuals, she finds that more productive workers fare better in a dual labor market, while junior and less productive workers pay the cost of higher turnover and lower wages.

The conference ended with a panel discussion moderated by Juan Jose Dolado on the recent policy reforms in the labor markets and in particular on employment protection. Panelists were *Lennart Janssens* (European Commission), *Pedro Portugal* (Banco de Portugal and IZA) and *Danielle Venn* (OECD). They discussed the possibility to introduce the single contract in countries where labor markets are strongly segmented.

► [www.iza.org/link/dlmsc2012](http://www.iza.org/link/dlmsc2012)

## IZA Workshop and Book Project: Non-Standard Employment in a Comparative Perspective

In March 2012, IZA hosted a workshop bringing together about 20 experts on non-standard forms of employment in European countries and the United States. The workshop was the first one related to a forthcoming volume co-edited by *Werner Eichhorst*, Deputy Director of Labor at IZA, and *Paul Marx* (University of Southern Denmark and IZA). At the workshop both draft country chapters and drafts of comparative studies were discussed. Following an introductory presentation by the editors, who are also responsible for the German case study, country chapters on the Netherlands (*Trudie Schils*, University

of Maastricht and *Anne Gielen*, Erasmus University Rotterdam and IZA), Spain (*Oscar Molina*, Universitat Autònoma Bar-

celona), the United States (*Maira Nelson*, Free University of Amsterdam), the United Kingdom (*Alison Koslowski* and *Caitlin MacLean*, University of Edinburgh), Denmark (*Per Kongshøj Madsen*, University of Aalborg and IZA) and Italy (*Stefano Sacchi*, University of Milan, *Fabio Berton*, University of Eastern Piedmont, and *Matteo Richiardi*, University of Turin) were discussed on the first day. The volume will also comprise country chapters on Sweden (*Ola Sjöberg*, Swedish Institute for Social Research) and France (*Angela Luci*, University Paris I and IZA).

The second day of the workshop was devoted to the comparative chapters addressing labor market mobility (*Ruud Muffels*, University of Tilburg), subjective



Participants of the IZA Book Project Workshop

labor market insecurity (*Heejung Chung*, University of Kent), the household composition and labor supply to non-standard jobs (*Laura Romeu Gordo*, German Center of Gerontology, *Martina Dieckhoff*, EUI, *Vanessa Gash*, University of Manchester, and *Antje Mertens*, Berlin School of Economics and Law), female employment and public/private sector divide (*Janine Leschke*, European Trade Union Institute and IZA) and skill formation and vocational training (*Marius Busemeyer*, University of Konstanz, and *Kathleen Thelen*, MIT). Furthermore, there will be a cross-country chapter on industrial relations by *Maarten Keune* (University of Amsterdam).

By now, it is commonly accepted that labor markets in advanced societies are in a process of deep transformation. The general trend seems to be one of increasing flexibility with regard to wages and/or employment contracts. This is most apparent for those European labor markets which were seen as quite egalitarian only one or two decades ago. The overall research question of the book project is to explain this change from a rather standardized employment model (stable employment relationships, permanent contracts, wage compression) to a more de-standardized one (flexible employment relationship, temporary contracts, wage dispersion). In addressing this question one particular issue lies at the core: the occupational heterogeneity in the process of labor market change. In the comparative labor market literature, the growth of non-standard

employment such as fixed-term contracts, agency work, freelance and part-time work as well as increased wage dispersion is usually discussed referring to the development of national averages over time.

Moreover, these developments are seen as being related to changes in public policies, in particular labor market deregulation. This dominant approach focusing on national data tends to neglect the crucial dimension of sectoral and occupational differences in employment flexibility. Some service sector jobs exhibit work logics and skill patterns that are fundamentally different from manufacturing. Many occupations thus vary dramatically regarding both the share of low-pay and the share of 'atypical' workers.

