



I Z A

COMPACT

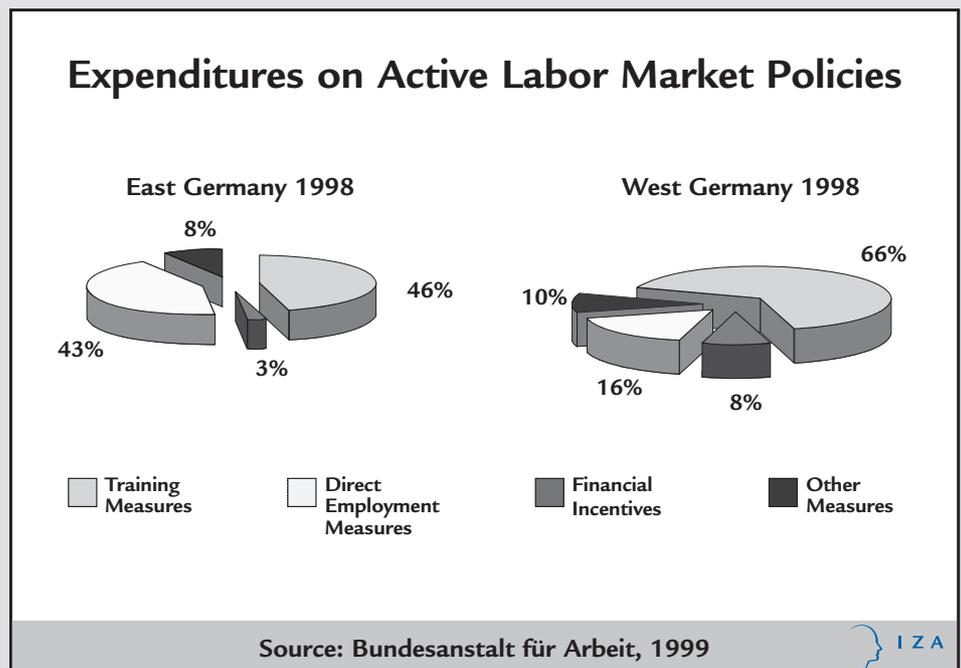
CONSIDERING THE FUTURE OF LABOR

Evaluation of Labor Market Policy Programs – Germany and Europe Must Catch Up With the U.S.

Continuously high unemployment is without a doubt the central economic and social problem of many developed economies. Since it is such a persistent phenomenon, unemployment can hardly be satisfactorily explained as the result of cyclical fluctuations alone. To a large extent it is a structural problem instead. Since unemployment predominantly affects low-skilled workers or those with outdated skills, economists often claim that in Europe wage differentials are too small and professional qualifications are insufficient.

A host of economic policies to fight unemployment directly targets these problem groups of low-skilled or inadequately skilled workers, without changing the organization of the educational sector and the labor market or the social security system as a whole. For decades now, government-sponsored training programs, assistance for job seekers, wage subsidies for employees or employers, as well as job creation in the public sector have been important elements of labor market policy in all developed economies.

In Germany, for instance, substantial financial resources are devoted to the promotion of employment. The term *Active Labor Market Policy* (ALMP) refers to all those programs by the Federal and State Ministries of Labor and their affiliated administrative institutions – particularly the *Bundesanstalt für Arbeit* (Federal Employment Service) – which contain a discretionary element. In 1998, total spending on ALMP amounted to more than DM 25 billion. While in West Germany the promotion of human capital formation accounted for about two-thirds of all programs – both in terms of funding and participants – almost half of the disposable budget in the new states in East Germany was spent on programs aimed directly at job creation (see figure 1).



These government interventions put a considerable strain on the public budgets: Funds spend on labor market policies are no longer available for other government activities.

That these programs will succeed, however, is by no means guaranteed. On the contrary, the only way to achieve success is to fight the actual causes of the problem. These causes, in turn, are manifold and vary across problem groups, regions and time. If, for example, unemployed workers are lacking the necessary skills, then a job creation program is hardly going to reintegrate them successfully into the labor market. Against this background, it is first of all questionable whether the selected combination of measures is suitable for the given situation. To achieve "some" success, by the way, can never be enough: Labor market policy interventions are usually associated with enormous costs and can only be socially justified if the effects are equally

substantial. Such a justification requires that the taxpayer be given a reliable cost-benefit estimate based on state-of-the-art methods.

It should go without saying that labor market policy measures have to be targeted and success-oriented. At present, however, this is frequently not the case. Both an adequate definition of the criteria for success and a methodologically acceptable evaluation strategy are often lacking. However, minimum requirements for targeted and achievement-oriented action are: setting a target, defining a success criterion, and, most importantly, creating a comparison situation that will sufficiently describe what would have happened without the intervention that is being analyzed: In order to determine the impact of a program, it is important to know how the participants would have fared without taking part in the training program. This comparison is unobservable, however, because an indi-

vidual can never be observed in two different states at the same time.

A hypothetical statement about what would have happened without the program is often referred to as the *counterfactual situation*. This situation can never be measured. Rather an estimate must be constructed on the basis of the available information. To this end, it is necessary to form a comparison group of individuals that did not participate in the program. This group, however, must not be composed as a random sample of the target group, since the participants themselves do not form a random sample but a very specific part of the target group.

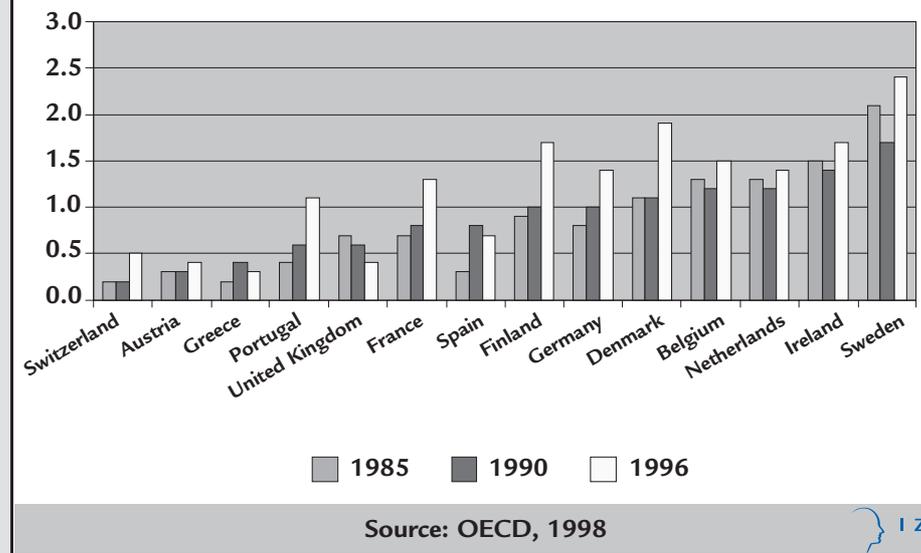
Constructing a counterfactual situation for the implementation of labor market policy measures is a considerable intellectual challenge. In most cases, administrative and economic control mechanisms are absolutely inappropriate for this purpose. IZA has therefore established a special research program for the "Evaluation of Labor Market Policies and Projects" in order to develop concrete policy advice in this field.

International Evaluation Research: The State of Affairs

Economists have pointed out for quite some time that Germany and Europe have a deficit regarding the evaluation of various policy measures. A brief look across the Atlantic Ocean suffices to reveal the basic differences: A distrust deeply rooted in the North American society toward all government action, combined with a strong emphasis on the principle of individual responsibility, renders it virtually impossible to implement labor market programs without an evaluation by independent experts. As a consequence, the U.S. government has long provided substantial funds for the scientific evaluation of labor market policies. This approach is rarely found in continental European societies. In Germany, for example, the government usually conducts both the interventions and their evaluation. Is the government afraid to openly ask whether its labor market policies are effective and to let neutral experts find the answer?

Public expenditures for labor market programs have been increasing steadily over the past years (relative to GDP, see figure 2) in many European countries. There have, of course, already been numerous efforts to assess the impact of labor market policies scientifically. But a thorough analysis of past experience shows that this field of research is still in its infancy.

Expenditures on ALMP in Europe Percent of GDP



The available data and study designs often fail to meet the demands of advanced econometric methods. Most strikingly, social experiments are practically non-existent in Europe, even though experiments contributed a large share of the most reliable empirical evidence on the effectiveness of North American labor market programs.

