



I Z A

COMPACT

CONSIDERING THE FUTURE OF LABOR

Courage to Reform! Renowned Economists Appeal to German Political Decision Makers

On an IZA initiative 250 renowned, mainly German or German-based economists strongly appealed to political decision makers and the public to show the courage for extensive labor market reforms. Since the end of May 2003, a total of 300 economists have joined this initiative. The following is an English translation of the appeal:

Germany is at a crossroads. A dramatically high level of unemployment and the financial crisis of our social system call for a fundamental reshaping of economic, labor market and social policy. Only then can societal and economic challenges arising from technological progress, globalization and demographic change be tackled.

Now is the time for our politicians to finally rise to the occasion and prove their ability to implement substantial reforms. Further waver- ing or concession-making to placate vested interests would merely drive Germany deeper into the economic doldrums. If we fail to take decisive action now, we will risk forever falling behind in the process of adapting to new economic realities – a process that other countries have started a long time ago.

The implementation of reforms would also serve the notion of social justice. Those who are playing for time, or obstructing necessary change, are impeding the return of the unemployed to the labor market, which may eventually cause the collapse of our social safety net. Most affected would be those who depend on the solidarity of society. Continuing a policy of indecisiveness would also imperil the future prospects of generations to come.

The willingness to support change is visible everywhere in German society. However, marshaling the forces of reform and pushing the overdue modernization through against the resistance of obstinate critics requires political leadership.

If our country firmly and irreversibly sets its sights on the necessary reforms, it will be possible to return to growth and full employment, and to render our social security systems sustainable in the long run.

Removing Disincentives in the Labor Market

The planned limitation of the maximum unemployment benefit duration, the merging of unemployment and social welfare assistance on the level of the latter, and a reduction of transfer payments in case of refusal to accept reasonable employment are preconditions to make low-paid jobs more attractive and to render employment financially worthwhile for the unemployed. The aim is to augment the income of the unemployed through gainful employment thus reinvigorating a dried-up segment of the labor market. Reform of lay-off regulations plays its part in diminishing hiring restraints on employers. It is a misperception that the socially disadvantaged would be the ones to suffer from these changes. A glance across our national borders proves that high unemployment among the elderly and the low-skilled does not follow any law of nature but is an effect of a counterproductive incentive structure. These disincentives need to be abolished in order to provide substantially im-

proved employment perspectives for all disadvantaged groups in the German labor market.

Restore Intergenerational Fairness

The guiding idea behind a national pension system ought to be the concept of intergenerational fairness. Abolishing early retirement incentives and raising the retirement age cannot substitute for a sweeping reform such as the expansion of funded systems in favor of pay-as-you-go schemes. Nonetheless, these are necessary steps to secure the long-term sustainability of our social security systems and to relieve future generations. They are essential in the light of profound demographic changes that render the experience and productivity of the elderly ever more important. As a supplement, more flexible payment schemes are warranted in order to counter the entrepreneurial risks that arise from hiring elderly workers.

Breaking Monopolies in the Health Sector

In order to gain control over the rampant cost inflation in the health sector, enhanced competition between health insurance providers will be crucial. While this would reduce costs on the supply side, patients will also need to bear a larger share of treatment costs. Secure funding for the public health insurance will also require the separation of health insurance contributions from working income, or a broader pool of contributors. Further measures include cost-reducing mergers among health insurance providers and the abolition of the contracting monopoly of medical associations. With the next increase in health in-

In This Issue

Courage to Reform!	1	Conference: "The Phillips Curve Revisited"	9
Swiss "Caseworker" System	4	Obituary on Mark C. Berger New IZA Books	10
IZA Prize 2003	5	Short Reports	11
Measures to Lower Welfare Use in the US	6	New IZA Discussion Papers Guest Researchers	13
IZA Tower Talk	7	Opinion	14
Conference: "The Economics of Time Use"	8		

insurance premiums already looming, we must act now to reform the system.

Regulating Immigration Based on Economic Needs

The proposed immigration law for Germany became a victim of partisan politics. Successfully passing a revised version will be essential. The necessary compromise on its contents ought to establish an immigration strategy for Germany that is more clearly founded on economic interests. From a demographic and economic viewpoint, the country needs an instrument that allows for a selection of desperately needed immigrants while at the same time ensuring flexibility with regard to overall immigration numbers.

Creating Macroeconomic Backup

The implementation of structural reforms in the midst of an economic downturn is no easy task. Additional macroeconomic stimulus will be crucial to cushion short-term adjustment difficulties. A two-pronged approach combin-

ing structural reforms and macroeconomic stimulus can facilitate socio-political modernization efforts. Increased investments in infrastructure and human capital formation are therefore paramount. By reducing consumptive public expenditures and scaling back subsidies, resources can be freed up to give federal budget planners more room to maneuver. A path of temporarily accumulating additional debt seems warranted with regard to the overall economic outlook as long as (1) the automatic stabilizers are allowed to function, (2) it does not result in a new federal program to stimulate the economy, and (3) the efforts at balancing the federal budget over the medium term via spending cuts and subsidy reductions continue.