The ambition of the planned volume is not only to describe labor market patterns, but also to understand the underlying causes for cross-country variation. The literature offers various explanations such as globalization and stronger labor cost competition, deindustrialization and the cost disease in private services, skill-biased technological change and declining demand for low-skilled jobs, and reform trajectories increasing labor market flexibility (in particular at the margin). Each of these trends leads to pressure for employers and job seekers to defect from the traditional institutions forming the "standard employment relationship". On the aggregate level, the combined outcome is a growing share of atypical contracts,

freelance, low-paid work, etc. What is less clear, however, is the question how the process of labor market change is structured on the horizontal dimension, i.e. across sectors and occupations on similar skill levels. Atypical work is not a phenomenon restricted to low-skilled workers, but affects high-skilled workers as well. This, in turn, does not necessarily hold for all segments of the labor market. Drawing on different strands of literature, various causal hypotheses concerning the dividing lines are tested. Potential explanatory variables regarding the prevalence of non-standard jobs in occupational labor markets are the conditions of supply and demand on occupational labor markets with respect to the skill levels and the specificity of skills as well as industrial relations and public legislation (or collective agreements) influencing the availability of non-standard employment options.

These factors are examined empirically both in individual country case studies combining descriptive and analytical statistics as well as occupational case studies on the one hand and a number of selected cross-country papers addressing particular issues such as skill formation, industrial relation or labor market mobility in a comparative manner. A follow-up workshop is planned for spring 2013. The volume is to be released in fall 2013.

► [www.iza.org/link/nonstandard](http://www.iza.org/link/nonstandard)

## Economics Meets Criminology: Annual Meeting on the Economics of Risky Behaviors (AMERB)

"Risk attitudes pertain to almost all areas of economic decision making, as it is related to economic decision making under uncertainty. Some view the risk attitudes as a fundamental value that is genetically determined; others view it as something that can be altered by environmental factors."  
—*Albert Young-II Kim* (Songang University)

The fourth Annual Meeting on the Economics of Risky Behaviors (AMERB), co-founded and co-organized by IZA Program Director *Amelie F. Constant* (George Washington University) and *Erdal Tekin* (Georgia State University and IZA), took place in April this year. Bahcesehir University in Istanbul, Turkey played host to this year's meeting and while only in its fourth year, AMERB has become a well sought-after conference. The co-organizers received eighty-two paper submissions of which

they could only accept fourteen for presentation – the maximum number for a two-and-a-half day meeting. The 2012 AMERB brought together thirty-seven top-notch economists and criminologists from all over the world, who presented their cutting-edge research on risky behaviors ranging from substance abuse to obesity to prostitution. AMERB was funded by IZA, the Andrew Young School of Georgia State University, the Center for the Economic Analysis of Risk (CEAR) of Georgia State University, and the Center for Economic and Social Research (BETAM) at Bahcesehir University.

In the first session, *Horst Entorf* (Goethe University Frankfurt and IZA) discussed his work on "Criminal Victims, Victimized Criminals, or Both? An Econometric Analysis of the Victim-Offender Overlap."

His basis was that offenders are more likely than non-offenders to be victims and victims are more likely than non-victims to be offenders, and that this overlap is not well understood in criminology. He found that behavioral explanations like retaliatory anger might trigger cycles of crime. Other explanations for overlap found were broken homes and alcohol/drug abuse. The work presented by *Brendon McConnell* (University College London and IZA) on "Ethnicity, Sentencing, and 9/11" explained the source of ethnic sentencing differentials in U.S. federal courts by distinguishing between two main explanations for these disparities: discrimination and unobserved offense heterogeneity. Through a clever method of using the before and after data on criminals around 9/11, the researchers found that Hispanics experienced a 3.5 percent conditional sentencing penalty,



and there was no change in penalty for any other ethnic or racial group over this period. Albert Young-Il Kim presented co-authored work on the “Long Run Impact of Traumatic Experience on Attitudes Toward Risk: Study of Korean War and Its Impact on Risk.” The analysis found that early childhood experience of the Korean War sizably increases risk aversion.