In the United States, for instance, the Job Training Partnership Act (JTPA) – the most important training program of the 1980s – has been evaluated by means of a large-scale social experiment. In addition, improved non-experimental techniques have been developed systematically. Apart from such advanced statistical methods, more useful data sets have also become available. Yet in the United States, social experiments retain their dominant conceptual role as the evaluation strategy best suited to yield solid and credible results – an insight which has yet to make its way into the German or European "evaluation culture."

Previous Empirical Evidence

In Europe, nonetheless, numerous evaluation studies have been offered recently which are methodologically advanced and convincing in their conceptual approach. These studies accompany the great variety of innovative attempts to improve the economic situation of participants in labor market policy programs through government intervention. To a certain extent, these activities are of a genuinely "European" nature: for example, a strong focus on labor market projects aimed at youth, an emphasis on

employment effects rather than income effects as the outcomes of interest, and a nearly complete exclusion of social experiments. Due to the serious lack of evaluation research, it is impossible at this point to draw a coherent picture of policies that work and those that are rather ineffective. Nevertheless, it seems clear that the performance of European labor market programs has so far been seen in a much too favorable light.

Existing evidence, particularly for the United States, shows that labor market policy projects – whether in the form of training programs or financial incentives to influence labor market behavior – are absolutely capable of reaching their goals under favorable circumstances. Workers who have participated in these programs often realize a higher income and better employment prospects, while the implementation costs need not be prohibitively high. Although these positive effects are usually rather moderate, they may often last for quite some time even after the end of the program. Past experience also shows that a panacea does not exist: No labor market policy can be effective across all problem groups, regions, and episodes of the business cycle.

The actual impact of each program depends on the concrete design of the project and especially on the targeted problem group. In several countries the most promising results were found for adult females, both for voluntary programs and mandatory training programs related to the welfare-to-work initiatives. How labor market programs affect adult

males has become less transparent. The general heterogeneity of the effects can be exemplified with the rather discouraging results of almost all U.S. training programs aimed at economically disadvantaged youth. It seems that there is hardly any chance to help them improve their labor market prospects once they have decided to drop out of school. There appears to be only one way to successfully improve the economic conditions of this target group: early entry into programs and intensive personal support and counseling. It remains problematic, however, to draw far-reaching conclusions from the American experience for youths in other countries. The potential of labor market programs for improving the economic situation of disadvantaged youth in Germany is unclear, for instance.

In addition, the success of labor market programs depends crucially on the participants' characteristics, especially with regard to their previous education. Typically, workers with at least a basic set of labor market skills are most likely to profit from training programs. In contrast, it is extremely difficult to conduct successful training programs for those who have little previous training at the time they enter the program. For workers without any basic qualifications, programs that are exclusively aimed at preparing them for starting out in the labor market proved to be most promising.

While these training and incentive programs at least lead to some encouraging conclusions, job creation programs must be judged much less favorably in the light of the empirical evidence. One might argue that public efforts to create additional jobs for well-defined groups of workers are certainly justified as an interim solution in times of economic crisis. Yet, it seems to be extremely difficult to design these programs in such a way as to avoid a misallocation or substantial waste of resources. The central question is: Do these programs actually create jobs, or do crowding-out effects erode such efforts entirely? The available evidence suggests that it is probably safe to conclude that public-sector job creation is not a promising approach to solving the labor market problems of the economically disadvantaged.

Agenda

It would be best for disadvantaged European workers if policymakers intensified their rather cautious efforts to find out more about the functioning of the low-wage sector, the basis for decisions made

by employees and employers in this sector, and the effectiveness of labor market policies. Decision-makers in politics and administration ought to realize that all innovative measures to improve the economic situation of European workers must be accompanied by evaluation research. First, ineffective interventions which are employed out of purely political motives, such as job creation programs implemented by politicians to boost their popularity in election years, could then be revealed as ineffective.

Second, any useful and important labor market policy can only be identified as successful through scientific evaluation. The construction of a hypothetical comparison situation, which is so essential for the evaluation of the program, cannot be accomplished by other means, such as process analysis, primitive before-and-after comparisons, or equally weak conceptual approaches. If the objective is really fostering the welfare of the problem groups in the labor market, then a scientifically sound evaluation of active labor market interventions is indispensable. Without such an evaluation by independent experts, suspicion would invariably arise that meaningful information on the actual effectiveness of an intervention is not even desired.

Currently, despite the large deficits discussed above, some first lessons can be extracted from European evaluation research. They should not be neglected in the development of future labor market policy: When discussing the design and implementation of a labor market program, we have to define first of all what form of market failure this program is meant to correct. This is, of course, not an easy task because the low-wage sector, which is of central importance in this context, has not yet been modeled satisfactorily.

But aside from all our efforts to create and evaluate targeted active labor market policies, we should not underestimate the potential of the market to stimulate employment if flexibility can be enhanced (through "less government"). Instead of a selective intervention that focuses on a certain problem group, it is always possible to redesign the social security system in combination with reforms to improve the working of the market. A strong belief in the market, along with an elimination of impediments in the labor and goods markets caused by bureaucratic red tape, has clearly brought to the Anglo-Saxon countries substantial employment growth in the low-wage sector.

For each labor market intervention policy measure, practicability and low administrative costs should be central considerations. Ultimately, even weak positive effects resulting from inexpensive programs can be extremely cost-efficient, whereas expensive large-scale programs have to bring about substantial effects in order to justify the costs. In the context of job creation programs, in particular, it is absolutely vital to include the administrative costs in all considerations. These costs are an important element of each government intervention. As far as labor market programs are concerned, administrative costs seem to increase almost exponentially with the number of the discretionary decisions to be made by different administrative offices.

It would certainly be unrealistic to expect that the achievable effect of a government-sponsored training program can exceed that of private training. Given that the duration of government programs is usually short, the impact of successful programs can only be moderate. Likewise, financial incentive programs are likely to yield effects only of a magnitude comparable to the offered incentives. It would be rather naïve to assume that a moderate wage subsidy could have a strong impact on employers' hiring decisions when the costs of hiring and training are substantial, or when the reason for the employers' reluctance to hire is the fear of not being able to lay off these additional workers again during a recession. In that case, a wage subsidy must be raised accordingly to induce a change in employer behavior.

Under the certainly realistic assumption that labor market policies will remain an important weapon in the fight against unemployment in the future, any convincing evaluation strategy has to contain the following elements: a thorough description of the program and its target group, detailed assessment and presentation of estimated costs and expected success, and, above all, the construction of a comparison situation according to widely-accepted scientific standards. This can only be accomplished through a partnership between labor market policymakers and independent researchers – a cooperation that should already be initiated during the planning phase. Within its research program on the "Evaluation of Labor Market Policies and Projects", lead by IZA research director *Christoph M. Schmidt* (University of Heidelberg), IZA will continue to place considerable emphasis on this topic.

IZA Fellow James J. Heckman wins Nobel Prize 2000 in Economics

IZA Research Fellow *James J. Heckman* (University of Chicago, US) and *Daniel L. McFadden* (University of California, Berkeley, US) were awarded this year's Nobel Prize in Economics for their outstanding work in the field of microeconomics. IZA congratulates them both.

The Royal Swedish Academy of Sciences based its decision to give the award to Heckman on his "development of theory and methods for analyzing selective samples." Heckman's most important scientific achievements have contributed a great deal to the progress in evaluation research. The difficult task of researchers in this area is to analyze the (in)effectiveness of labor market policies by comparing the participants' performance with a control group that did not take part in the program (see preceding article, this issue).

In contrast to the United States, very few social experiments have been conducted in Europe. The only alternative is a non-experimental study. These studies are usually *retrospective*: Rather than accompanying the program scientifically from the very beginning, they analyze existing data *ex post*. But how can we solve the potential problem of lacking comparability between participants and control group?