The intended economic, labor market and social policy adjustments of the German government signify a change of course towards enhanced labor market efficiency and more individual decision-making autonomy. If there is too much hesitation in implementing the "Agenda 2010", which is certainly a first step

in the right direction, the consequences will be grave. Nor must the reform proposals fall victim to political quarreling over which political party should be at the helm of the reform movement in Germany.

The signatories to this appeal urge the political decision makers as well as employer associations, trade unions, and all other elements of society not to jeopardize the new courage to reform by short-sighted partisan politics or vested interests. The reform concepts of the parliamentary opposition are in many respects identical with the "Agenda 2010". A broad majority for the reform proposals of the German government is discernable. Now more than ever, those in power must act responsibly. There is no more room for tactical maneuvering in both chambers of parliament, which would inevitably lead to further setbacks in the process of modernization in Germany. Nothing less than the future prospects of this nation will depend on the successful outcome of the current reform process.



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The Swiss “Caseworker” System: A Silver Bullet Solution to the Placement Crisis in the Labor Market?

Reintegration of the unemployed into the labor market is a key issue of active labor market policy (ALMP). Questions about the efficiency of the methods applied by the German Federal Employment Services (BA) to allocate the unemployed to ALMP programs were reason enough for the government to instruct the “Hartz Commission” to develop adequate reform proposals. One of the reform elements the commission came up with revolves around the introduction of “case management” as a tool to improve the reintegration of job seekers into the labor market via increased individual counseling and motivation as well as supervision at the hands of customer-oriented caseworkers. In creating such a system, the Federal Employment Services can rely on the considerable experience of local authorities with individual counseling of social welfare recipients, as well as the experiences of the Swiss labor market as yardsticks for success.

The question is whether case management really improves the matching process and, as it is a resource intensive tool, whether the outcome is worth the effort. A new IZA study by *Michael Lechner* (University of St. Gallen) and *Jeffrey A. Smith* (University of Maryland) investigates the allocation of the unemployed to different Swiss ALMP subprograms by caseworkers of the local employment offices in Switzerland in 1998. Of central interest is the question whether the caseworkers do allocate their clients to services in ways that maximize their employment prospects. Comparing the caseworkers’ impact with that of some alternative allocation schemes, the study arrives at somewhat surprising results. (For details see: *Michael Lechner/Jeffrey A. Smith, What is the Value Added by Caseworkers?*, IZA Discussion Paper No. 728.)

Swiss Active Labor Market Policy

Switzerland is unique among European countries in terms of its low unemployment rates throughout much of the post-war period. In the 1970s and 1980s, the Swiss unemployment rate never exceeded 1.1%. In the 1990s, however, it began to rise to historically high levels with a peak of 5.2% in 1997. These high levels of unemployment, though still exceptionally low by European standards, prompted the Swiss government to enact a series of unemployment law reforms and active labor market policies in the mid-1990s. (Cf. “*The Rise and Fall of Swiss Unemployment – The Situation of the Low-Skilled*”, IZA Compact April/May 2003.)

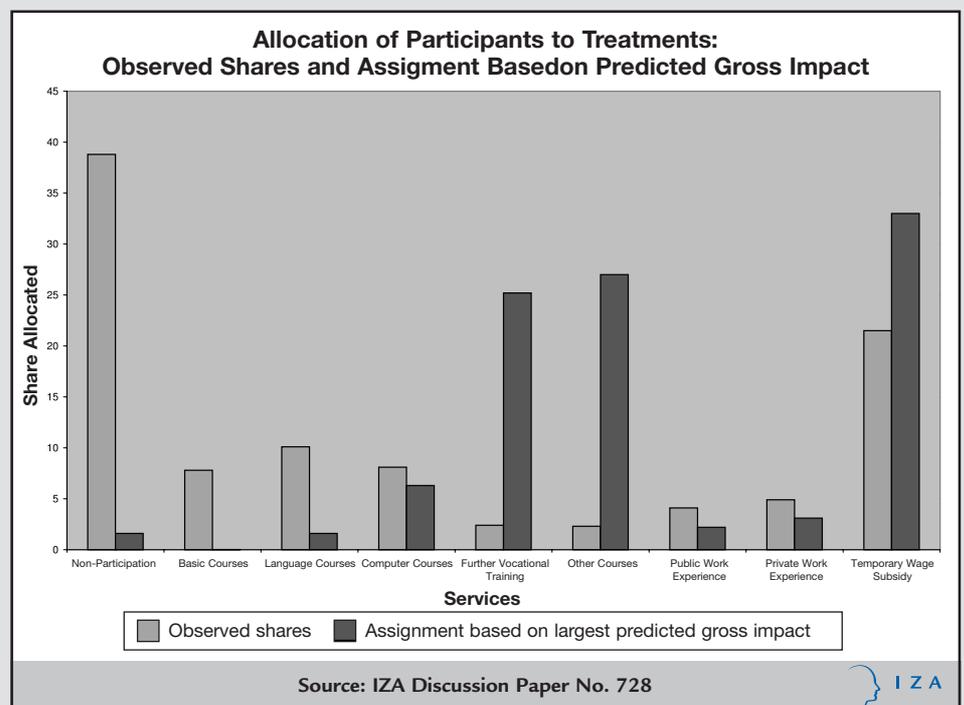
In the wake of the 1996 unemployment law reform it became mandatory for individuals to participate in employment and training services once they have been unemployed for 150 days (30 weeks). These services comprise three general categories: (1) classroom training of various sorts and length of up to six