Scott Cunningham (Baylor University) analyzed the question “Does Decriminalization of Indoor Prostitution Reduce Rape and Gonorrhea?” Using evidence from a Rhode Island natural experiment, he estimated the causal effect of decriminalizing prostitution on public health outcomes. The results of the natural experiment show that decriminalization caused female and male gonorrhea incidence to decrease 61 and 27 percent, respectively. Decriminalization also resulted in between 40 and 54 percent fewer rapes from 2004 to 2009. After this, Pedro Portugal (Banco de Portugal and IZA) found in “The Impact of Drug Decriminalization in Portugal” that the new Portuguese policy led to a decrease in heroine and cocaine seizures, a decrease in the number of offenses and drug related deaths, and a decrease in the number of clients entering treatment.

“Play Hard, Shirk Hard? The Effect of Bar Hours Regulation on Absence and Health” presented by Colin P. Green (Lancaster University) examined two recent policy changes in England and Spain that increased and decreased opening hours, respectively, in a quasi-natural experiment. Green provided evidence that later bar opening hours increased work absenteeism and led to declining individual health. Tuomas Pekkarinen (Aalto University and IZA) estimated in “Cross-Border Health and Productivity Effects of Alcohol Policies” the effect of a large cut in the Finnish alcohol tax on mortality, work absenteeism, and alcohol related illnesses in bordering Sweden. Although unable to find significance in alcohol hospitalizations, the differences-in-differences strategy found an increase in absenteeism in Northern Sweden of 5 percent for males and 13 percent for females – a significant externality from Finnish legislation.

In a session on recidivism, Benjamin Hansen (University of Oregon) presented his

preliminary findings on “Punishment and Recidivism in Drunk Driving.” After testing the effects of harsher punishments on deterring driving under the influence, quasi-experimental evidence suggests that stricter policies and penalties surrounding drunk driving negatively affect recidivism. In her paper entitled “Serving Time or Serving the Community? Exploiting a Policy Reform to Assess the Causal Effects of Community Service on Income, Social Benefit Dependency and Recidivism,” Signe Andersen (Rockwool Foundation Research Unit) found most importantly that community-service participants fare better for long-term social benefit dependency and income. Plus, offenders of violent crimes and misdemeanors have a lower rate of recidivism if they participate in community-service.

Stephen Machin (University College of London and IZA) delivered this year’s keynote



Participants of the Annual Meeting on the Economics of Risky Behaviors

address, considering possible connections between terror attacks and hate crimes. He uses existing data on hate crime incidence before and after the 7/7 and 9/11 terrorist attacks in four areas of England to assess the characteristics of hate crime differences. He finds there were big increases (20 to 30 percent), which occurred almost immediately in the wake of the two terror attacks. Also, although the increase tapered off in later years, the hate crime incidence against Asians and Arabs was higher than initially, suggesting a longer run effect. This increase in hate crimes points to an additional indirect social cost of terrorist activity. Machin concludes that if attitudes towards ethnic groups like British Muslims are changed by attacks, then the findings fit in with the proposition that ‘attitudinal shocks’ matter as an element of hate crimes.

In “Spillover Effects of Drug Safety Warnings on Health Behavior,” N. Meltem Daysal

(Tilburg University and IZA) examined the impact of new medical information on drug safety on preventive health behavior. The authors found a spillover effect on preventive behavior driven almost entirely by those with a high-school degree or less. Elaine Kelly (Institute for Fiscal Studies, London) presented “Policing Cannabis and Drug Related Hospital Admissions: Evidence from Administrative Records,” in which a panel data set constructed from hospital records was used to estimate the short and long run effects of the de-penalization policy of small quantities of cannabis introduced in Lambeth. The authors found significant negative characteristics related to hospital visits for other drugs in the area, and proposed exercising caution to using a liberal drug policy even in the light of potential benefits. Marcello Sartarelli (IoE, University of London) explored education and risk in “Do Performance Targets Affect Risky Behavior? Evidence from Discontinuities in Test Scores in England.” Presenting evidence that having test performance goals in education has a negative affect on proxies for risky behavior, he also explored the policy implications.