Heckman's contribution is based on the idea that selective samples do not result from a chaotic process but from factors that systematically influence the collection of data or the behavior of individuals. These can be either observable (such as age, education, etc.) or unobservable (e.g. motivation). The latter phenomenon is also referred to as *unobservable heterogeneity*. James Heckman contributed substantially to the development of statistical methods that offer a way out of this dilemma. Basically, he uses observable characteristics of participants and

non-participants and combines them with relevant information about the method by which participants are chosen. In recent work, Heckman rediscovered a statistical method developed in the 1970s, the so-called matching method, and applied it to evaluation studies. In this method, the researcher uses data from a large enough group of non-participants to construct a comparison group that matches the participants in most or even all relevant *observable* characteristics. Provided that this information about the individuals is detailed enough a suitable comparison group is created in retrospect. This group is similar to a randomized control group as attributes are balanced across both participant and non-participant samples. According to Heckman, the matching method would ideally elevate a retrospective study to the standard of a social experiment.

An alternative non-experimental method, which Heckman also analyzed with regard to its potential effectiveness in evaluation research, is referred to as *instrument variable estimation*. This approach takes into account that a certain observable quantity in a data set may induce people to participate in the program but has no impact on their labor market prospects (the effect of the program). In practice, however, an appropriate instrument is often hard to find. Whenever this is possible, we speak of a *natural experiment*.

Heckman's most famous contribution to the solution of the evaluation problem deals directly with participation decisions and is known as the *control function approach*. This approach assumes that besides unobservable variables other observable variables have a significant impact on the decision to participate in the program. If an individual takes part in

the program even though his characteristics seem to speak against participation, then this fact alone contains important information that can be used statistically. It is then possible to calculate a correction factor, which counteracts the lacking representativeness of the participants.



Heckman's early works in this area date back about a quarter of a century. They have had immense influence on the practice of social science. The so-called *Heckman correction* has been applied in numerous empirical studies, not only in evaluation research but also in many other methodologically related fields. In addition, his contribution sparked an ongoing debate on methodology, which has been enriched by Heckman's own contributions. The fact that he received the Nobel Prize for his ground-breaking work seems more than logical and, if you will, overdue. IZA is highly committed to Heckman's approach and feels honored to have him as a Research Fellow.



IZA-Symposium in Honor of James J. Heckman

On December 15, 2000, the Promostudio-IZA Symposium "Human Capital in the New Economy. Global Policies for the Development of Human Capital: A Symposium in Honor of James J. Heckman" took place in Trieste honoring the scientific achievement of IZA Research Fellow *James J. Heckman* (University of Chicago), who is this year's Nobel laureate in economics. In his keynote presentation, Heckman discussed the whole array of policies that have been proposed to promote human capital in response to the continuously growing demand for skilled

labor that has been experienced around the world. He dealt not only with policies to achieve educational attainment, but also with tax policies, job training and active labor market programs, as well as policies focusing on the target group of disadvantaged youth. Heckman's contribution demonstrated that the ultimate objective of research in this area should be an integration of the various government policies into a unified life cycle framework. Representing IZA, the institute's program directors *Torben M. Andersen* (University of Aarhus), *Dennis J. Snow-*

er (Birkbeck College, London) and *Christoph M. Schmidt* (University of Heidelberg) gave presentations during the symposium. Andersen addressed the process of European integration with particular emphasis on its effect on labor markets. Snower discussed the nexus of ongoing drastic organizational change in enterprises and markets and an appropriate human capital policy. Finally, Christoph M. Schmidt surveyed recent studies on the impact and cost-effectiveness of measures of Active Labor Market Policy across Europe.

Labor Migration and Refugee Flows from Developing Countries – What Factors Determine Immigration to Germany?

The largest share of migration movements worldwide takes place within or between developing countries. Only relatively few people migrate from the Third World to industrial nations. The countries of the European Union are generally opposed to immigration from Third World regions. Over the past decades, almost all EU members have continuously tightened their restrictions on immigration. At the same time, they hope to promote the development of the so-called “Third World” through closer economic and political ties in order to reduce existing incentives for migration.

Poverty, political conflicts, destruction of the environment – the primary reasons for migration in the “Third World” are obvious. Considering the much better living conditions in the industrial nations, one even has to wonder why the pressure of immigration is relatively small. There are several other open questions concerning international migration movements. *Michael Vogler* (IZA), dealt with this topic in the most extensive empirical study in this field so far (*Michael Vogler, Determinanten der Zuwanderung aus Entwicklungsländern, Baden Baden 2000, ISBN 3-7890-6498-X*). His analysis of migration movements from 86 African and Asian nations to Germany also focuses on the correlation between development and migration.

Economic and Political Reasons for Migration

With regard to the individual decision to migrate, a clear and empirically supported correlation can be derived from economic theory. A migration occurs when anticipated income in the receiving region exceeds the sum of income in the native country and migration costs. According to the study, there were in fact more migration movements the larger the difference between per capita income in Germany and the sending countries under study. There is also a positive influence of the geographical distance between Germany and the sending countries, which serves as a substitute measure for migration costs. For lack of information on unemployment in the developing countries, labor market conditions were, as is common practice in other studies, derived from GDP growth. As expected, faster economic growth meant less migrants to Germany.

As far as the political motives for migration are concerned, it appeared that the influx of asylum seekers was larger the more the country was subjected to terror.

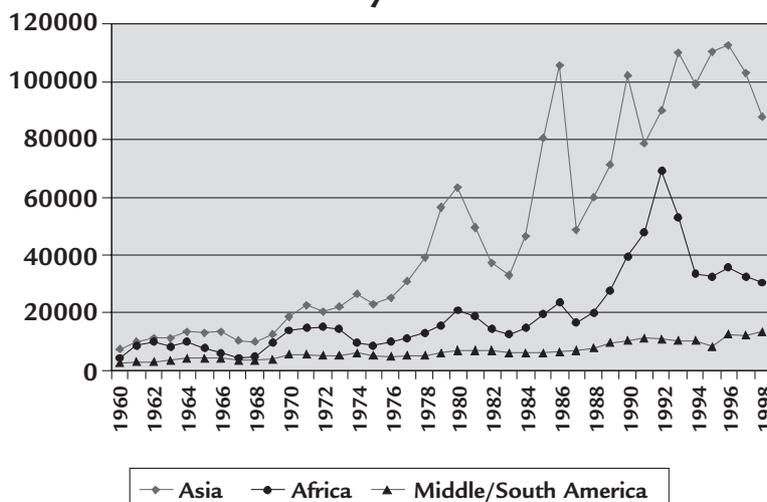
Interestingly, the overall influx to Germany was positively dependent on political liberties and civil rights in the respective developing country. More freedom obviously means more freedom to migrate, too. The same correlation was observed in Europe after the fall of the iron curtain. This is due to the fact that, on the one hand, caused by an improved political situation less people want to leave the country. On the other hand, however, the reduction of political impediments to migration actually gives more people the opportunity to migrate.

The analysis of macrodata cannot lead to a conclusion on whether the reasons for

that migration is not possible as long as it is too costly. A rising standard of living eventually makes migration possible.

However, there are other effects of economic development on migration. During the process of industrialization, declining death rates result in faster population growth. In principle, this means that there are more potential migrants. On the other hand, the analysis of the dataset showed that a faster growing labor force does not necessarily lead to more migration to Germany. The question is rather whether the labor market is capable of absorbing the increased labor supply.

Immigration from Developing Countries to Germany 1960–1998



Source: Statistisches Bundesamt



immigration to Germany are primarily economic or political. Assuming the availability of relevant information, an analysis of individual data could at best account for the fact that the decision to migrate is always based on several components. For example, a victim of political persecution might decide to leave his country and then choose his destination on the basis of economic aspects.

Development and Migration

For the first time, it was possible to conduct a detailed empirical analysis of the correlation between progress in development in the “Third World” and the resulting migration flows. Starting with low wage levels, an increase in per capita income initially causes more immigration to Germany. This seems to contradict the economic model described earlier. Still, this effect can be explained by the fact

Development also causes social change. Technological progress makes workers in rural areas redundant, while firms in metropolitan areas attract more workers. Apparently, a larger share of urban population in a developing country leads to more migration to Germany. This correlation is due to the generally better mobility of the population, better transferability of human capital, and better availability of information about migration in urban areas. However, the study found that progress in information technology and traffic infrastructure in general had no influence on immigration to Germany during the last decades.

Undoubtedly, uncertainty about the process of migration and the receiving region play an important role for a migration decision. So-called network effects lower the risks of migration: Immi-

grants send information to their home countries and thus make migration and assimilation in the foreign country easier for future migrants. It is even likely that network effects keep a migration process going even though its original causes are no longer existent. According to the analysis of the available data, the number of all people who came to Germany from a certain developing country had a positive influence on further immigration from the same country.

Long-Term Perspective

In view of the correlations shown above, it is to be expected that development progress in the "Third World" – resulting in rising wages, labor market problems caused by an increase in population, and social changes in general – will lead to higher immigration pressure in Germany. Evolving and already existent networks may even add to this pressure. The industrial nations' intention to promote development by closer economic and political relations does not lead to the expected decrease in migration movements but instead to more migration.

Despite these mostly unwelcome short-term effects, development is the only possibility to lower migration incentives over the long term. An alignment of living con-

ditions would accelerate this process, but it may not be necessary at all. In addition to monetary and non-monetary costs of migration, the analysis of the data suggests that there is a general preference for the home country. For instance, income or the resulting consumption are evaluated higher in sending than in receiving countries.

The short-term and long-term correlation between development and migration has also been found in studies on historical migration movements: Industrialization in Europe led to enormous migration flows to the "New World" despite rapidly increasing wages. The peak of this migration wave was only reached after about 50 years. This helps to understand what "long-term" means in this context. These migration flows declined only after living conditions had reached almost equal levels.

Migration and Development Policies

The principle of national sovereignty basically gives the nations free reign in the field of immigration policy. It seems that every government can effectively control immigration by regulating the influx or by imposing legal restrictions on employment opportunities. Statistics show that restrictive measures in Ger-

many in 1987 and 1993 had a strong impact on the influx of immigrants. The detailed analysis of the dataset also showed an increase in migration movements in 1991. This can probably be attributed to the discontinuation of a regulation that prohibited asylum seekers from working during their first five years in the country.

It is clear that an institutional limitation of migration flows only treats the symptoms. These measures also cause people to circumvent the restrictions in various ways, for example through increased illegal migration, which cause unwelcome effects themselves. Therefore, an attempt to eliminate the causes of migration by promoting development is the better approach, not only with regard to humanitarian issues. Closer trade relations and direct investment are assumed to have the largest potential. Despite numerous declarations of intent, however, protectionism is still too strong in industrial nations. Direct investment is often criticized in practice, too, since firms are accused of shifting jobs abroad. The instrument of development aid, preferred by the EU, often fails to meet the demands of the market and can never reach effective proportions. It is time to give development aid new momentum.



Money isn't Everything – Skilled Workers and Labor Market Turnover in the UK. The Case of National Health Service (NHS) Nursing

An appreciable percentage of the labor force change jobs each year. The increase in temporary employment and use of fixed term contracts has meant that young workers, in particular, change jobs relatively frequently. For some sectors, typically those employing low paid, low skilled workers, the employment turnover is also relatively high. Table 1 presents the annual separation rates for selected OECD countries during the 1980s and 1990s. Most countries have experienced an increase in labor mobility over this period.

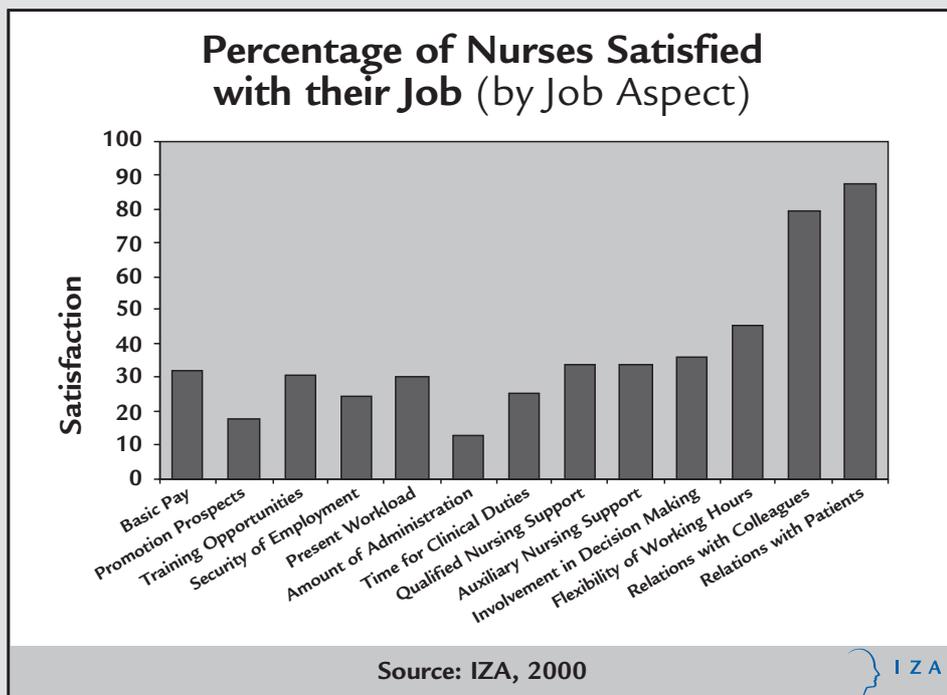
Workers move between jobs for a variety of reasons. Fluctuations in total employment over time, the growth of some industrial sectors and the decline of others, the aging of the labor force, organizational change, technological advance and individuals' personal circumstances all impact on the movement of labor between enterprises. A high rate of labor turnover has both its advantages and disadvantages. The mobility of staff in and out of establishments or sectors is bene-

Estimated Separation Rates by Country

Country	Layoffs and Quits (percent of total employment)	
	Through 1980s	Through 1990s
France	3.2	5.9
Germany	1.6	4.3
Italy	1.5	2.7
Netherlands	3.4	2.5
UK	4.4	4.4
Japan	1.9	2.4
US	5.1	4.0

Source: OECD Employment Outlook, July 1997





employees such as teachers, police and social workers, with the former fairing badly. A series of special bonuses have been created to try to retain nurses within particular geographical regions where shortages are most severe and most importantly, to keep nurses within the NHS.

IZA research indicates however that simply increasing wages might not always be effective enough (see Michael A. Shields/Melanie E. Ward, *Improving Nurse Retention in the British National Health Service: The Impact of Job Satisfaction on Intentions to Quit*, IZA Discussion Paper No. 118). Results of this study, which combines economics and psychology to investigate the causes of labor market behavior, reveal that, for the NHS nursing profession, low job satisfaction is the single most important cause of nurses' intentions to quit. Those individuals reporting to be very dissatisfied with their job were 65% more likely to want to quit their job, this effect being greater than the attraction of outside opportunities (either labor or non-labor market related). Results based on nurses' satisfaction with respect to thirteen aspects of their job outline a demoralized profession (see table 2). Less than 50% of nurses report to be satisfied in 11 of 13 job aspects.

The conclusion of this work is that policy focused exclusively on higher pay will not always be most successful in solving problems of staff retention. For the NHS nursing profession, a broader focus on improving job satisfaction seems more appropriate, with special emphasis being placed on those most vulnerable to low levels of job satisfaction, such as the young. Successful policy initiatives, focused on the improvement of overall job satisfaction where estimated by IZA research to reduce nurse turnover by over 36,000 nurses in the next three years. This is equivalent to around 8% of the NHS nursing workforce, and would save the NHS up to £548 million in turnover costs. IZA continues to research the effect of pay and job satisfaction in efficient policy design.

ficial to some extent, enabling workers to maximise their career potential. Employers might however wish to ensure their capability to retain their best and most productive individuals. Where turnover involves skilled workers, the costs of replacing workers can be particularly high.

For the British NHS nursing profession, exactly how to retain its skilled nurses has developed into a serious problem. Labor turnover in the NHS currently stands at around 9% per annum for registered nurses (RGNs), but is far higher for nurses who have recently completed their training. Recent figures suggest that around 40% of nurses expect to leave the NHS within the next three years. The fact that turnover is highest for nurses under 30 years of age is particularly worrying and an important economic issue considering the average cost of £50,000 that British taxpayers pay to train a RGN. Moreover, it costs around £5,000 for a hospital trust to replace a core staff nurse.

The considerable shortage of trained nurses in NHS hospitals is the result of both a failure to attract sufficient numbers of school-leavers into the profession and the poor retention of existing qualified nurses. Estimates place the nursing shortage close to 20,000. In the worst cases, staffing shortages have caused ward and operating theatre closures. Hospitals have responded by increasingly relying upon nursing agencies and temporary nurses to meet their immediate staffing requirements, as well as recruiting directly from overseas. These trends have raised serious concerns about the quality of patient care in the NHS.