Alfonso Sousa-Poza (University of Hohenheim and IZA) found in “Maternal Employment and Child Obesity -- A European Perspective” – unlike research from the U.S. – no evidence for

maternal employment to have a negative effect on child obesity, diet, or physical activity. Daniel I. Rees (CU Denver and IZA) presented “Emotional Cues and Low Birth Weight: Evidence from the Super Bowl” and explained how data from the National Vital Statistics System for the period from 1969 through 2004 showed an impact of prenatal exposure to the Super Bowl on birth weight. According to the study, winning the Super Bowl is correlated with an increased risk of low birth weight; also, it is associated with increases in maternal tobacco and alcohol use.

Underlining the paramount importance of this line of research in economics, in other social sciences, and in society, the organizers pledged to continue this highly successful conference series.

► [www.iza.org/link/AMERB2012](http://www.iza.org/link/AMERB2012)



# High-Quality Training for Junior Labor Economists: 15th Anniversary of the IZA Summer School

The IZA European Summer School in Labor Economics is a very well-known phenomenon. Ask any labor economist and there is a good chance they have participated as a student, sent their Ph.D. student to the Summer School, or even lectured themselves at this event. Since the start of the series in 1998, the IZA Summer School has gained the reputation of being *the* Summer School in Labor Economics, providing a unique opportunity to junior scholars to interact with each other and with more renowned labor economists. This year, the IZA European Summer School in Labor Economics celebrates its 15th anniversary.

*"The IZA Summer School gave me a unique experience of getting to know both many young researchers of my peer group from many different countries and two senior researchers. Unlike many conferences that I attended before finishing my Ph.D., the IZA Summer School allowed a more profound interaction."*

*Patrick A. Puhani (Professor, Leibniz University of Hannover, Participant of the 1st IZA Summer School)*



from universities in more than 20 different countries. Almost half of the participants are female. Many alumni have pursued successful careers, both in academia and in international organizations, while forming a particularly committed part of the IZA network. Drawing on findings from a recent study co-authored by former Summer School organizer *Ana Rute Cardoso* (A. Cardoso, P. Guimaraes, K. F. Zimmermann: "Comparing the Early Research Performance of PhD Graduates in Labor Economics in Europe and the USA", *Scientometrics*, 84 (2010), 621-637) it can be shown that former participants have significantly more (quality-adjusted) publications than non-participants.

*"I thoroughly enjoyed the 2nd IZA Summer School in 1999. I found the whole atmosphere extremely stimulating and met lots of people that I am still in close contact with. One of them is now a co-author."*

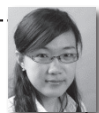
*Sascha O. Becker (Professor, University of Warwick, Participant of the 2nd IZA Summer School)*



topic was given by Winkelmann in his lectures "Econometric Advances in Discrete Data Modeling, with Applications to Health and Well-being," providing the students with a practical toolkit for doing applied research in the area of health and well-being. During the afternoon sessions the students themselves presented their work, either in a contributed or in a poster session.

*"I really enjoyed the lectures, and the interactions with peers and professors. We got the opportunity to talk about our works and research ideas in a very free environment."*

*Ying Yang (Ph.D. student, Tilburg University, Participant of the 15th IZA Summer School)*



By now, over 500 students have participated in the Summer School, which takes place annually at the conference center of Deutsche Post at the Ammersee Lake (near Munich, Germany). Every year the number of applications has been rising and the acceptance rate is nowadays around 25 percent. The current group of IZA Summer School alumni is a colorful international blend including participants with more than 40 different nationalities

On April 23-29, 2012, the 15th IZA Summer School took place. This year, 37 students of 15 different nationalities attended the Summer School and were lectured by *Andrew J. Oswald* (IZA and University of Warwick) and *Rainer Winkelmann* (University of Zurich and IZA). Oswald's lectures were on "The Economics of Happiness and Health", where he discussed among other things the basics of the happiness literature and how happiness relates to more objective measures of health. A more applied econometrics view to this

This year's Summer School also welcomed advisory board member *Uwe Sunde* (University of Munich and IZA). Four major scientific organizations support the IZA Summer School through an Advisory Committee: the Centre for Economic Policy Research (CEPR), the European Economic Association (EEA), the European Association of Labour Economists (EALE), and the European Society for Population Economics (ESPE). Every year, at least one representative of these organizations has attended the event to meet and interact with the students. This year, Uwe Sunde represented EALE.

*"After talking to many people that recommended going there, I had quite high hopes about this but you still managed to exceed my expectations!"*

*Arna Vardardottir (Ph.D. student, Stockholm School of Economics, Participant of the 15th IZA Summer School)*



Participants of the 2012 IZA European Summer School

In light of the festive character of this 15th anniversary, IZA Director *Klaus F. Zimmermann* attended the event and gave a presentation about 15 years of IZA Summer School. He stressed that this event has always been one of the most important parts of IZA's mission to create intensive interactions between junior researchers and well-established labor economists.

## Journal of Population Economics Celebrates 25 Years

This year marks the 25th anniversary of the *Journal of Population Economics*. Since 1988, the Journal has published research that has advanced our knowledge and thinking in the field of population economics. The Journal's reputation has evolved substantially and it is now established as one of the most reputable outlets in economics and demography. As the journal of the European Society for Population Economics (ESPE), co-founded by IZA-Director *Klaus F. Zimmermann* in 1988, the *Journal of Population Economics* is hosted by IZA and is traditionally also strongly supported by the IZA network.

Over the years, the number of submissions to the Journal has consistently grown and now exceeds 400 submissions per year. The Journal currently publishes about 60 articles and 1,500 pages per year. The accepted articles are now published in less than a year. Concurrently with its rising prestige, the Journal's impact factor has been consistently increasing over time. In 2010 the two-year impact factor was 0.948, ranking the Journal 116th among 305 journals listed in the Social Sciences Citation Index (SSCI). As of June 2012, the RePEc aggregate ranking places the Journal 65th out of 1,093 journals listed in the database.



During the ESPE Annual Congress which took place in Berne, Switzerland, in June 2012, the anniversary was celebrated. Representing Springer Verlag, publisher of the Journal, *Katharina Wetzel-Vandai* honored Editor-in-Chief *Klaus F. Zimmermann* and editorial board member *Erdal Tekin* for their great success and continued commitment.

*"...has played a major role in the growth and development of the field."*

*Francine D. Blau, Cornell University and IZA*



*"...very useful for people working in population economics and related fields."*

*Gary S. Becker, University of Chicago and IZA*



*"...its already substantial influence can only increase as economists address the big issues of immigration, fertility, and the changing family structure and the changing role of women."*

*James J. Heckman, University of Chicago and IZA*



## Compact Course for FU Berlin Students: "Skilled Labor Shortage – Illusion or Challenge?"

At the occasion of his 10th anniversary as honorary professor at the Free University of Berlin, IZA Director *Klaus F. Zimmermann* held his annual compact course for FU graduate students at IZA in Bonn. This compact course, which has traditionally been offered by the honorary professor each spring semester since 2002, deals with topical research questions related to social and labor market policies. The two-day course in early June gave students interested in economic policy issues an opportunity to present their course work on "Skilled Labor Shortage – Illusion or Challenge?" in a workshop-like environment.