How might institutions or sectors with overly high labor market turnover best tackle problems of staff retention? The simple solution, and the most frequently pursued policy, is to increase wages. In the case of the British nursing profession, recent policy attention has focused on pay and working conditions. The pay rates of NHS nurses are typically compared with the pay of other public sector



ESSLE 2000 – CEPR and IZA again with a Grand Success of Labor Economics Symposium

The second European Summer Symposium in Labor Economics (September 26-30, 2000) was again held at the excellently situated Deutsche Post Management Center in Buch at lake Ammersee, Bavaria. The Centre for Economic Policy Research (CEPR) and IZA invited 32 participants, among them leading international experts in the field of labor eco-

nomics as well as up-and-coming young researchers, to discuss recent research findings in a relaxed atmosphere and to establish contacts for future cooperation.

Andrea Ichino (European University Institute, IZA, CEPR) presented empirical evidence on the decision of judges. He used

data from a big Italian firm, which clearly showed that most cases taken to court were judged in favor of the firm. However, his analysis found that judges are actually biased in favor of the employees, and that for many potential cases the firm decided not to go to court because the probability of losing was too high. In the second lecture Luigi Pistaferri (Stan-

ford University, CEPR) showed that anticipated wage profiles do not have an impact on the development of working hours over time, while unexpected permanent changes in the wage have a small but clearly positive impact on working hours. IZA program director *Torben M. Andersen* (University of Aarhus, IZA, CEPR) presented a clear analysis that globalization can affect low-wage workers negatively and high-wage workers positively. *Francis Kramarz* (CREST-INSEE, IZA, CEPR) provided evidence of the negative employment effects of product market regulations in the French retailing industry. *Robert Wright* (University of Stirling, IZA, CEPR) established evidence that in the UK the return to private schooling does not differ from the return to public schooling. As private schools are better than public schools, he concludes from this result that the quality of schooling has a relatively small impact on the rate of return to schooling.

IZA program director *Dennis J. Snower* (Birkbeck College, IZA, CEPR) discussed the positive impact of labor turnover costs, such as the costs of hiring, training, and firing, on employee bargaining power over their employers. *Gerard Pfann* (BIRC at Maastricht University, IZA, CEPR) showed evidence on substantial learning of employers with regard to productivity and outside opportunities of employees for a large Dutch firm that had to lay off a substantial number of employees due to financial problems. Unfortunately this did not help the firm to survive: it went bankrupt in 1996. *Rob Euwals* (IZA, CEPR) presented a method to induce the restrictions on working hours in a job, and provided evidence of these restrictions in the Dutch labor market.

Ernst Fehr (University of Zurich, IZA, CEPR) first defended the use of controlled experiments in economic science as a tool to test theories. Afterwards he showed some remarkable results of several of his experiments on the existence of the so-called "Homo Reciprocitus", who is willing to put efforts into punishing uncooperative individuals without any possibility of being rewarded for this. For economic science the existence of such behavior could have a substantial impact as it may change the predictions derived from many theories. *Donatella Gatti* (WZB) showed that increasing product market competition does not necessarily improve employment, and that it increases fluctuation in employment. *Fabrizio Zilibotti* (Stockholm University, CEPR) showed that under majority voting the welfare state guarantees the survival of the welfare state. *Pietro Garibaldi* (Bocconi University, CEPR) stated that the distinction between unemployment and non-participation is important: It leads to differences in wages for individuals who after losing their job become unem-

ployed and those who would leave the labor market.

The lecture given by *Richard Blundell* (University College London, IFS, IZA) dealt with the impact of employee subsidies for low-wage workers and some of the meth-



ods for the evaluation of this impact. He discussed a model for labor supply behavior and working hours, and using this model he predicted that the impact of the currently implemented employee subsidies will be small. *Barbara Petrongolo* (University Carlos III., Madrid, CEPR) gave a survey of the literature on matching of unemployed and vacancies, and concluded that currently used theoretical tools are accurate. *Simon Burgess* (Bristol University, IZA, CEPR) criticized the common belief that unemployment rates are mainly determined by the outflow rates, and showed in an empirical study that the inflow rates are actually more important. *Jörn-Steffen Pischke* (London School of Economics, IZA, CEPR) put forward the puzzle that in the last decades in the U.S. the returns to schooling have increased while at the same time the number of university enrollments has decreased. His explanation for these two observations is the fact that in the time period under study the income of poor families has fallen. This explains the decrease in enrollment, which in turn led to a drop in the supply of highly educated workers and thus to an increased return to schooling.

Patrick Francois (Tilburg University) argued that due to the division of tasks within the household and due to the overrepresentation of men in fulltime work, firms choose to hire women at lower wages than men. The predictions from his theoretical model are supported by U.S. data. Next, *Josef Zweimüller* (University of Zurich, IZA, CEPR) discussed an Austrian policy that extended the unemployment

benefit period in geographical areas with high unemployment and bad labor market prospects. Although this policy protected the long-term unemployed, *Zweimüller* provided evidence that the policy had a strong negative impact on the probability of leaving unemployment. *Per-Anders Edin* (Uppsala University, CEPR) analyzed the labor market prospects of refugee immigrants in Sweden resulting from the Swedish policy at the end of the 1980s to distribute immigrants more equally over the country. His main conclusion is that for immigrants it pays off to live in an enclave. *Melanie Ward* (IZA) discussed the problems in the British labor market for nurses and analyzed their job satisfaction and their intentions to quit. Finally, *Alison Booth* (University of Essex, IZA, CEPR) analyzed the differences in training investments and wages between full-time and part-time workers. According to her analysis the observed full-time male-female wage gap actually underestimates the true male-female wage gap.



Many further discussions and lectures on labor market topics rounded off this second ESSLE conference. The event once again proved to be an ideal forum for labor economists, whose discipline is often given short shrift at the larger economic conferences. ESSLE 2001 will be held at the same place from April 24-28, 2001.

SHORT REPORTS

+++ Plans for Better Evaluation of Active Labor Market Policies +++

In cooperation with the Federal Ministry of Labor (BMA), IZA hosted a workshop on October 17, 2000, entitled "Ways to a More Efficient and Effective Evaluation of Active Labor Market Policies." The following is a press statement on the workshop issued by the Federal Ministry of Labor.

"In order to improve evaluation research in the field of active labor market policies, labor market experts at research institutions are supposed to gain better access to data supplied by the Federal Employment Service (Bundesanstalt für Arbeit). This is what renowned labor market researchers and academic scientists from the Institute for Labor Market and Occupational Research (Institut für Arbeitsmarkt- und Berufsforschung) of the Federal Employment Service agreed on. They had followed an invitation by the Federal Ministry of Labor (BMA) to a workshop entitled 'Ways to a More Efficient and Effective Evaluation of Active Labor Market Policies.' The workshop participants also agreed to expand existing cooperative efforts to evaluate individual labor market policy instruments. In the future, regularly scheduled workshops will provide a forum for reports on the most important projects, as well as for thorough methodological discussions and progress reports on the accessibility of data from the Federal Employment Service. In the academic and political debates over the past months, various experts - such as the Benchmarking Group of the Alliance for Jobs (Bündnis für Arbeit) - had repeatedly voiced demands for improved evaluation research. This workshop made it possible not just to debate problems of evaluation on a theoretical level, but to implement practical steps toward better cooperation between the Institute for Labor Market and Occupational Research and other labor market researchers."



+++ IZA Discussion Paper Series: Rapidly Growing and Increasingly Popular +++

The IZA Discussion Paper Series, now including more than 200 titles, has long become a respected and influential series. IZA is delivering the series worldwide free of charge and offers free downloadable PDF-files on its website. A comprehensive search function will be added soon. Among nearly 80,000 working papers listed in RePEc (Research Papers in Economics, see <http://ideas/repec.org>), the largest

bibliographic internet database dedicated to Economics, IZA Discussion Papers have repeatedly been among the top 10 papers in terms of monthly page views. The IZA series as a whole currently ranks among the top 10 percent of all working paper series listed in RePEc.