A broad range of relevant aspects was analyzed from the perspective of economics and with regard to labor market policy implications. During the first session on demographic change and recent forecasts of employment trends in Germany, it became clear that the impending shrinkage of the workforce can no longer be stopped but at best be slowed down and its consequences mitigated if active policy measures are taken in time.

The students' presentations showed that decision makers in politics, business and society have the toolkit at hand in order to make the necessary adjustments to cushion the impact of demographic change. Among the potential preventive and re-

medial actions discussed by the young economists were the expansion of weekly and lifetime working hours, various ways to raise female labor market participation, and options to promote and control skilled labor immigration based on economic needs.

A hotly debated topic was how to extend people's working lives and how to create a work environment that meets the needs of older workers. While raising female employment was found to have an enormous potential, it was emphasized that actively

ed in the public debate, was discussed as well. IZA also provided the students with insights into the methodology applied by IZA researchers to simulate future trends in labor supply and demand.

Apart from economic considerations, the students also looked into the political implications of an aging society, which is characterized by a shift of power from the young to the old. At the end of the successful compact course, the international dimension of demographic change was discussed. Since a sustainable strategy to



Participants of the FU Berlin Compact Course at IZA

organized immigration of foreign specialists will remain necessary at the same time. The option to expand weekly working hours, which has so far been neglect-

deal with skilled labor shortages must also take into account the interests of skilled migrants' home countries, it requires cooperation on a global scale.

## IZA Director Zimmermann: European Union Should Create Financial Incentives for Sustainable Reforms and Job Growth

By 2020, the European Union wants to create 18 million new jobs. Details were discussed at the EU Job and Growth Summit on June 28-29 in Brussels. Prior to the meeting, IZA Director *Klaus F. Zimmermann* made some concrete proposals for further steps to be taken, including stricter control mechanisms for balanced national bud-

gets, as well as financial incentives for employment growth.

In an op-ed for the *Financial Times Deutschland* (June 26, 2012) Zimmermann calls for “providing incentives for innovation in future-oriented sectors, such as energy, health, mobility and information technolo-

gies.” He also suggests financial rewards for progress in achieving greater labor market flexibility, facilitating career entry for younger workers, retaining older workers longer, and raising women’s participation rates. Zimmermann argues that 80 billion euros in unspent money from the EU Structural Funds could be used for this purpose.

## European Society Leaders Call for a Vibrant Europe: Declaration Proposes Action Plan



Jo Ritzen

In April 2012, a high-ranking group of representatives from the fields of European politics, academics, and multinational firms called for action to revitalize Europe and its socioeco-

nomie structures. IZA Director *Klaus F. Zimmermann* was among the first signatories of a joint declaration of the “Vibrant Europe Forum (VEF)” which was initiated by IZA Senior Advisor *Jo Ritzen*, former Dutch minister and vice-president of the World Bank.

The VEF aims at creating building blocks for an implementable vision for Europe

most concretely for the period 2015-2020 with a perspective towards 2050. Labor market and social policies will be crucial to turn an increasingly weary Europe into a “vibrant” Europe. Further information on the Vibrant Europe Forum, its complete declaration and signatories are available on the initiative’s webpages.

► <http://vef.merit.unu.edu/>

## Future Growth Is Female: IZA Supports Women Economists

At the occasion of the “women&work congress” held in Bonn in May 2012, IZA Director *Klaus F. Zimmermann* published a paper entitled “Future Growth Is Female” in the IZA Standpunkte series which stressed that the demographic challenge for the German labor market can only be met if both female labor market participation and fertility are increased. The key to achieving this dual goal is improving the availability and quality of childcare.

“The fact that many women are employed below their qualifications has a negative impact on economic growth. This is why IZA has always called for focusing the various family benefits in Germany, which amount to 200 billion euros annually, on providing childcare at early ages in order to substantially improve women’s career prospects,” said Zimmermann. IZA had an exhibition booth at the congress to inform the participants about relevant

IZA activities and publications including a number of IZA Discussion Papers on related topics.