+++ Call for Papers: "The Economics of Low Income and Low Paid Work" - 12th Summer School of the European Economic Association (EEA) - 4th IZA European Summer School in Labor Economics +++

IZA is hosting the XIIth Summer School of the European Economic Association (EEA). The event will take place in Buch at the lake of Ammersee, Bavaria, Germany, September 10-16, 2001. The objective of the Summer School is to bring together a larger number of Ph.D. students and senior researchers to study new areas in labor economics and to discuss their own research ideas with established researchers. Lecturers for the Summer School include *Juan José Dolado* (University Carlos III., Madrid) *Philippe Aghion* (Harvard University, Cambridge) and *Peter J. Sloane* (University of Aberdeen). The School is open to advanced European graduate students engaged in the preparation of a doctoral dissertation or approaching this stage. There will be room for around 30 students who will be chosen on the basis of their preparation to participate in advanced study on the subject. IZA will cover local expenses and offer a travel subsidy.

To participate, submissions should reach IZA no later than May 1, 2001. We expect admission decisions to be made around June 1, 2001. Note that participants are requested to participate in the whole meeting. All applicants must submit a CV, one letter of support from your Ph.D. supervisor and an abstract for a potential presentation of your research. Only applications from students of European universities will be considered. Those who are invited to present a paper are expected to deliver a complete paper in time for distribution among the participants. Submissions by fax or email are strongly recommended. Applications should be sent to Dr. Thomas Bauer; IZA; P.O. Box 7240, D-53072 Bonn, Germany; Phone: +49-228-3894-529; Fax: +49-228-3894-510; Email: bauer@iza.org. For further information see www.iza.org.



+++ IZA Workshop: "Welfare Transitions" +++

On October 7-8, IZA hosted an international workshop on welfare transitions. The workshop brought together academics from Europe and the United States to debate recent research on the determinants of the flows in and out of welfare. The scholars discussed the impact of labor market conditions and of the generosity of welfare systems on the transition from welfare to work. Focusing on the public policy perspective in particular, the effects of a variety of policy measures such as welfare time limits, time-varying replacement rates, and counseling and monitoring of the unemployed, were also assessed. Another goal of the workshop was to collect important research results on the dynamics of immigrant welfare and labor market behavior. Sessions were devoted to the study of the welfare reliance of recent immigrants to Germany, the transition of migrants between different labor market states in Sweden, and the impact of welfare reform on immigrant welfare dependence and naturalization in the United States, taking into account the institutional peculiarities of the countries considered.



+++ IZA Workshop: "Gender and the Labor Market" +++

The IZA workshop "Gender and the Labor Market" was held at IZA between 16th and 18th November 2000, attracting leading specialists in the field of gender discrimination from around the world. This meeting was organized to collect together the most important research results from the US and Europe and to apply them in an assessment of the current position of women in the labor market, with the view of molding equal opportunities policy in the new century. Organized sessions traced the evolution of women's relative pay and position in the labor market for the US, Denmark, Germany, Ireland, Spain, and the UK. These studies highlighted the influence of institutional and cultural factors and the household division of labor on women's role at work, emphasizing, in particular, the importance of child care arrangements and national tax policy. New measurement methodology was discussed through the use of worker matching in the analysis of vertical segregation. The workshop also considered compensation schemes following discrimination lawsuits and discussed how women fare in male dominated profes-

sions and the principal determinants of their job satisfaction.



+++ IZA Workshop: "Organizational Change and its Implications on the Labor Market" +++

On the 26th and 27th of November 2000, the IZA Workshop on "Organizational Change and its Implications on the Labor Market" was held in Bonn. Organizational change, usually associated with developments in personnel management such as flatter hierarchies, teamwork, job rotation, and multi-tasking, has tended to increase the flexibility of work arrangements, allowing for greater decentralization of decision-making, and for more autonomy and responsibility of frontline employees. These changes have profound implications for the wage setting process, the skill requirements of workers, as well as their employability.

The subject was approached from empirical as well as theoretical perspectives. On the theoretical side, the product market was recognized as a driving force of organizational change, the consequences of acquisition and distribution of information within the firm were analyzed, the role of non-production (or organizational) labor was highlighted, and the requirements for wage setting in multi-task situations were examined. On the empirical site, the effects of organizational change on wages and employment were studied; evidence for the presence of complementarities between skills and organizational change was given and conditions under which compensation schemes and organizational change are adopted were identified.

The workshop which was chaired by IZA program directors *Dennis J. Snower* (Birkbeck College, University of London) and *Rainer Winkelmann* (IZA) was considered a success amongst the participants since it gave them the opportunity to exchange thoughts and ideas in this young and developing research area. Snower encouraged the participants to continue this exchange and to work towards establishing a network on the topic. Most of the papers are available in the virtual library on reorganization at IZA's website. Interested scientists may write to reorganization@iza.org.



+++ IZA Workshop: "Labor Market Analysis Using Matched Employer-Employee Data Sets" +++

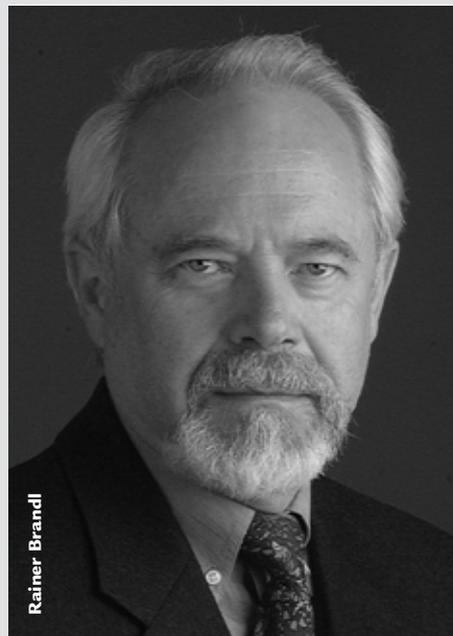
Jointly with the IAB, Nuremberg, and CREST-INSEE, Paris, IZA organized an

international workshop on "Labor Market Analysis Using Matched Employer-Employee Data Sets", which took place on November 30 and December 1, 2000, at IZA in Bonn. During the workshop, researchers from several European countries (Denmark, France, Germany, Italy, the Netherlands and the UK) described the structure of matched employer-employee data sets available in these countries. With regard to specific labor market issues, the participants discussed possibilities and limits of using this type of data in empirical studies as well as new econometric methods developed for the examination of linked employer-employee data sets. The examples covered a wide range of topics in labor economics, such as a comparison of the training behavior of firms in France and Germany, institutional constraints and on-the-job-training in Italy, the effects of technological and organizational change on wages and employment, labor market search frictions, the link between firm size and job creation and destruction, the effects of hiring, promotion and separation policies on firm performance, workplace wage growth and worker retention, as well as rent sharing between firms and their workers.



+++ New IZA Staff Members +++

Since July 2000, *Dr. Rainer Brandl* is Administrative Director of IZA. He is responsible for IZA's complete management and internal labor organization. *Dr.*



Brandl studied economics at Free University Berlin and the University of Nuremberg/Erlangen, where he received his diploma (M. A.) in 1967. Having worked as a tax consultant and certified public

accountant - with the Krupp company in Essen, among others -, he became finance director of the Grundig AG in 1979. At the same time, he wrote his doctoral dissertation to receive his doctoral degree in 1985. After that, Dr. Brandl worked for an international management consultancy and auditing firm. In 1992 he became director of financial management and accounting of the Deutsche Post and took an active part in transforming the institution into an Aktiengesellschaft (Incorporated). His diverse experience in business organization and strategic planning is crucial for his work as Administrative Director.

Astrid Kunze joined IZA as a Research Associate in April 2000. She obtained her PhD at University College London, within the Department of Economics in May 2000. Her PhD thesis is on "Male-Female Wage Differentials among Skilled Work-



ers in Germany - a Longitudinal Study". Her research interests include human capital, wage differentials and wage discrimination, estimation of panel data models and endogeneity in wage regression models.

Dr. Holger Bonin is another new member of the IZA research team. He studied quantitative economics at the Universities of Heidelberg and Kiel, where he graduated as Diplom-Volkswirt in 1996. From 1995 to 1999 he worked as a research assistant at the Institute of Public Finance, University of Freiburg. In 1996 he spent four months as visiting scholar at Boston University. In January 2000 he finished his doctoral dissertation on the theory and practice of generational accounting. Holger Bonin has published numerous essays in anthologies and periodicals such as *Finanzarchiv* and *Spanish Economic Review*. Concerning



Dr. Holger Bonin

his research interests Holger Bonin currently focuses on the evaluation of labor market policy and the internationalization of labor markets.

New IZA Research Associate *Marcus Hagedorn* is especially interested in knowledge based growth theory, contract theory, social security and the labor market. He



Marcus Hagedorn

studied mathematics at the University of Aachen and graduated in 1997. He is currently completing his dissertation on "Growth Theory and Fiscal Policy" through the European Doctoral Program (EDP) at the University of Bonn.

Ashok Kaul has also joined IZA as a Research Associate. He studied economics at the University of Konstanz, where he graduated as Diplom-Volkswirt in 1997. He is currently completing his dissertation on "Social Security under Uncertainty" through the European Doctoral Program (EDP) at the University of Bonn. His research interests include



Ashok Kaul

social security, knowledge growth theory, endogenous fertility, unemployment insurance and health economics.

In September 2000, *Hielke Buddelmeyer* joined IZA as a Research Associate. He studied econometrics at the Free University of Amsterdam, Netherlands, and graduated in the summer of 1995. He then crossed the Atlantic Ocean to continue his doctoral studies in economics at New York University. There, he specialized in the fields of applied micro and labor economics, with a taste for behav-



Hielke Buddelmeyer

ioral modeling. He also worked for the Center for Real Estate and Urban Policy at New York University as the economist in residence.

Xiaodong Gong, who also became new IZA Research Associate in last September, got his bachelor degree in management science at Fudan University in 1989 and his master degree in economics at Renmin University of China in 1993. Thereafter, he became a lecturer at Renmin Universi-

ty. In September 1996, he started his doctoral studies in econometrics at Tilburg University, Netherlands. His main research interest is in the microeconomic



Xiaodong Gong

modelling of individual behaviour and in the application of advanced econometric techniques, in particular, to the problems in the labor market and consumer demand.

Mark Fallak joined IZA in October 2000. He studied North American Studies, Political Science, and Economics at the University of Bonn. In 1996/97, he worked for a global strategy and communications consulting firm in Washington, D.C., and studied International Business and Trade at American University. In September 2000, he graduated from the Uni-



Mark Fallak

versity of Amsterdam with a master's degree in American Studies. His job at IZA includes responsibilities in the areas of web content and information management.

As an Internet-Specialist *Angelica Kappel* has been responsible for the “virtual research institute” web project at IZA since October 2000. She studied computer science at the University of Dortmund, graduating in 1991, and became a



research assistant at the University of Bonn, where she participated in two research & development projects in cooperation with the Ruhrkohle AG, a German coal-mining company. She started working on web programming and web design in 1996. From 1997 to September 2000, she took an active part in several web projects, e.g. for the German Museum of Contemporary History (Haus der Geschichte der Bundesrepublik Deutschland).

Walid Cheikho joined IZA as an IT Specialist in October 2000 and is now responsible for internal IT support and network administration. After various jobs and



studies in Syria and Germany he has concentrated increasingly on IT networks since 1997 and worked as a system administrator, lecturer for IT courses and self-employed IT Consultant.



This year IZA has started integrating some of its Research Affiliates into the IZA research team.

Lilo Locher studied economics at the University of Konstanz where she received her degree as a Diplom-Volkswirt in 1998. Since 1998 she has done graduate work



under the European Doctoral Program at the Bonn Graduate School of Economics. Her doctoral dissertation is about the dynamic aspects of the migration from the former Soviet Union to Israel and Germany in the 1990s. She joined IZA as a Research Affiliate in 1999.

René Fahr is another Research Affiliate currently doing research at IZA. He received his degree as a Diplom-Volkswirt in 1998. His diploma thesis was in the field of experimental economics (published in: *Economic Letters* 66, 2000). Since October 1998, he has been enrolled in the Bonn Graduate School of Economics and became IZA Research Affiliate. In his doctoral thesis he investi-



gates the importance of formal and informal education using time use surveys as well as the transformability of general training.

Wendelin Schnedler graduated as Master of Science in Statistics at Iowa State University in 1995 and as a Diplom-Statistiker at Dortmund University in 1998. Since then, he has been a PhD student at the Bonn Graduate School of Economics. In



1999 he joined IZA as a Research Affiliate. He is currently working on the choice of incentive schemes by firms and gender differences in job satisfaction. Further fields of interest include contract theory, evolutionary game theory and econometrics.



IZA Research Associates *Anja Thalmaier*, *Jürgen Hansen* and *Magnus Lofstrom* have completed their work at IZA in order to accept attractive job offers in the fields of politics and research in Germany and abroad. We would like to thank them for their outstanding achievements and wish them the best of success for the future.



+++ Challenging Open Post: IZA Research Director +++

IZA has an opening for the position of research director. We are looking for a distinguished labor economist who holds a tenured position at a university or research institution and is willing and able to accept this job on leave for an initial period of three years. We seek an energetic person who is interested in supervising and directing our research initiatives, our staff and networks while continuing to pursue high-quality own research. IZA offers a competitive salary and excellent working conditions. Please contact IZA director Klaus F. Zimmermann (zimmermann@iza.org).

NEW IZA DISCUSSION PAPERS

A complete list of IZA Discussion Papers is available on our homepage at www.iza.org.
Most papers are downloadable.

- | | | |
|---|--|--|
| <p>160 M. Lofstrom
A Comparison of the Human Capital and Signaling Models: The Case of the Self-Employed and the Increase in the Schooling Premium in the 1980's</p> <p>161 V. Gimpelson, D. Treisman, G. Monusova
Public Employment and Redistributive Policies: Evidence from Russia's Regions</p> <p>162 C. Dustmann, M. E. Rochina-Barrachina
Selection Correction in Panel Data Models: An Application to Labour Supply and Wages</p> <p>163 R. A. Hart Y. Ma
Why do Firms Pay an Overtime Premium?</p> <p>164 M. A. Shields, S. Wheatley Price
Racial Harassment, Job Satisfaction and Intentions to Quit: Evidence from the British Nursing Profession</p> <p>165 P. J. Pedersen
Immigration in a High Unemployment Economy: The Recent Danish Experience</p> <p>166 Z. MacDonald, M. A. Shields
The Impact of Alcohol Consumption on Occupational Attainment in England</p> <p>167 A. Barrett, J. FitzGerald, B. Nolan
Earnings Inequality, Returns to Education and Immigration into Ireland</p> <p>168 G. S. Epstein, A. L. Hillman
Social Harmony at the Boundaries of the Welfare State: Immigrants and Social Transfers</p> <p>169 R. Winkelmann
Immigration Policies and their Impact: The Case of New Zealand and Australia</p> <p>170 T. K. Bauer, K. F. Zimmermann
Immigration Policy in Integrated National Economies</p> <p>171 C. Dustmann, F. Windmeijer
Wages and the Demand for Health - A Life Cycle Analysis</p> | <p>172 D. Card
Reforming the Financial Incentives of the Welfare System</p> <p>173 D. S. Hamermesh
Timing, Togetherness and Time Windfalls</p> <p>174 E. Fehr, J. Tyran
Does Money Illusion Matter? An Experimental Approach</p> <p>175 M. Lofstrom
Self-Employment and Earnings among High-Skilled Immigrants in the United States</p> <p>176 O. Hübler, W. Meyer
Industrial Relations and the Wage Differentials between Skilled and Unskilled Blue-Collar Workers within Establishments: An Empirical Analysis with Data of Manufacturing Firms</p> <p>177 B. R. Chiswick, G. Repetto
Immigrant Adjustment in Israel: Literacy and Fluency in Hebrew and Earnings</p> <p>178 R. Euwals, M. Ward
The Renumeration of British Academics</p> <p>179 E. Wasmer, P. Weil
The Macroeconomics of Labor and Credit Market Imperfections</p> <p>180 T. K. Bauer, I. N. Gang
Sibling Rivalry in Educational Attainment: The German Case</p> <p>181 E. Wasmer, I. Zenou
Space, Search and Efficiency</p> <p>182 M. Fertig, C. M. Schmidt
Discretionary Measures of Active Labor Market Policy: The German Employment Promotion Reform in Perspective</p> <p>183 M. Fertig, C. M. Schmidt
Aggregate-Level Migration Studies as a Tool for Forecasting Future Migration Streams</p> <p>184 M. Corak, B. Gustafsson, T. Österberg
Intergenerational Influences on the Receipt of Unemployment Insurance in Canada and Sweden</p> <p>185 H. Bonin, K. F. Zimmermann
The Post-Unification German Labor Market</p> | <p>186 C. Dustmann
Temporary Migration and Economic Assimilation</p> <p>187 T. K. Bauer, M. Lofstrom, K. F. Zimmermann
Immigration Policy, Assimilation of Immigrants and Natives' Sentiments towards Immigrants: Evidence from 12 OECD-Countries</p> <p>188 A. Kapteyn, A. S. Kalwij, A. Zaidi
The Myth of Worksharing</p> <p>189 W. Arulampalam
Is Unemployment Really Scarring? Effects of Unemployment Experiences on Wages</p> <p>190 C. Dustmann, I. Preston
Racial and Economic Factors in Attitudes to Immigration</p> <p>191 G. C. Giannelli, C. Monfardini
Joint Decisions on Household Membership and Human Capital Accumulation of Youths: The role of expected earnings and local markets</p> <p>192 G. Brunello
Absolute Risk Aversion and the Returns to Education</p> <p>193 A. Kunze
The Determination of Wages and the Gender Wage Gap: A Survey</p> <p>194 A. Newell, F. Pastore
Regional Unemployment and Industrial Restructuring in Poland</p> <p>195 F. Büchel, A. Mertens
Overeducation, Undereducation, and the Theory of Career Mobility</p> <p>196 J. S. Earle, K. Z. Sabirianova
Equilibrium Wage Arrears: A Theoretical and Empirical Analysis of Institutional Lock-In</p> <p>197 G. A. Pfann
Options to Quit</p> <p>198 M. Kreyenfeld, C. K. Spiess, G. G. Wagner
A Forgotten Issue: Distributional Effects of Day Care Subsidies in Germany</p> |
|---|--|--|