IZA also actively promotes women’s careers in research, for example through a recent workshop entitled “Women and Research.” The share of women among IZA’s research staff and Summer School participants is also traditionally high.

## Deutsche Post DHL’s 2012 Corporate Responsibility Day: Zimmermann Calls for Policy Agenda to Address Demographic Change

How can we improve collaboration between businesses, politics and non-governmental organizations in view of sustainable goals? Is capitalism an obsolete model? What consequence does the demographic shift have on our future world of employ-

ment? These and other issues were discussed by leading experts from business, politics and society, including IZA Director *Klaus F. Zimmermann*, at the Corporate Responsibility Day organized by Deutsche Post DHL.

Zimmermann highlighted the manifold demographic challenges from an academic perspective and called for a comprehensive policy agenda to address the labor market needs of an aging society.

## Jo Ritzen and Hiwon Yoon Receive Prestigious Book Prize

The Korean translation by *Hiwon Yoon* (Seoul National University) of the book “A Chance for European Universities” authored by *Jo Ritzen* (IZA and Maastricht University) and published in Korean by Seoul National University Press has been selected as the best international book of

2011 by the Academy of Sciences of Korea under its program “Supporting the selection and distribution of outstanding books”. This most privileged award in Korea carries a certificate and a cash prize equivalent to 10,000 euros.

Jo Ritzen

*A Chance for European Universities*

Amsterdam University Press 2010





## Growth: The Rediscovered Formula for Success

Ever since the Club of Rome report on the “Limits to Growth” forty years ago sparked a global debate on how to achieve “wealth without growth,” pundits have warned not to get caught in the “growth trap” and called for replacing the “blind ideology of growth” with “post-growth” or “alternative growth.”

While in the 1970s social indicators were hailed as an end to the obsession with GDP, today’s debates have shifted towards measuring a society’s success in terms of happiness, life satisfaction and well-being. NGOs like Attac sum it up this way: “Creating a future economy without growth is the task of the century.”

In the face of severe and persistent economic crises, this kind of debate seems adrift from reality. Despite sleek new research programs and smart scholarly analyses, a sustainable formula for reshaping the world’s societies and economies is yet to be found.

Instead, weak growth, record unemployment and growing public debt in the majority of developed countries have put the search for a “new” growth strategy once again at the top of the global agenda. Are we about to witness another paradigm shift?

In any case, it is a good sign that growth has reappeared as a guiding theme in economic policy debates. Without growth, the western industrial nations would lose wealth, emerging economies would fall behind again, economic disparities would continue to exist, full employment would become an illusion, social tensions and distributional conflicts would spread around the world, and the key challenges for the global community would go untackled.

Any serious debate on growth has to revolve around the creation of jobs. The European Union aims at raising the employment rate among the 20 to 64-year-olds to 75 percent by 2020, which would require 18 million new jobs.

But just going back to the old recipes won’t do the trick. As a crisis response mechanism, automatic stabilizers must replace flash-in-the-pan government spending programs, which have failed in two respects: Public budgets have dried up while at the same time unemployment has skyrocketed. The recent proposals to fight the current debt crisis with more debt would only put us in a deeper hole.

**Any serious debate on growth has to revolve around the creation of jobs.**

The creation of sustainable jobs requires structural reforms that boost competitiveness – no matter how painful and unpopular they might be. Flexible labor markets lead to more growth. Particularly in the service sector, the growth potential is still unlimited given the ever-rising demand for information, education, security, health, leisure, care and other services in all areas of life. But new growth also requires strengthening manufacturing instead of deindustrialization, as well as enhanced efforts in education, research and innovation.

Rather than invoking the “limits to growth,” what we should refocus on is how to realize the benefits from growth.




Klaus F. Zimmermann



Institute for the Study of Labor



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