IZA VISITORS PROGRAM

From August until November 2000 a number of renowned economists stayed at IZA to discuss issues of labor market research and policy:

- | | | |
|---|---|---|
| <p><i>Shoshana Neuman</i>
(Bar-Ilan University, Israel)</p> <p><i>Leif Danziger</i>
(York University, Canada)</p> <p><i>Michael Rosholm</i>
(Centre for Labour Market and Social Research, Denmark)</p> <p><i>Ian Walker</i>
(University of Keele, UK)</p> <p><i>Rannia Leontaridi</i>
(University of Stirling, UK)</p> <p><i>Avi Weiss</i>
(Bar-Ilan University, Israel)</p> <p><i>Nils Gottfries</i>
(Uppsala University, Sweden)</p> <p><i>Rafael Lalive</i>
(University of Zurich, Switzerland)</p> | <p><i>Alois Stutzer</i>
(University of Zurich, Switzerland)</p> <p><i>Mikael Lindahl</i>
(Swedish Institute for Social Research)</p> <p><i>Jonathan Haskel</i>
(Queen Mary and Westfield College, University of London, UK)</p> <p><i>Gianna Gianelli</i>
(University of Florence, Italy)</p> <p><i>Armando J. Sanchez Diaz</i>
(University Autónoma de Sinaloa, Mexico)</p> <p><i>Kirk Scott</i>
(Lund University, Sweden)</p> <p><i>Sonia Pereira</i>
(University College, London, UK)</p> <p><i>Jürgen Meckl</i>
(University of Konstanz, Germany)</p> | <p><i>Christian Dustmann</i>
(University College, London, UK)</p> <p><i>Patricia Apps</i>
(University of Sydney, Australia)</p> <p><i>Andrea Ichino</i>
(European University Institute, Italy)</p> <p><i>Dan-Olof Rooth</i>
(Kalmar University, Sweden)</p> <p><i>Damon Clark</i>
(Nuffield College, UK)</p> <p><i>Susan Vroman</i>
(Georgetown University, USA)</p> <p><i>James W. Albrecht</i>
(Georgetown University, USA)</p> <p><i>Adriana Kugler</i>
(University Pompeu Fabra, Spain)</p> <p><i>Dominick Stephens</i>
(Reserve Bank of New Zealand)</p> |
|---|---|---|

O P I N I O N

Labor Market Research and Economic Practice



There is hardly any corner in today's information society that remains unexplored. And in most cases, newly found insights enjoy wide dissemination. Yet, it is often claimed that academic science and politics are drifting ever further apart – particularly in the field of economics. As evidence in support of this claim, critics point out that governments are relinquishing their reliance on economists' advice. Economic science itself is accused of seeking refuge in the idealized world of mathematics, far away from the real world. These presumptions, however, are easily rebutted – especially the claim that researchers are so out of touch with reality that they have inadvertently maneuvered themselves into an offside position on the political playing field. It is certainly not a mere coincidence that the German *Wissenschaftsrat* (Science Council) established a commission to analyze the situation of empirical economic research in Germany, including the status quo of economic theory at universities.

The relationship between labor economics and labor market policy in Germany, however, seems to support the thesis of the two "separated worlds". Despite the continuing employment crisis that has hit

the labor market, very few economists have specialized in empirical labor market issues. Even among those involved with the *Bündnis für Arbeit* (Alliance for Jobs), labor market experts are hard to find. The highest entity of labor market policy advice to the German government is the *Institut für Arbeitsmarkt- und Berufsforschung* (Institute for Labor Market and Occupational Research, IAB). As part of the Federal Employment Service, it can hardly be seen as completely "independent", nor is it dominated by labor economists. Our strategic task here at IZA is to alleviate this deficit in labor market research and policy advice of economists.

In international perspective, it is certainly legitimate to say that labor economics has long been the "most empirical" sub-discipline of the economic sciences. This has been, to a large extent, the achievement of the labor economists associated with America's leading institution in this field, the National Bureau of Economic Research (NBER), who have shaped the debates in the most prominent international journals. The same is true for the Centre for Economic Policy Research (CEPR) in Europe. Nonetheless, this year's Nobel Prize in Economics, while it did go to a labor economist, was awarded to the "mathematician of labor market policy": IZA Fellow James Heckman, economics professor at the University of Chicago. Heckman received the award for his methodological contributions to labor market econometrics, but most of all – and this is important to note – for his influence on the scientific evaluation of labor market policies.

This may well be the best conceivable rebuttal to the thesis that economists lack contact with reality. Mathematics has become an indispensable tool, not just for modern science but also for the political practice. No doctor will discard his medical kit when facing a severely ill patient. But it is correct to demand that economists must overcome their speechlessness when called to the sickbed. Unfortunately, not everyone masters the

arts of mathematics *and* language as brilliantly as the likes of Paul Samuelson, Gary Becker, and Paul Krugman.

What lies at the heart of Germany's malaise in the field of labor market research? It is not that we lack the well-trained young labor economists to apply modern methods to the problems of our time. What we need is access to the opportunities of policy advice and research. The IAB currently holds the monopoly in both areas. First of all, the general inaccessibility of data constitutes a market entry barrier. Empirical labor market research is often impossible in Germany because the Federal Employment Service keeps existing data in an ironclad lockbox. Something like a "Free the Data" initiative could help to change this situation. The commission installed by the Federal Research Ministry to explore ways to make official data accessible to economists should place itself at the top of this initiative. An additional problem lies in the fact the policymakers rely almost exclusively on paid expert reports by the IAB.

In this situation, the German research community hardly has a chance to introduce "free" research findings into the decision-making process. Due to the lack of data access, these efforts depend on such special initiatives as the Socio-Economic Panel (SOEP) provided by the German Institute for Economic Research (DIW Berlin). That the evaluation of planned experiments in the low-wage sector was given exclusively to the IAB, while independent researchers were once again left out in the cold, is a fact that requires no comment. The best solution to the problem would be a combination of cooperation and competition. In this context, IZA also sees itself as a forum and a mediator between policymakers, IAB, and independent research.

K. F. Zimmermann



I Z A

Institute for
the Study
of Labor

IMPRESSUM

Editor: Prof. Dr. Klaus F. Zimmermann
 Managing Editor: Holger Hinte
 IZA, P.O.Box 7240, D-53072 Bonn
 Tel. +49 (228) 38 94 222, Fax +49 (228) 38 94 180
 e-mail: compact@iza.org
 Graphics/Photographs: IZA
 Layout/Printing: Verlag Erik Dynowski,
 Cologne, Germany