months, (2) six months work experience stints in public and private sector jobs that are created specifically as part of active labor market policy efforts, and (3) wage subsidies for temporary regular jobs in the private sector. Unlike in Germany, the training courses offered under the ALMPs do not include occupational retraining - only further training within the current occupation. Participants of employment programs are required to continue their job search while attending and to accept appropriate offers. Wages in these programs can in principle exceed the benefit level of the unemployment insurance (UI), but in practice usually do not. Neither courses nor employment programs count toward further UI eligibility. The temporary wage subsidies are not formally a part of the ALMPs but appear to be treated as if they were.

The general categories of programs offered in Switzerland mirror those available in other de-

veloped countries. Together, the unemployed client and the caseworker come to an agreement about the scope of the ALMP services that the client should receive. These services are based on the client’s interests as well as the caseworker’s evaluation of his or her individual capabilities and the availability of slots in relevant programs in the region.

The study conducts an evaluation of the caseworker model in comparison to alternative allocation schemes such as a random assignment method or a “deterministic assignment”, which bases the placement in ALMP programs on group status. An alternative currently used in the U.S., among other countries, sees the allocation of individuals to ALMP services by means of using statistical treatment rules. This scheme, sometimes called “profiling” or “targeting”, is based on a statistical prediction of each claimant’s probability of benefit exhaustion or expected



veloped countries. With the exception of the wage subsidies for temporary jobs, which represent the one unique aspect of the service mix in Switzerland, the Swiss ALMP scheme resembles the German system quite strongly.

How the Caseworker Model Works

The allocation model realized in the form of the Swiss caseworker scheme is based on the idea that an optimal assignment to an ALMP program aiming at the eventual reintegration of the unemployed individual into the labor market requires knowledge about individual characteristics of the unemployed person, the local labor market and local ALMP service providers.

benefit receipt duration. Claimants with higher predicted probabilities of exhaustion (or longer expected durations of benefit receipt) receive the mandatory services while those with lower predicted probabilities do not. This scheme assigns treatment based on the predicted outcome in the absence of treatment, rather than on the predicted impact of the treatment. Assignment on the basis of outcomes rather than of impacts may serve equity goals (such as allocating the least employable among the unemployed to the most intensive services), unless participants with the worst expected employment outcomes in the absence of services also have the largest impacts from services.

In Switzerland, each caseworker has 75 to 150 clients to work with and, every month, meets each one of them for an in-depth interview. This is substantially more in-person contact than participants would receive in most other developed countries. It also means that Swiss caseworkers have the opportunity to gain a large amount of information about the claimant's needs and abilities - information that, in principle, should enable them to effectively match claimants to services.

Given the large amount of information they possess about their clients and the flexibility which is characteristic of the highly decentralized Swiss system, it could be argued that the performance of Swiss caseworkers in their allocation task should mark an upper bound for caseworkers in other developed countries. However, this does not appear to be the case. Even though Swiss caseworkers are making use of the flexibility available to them in assigning their clients to all of the treatment types and do so with respect to their observed characteristics, they do not seem to add much value in their role as service allocators.

In fact, after comparison with alternative allocation methods based on the statistical records of 19,000 unemployed individuals in the age bracket 25-55 and their employment status one year after the start of the program, using the non-experimental impact estimates from a multi-treatment matching procedure and a multinomial probit model, the study

shows that Swiss caseworkers either do not seek to maximize post-program employment rates when they assign their clients to alternative services, or they do try but fail to do a good job. Swiss caseworkers appear to be as efficient as randomly assigning clients to services and somewhat less efficient than econometric allocation schemes based on estimates of the employment probability associated with each alternative for each person conditional on observed characteristics. The figure (p. 4) clearly depicts a discrepancy between the - less efficient - allocation pattern in the hands of caseworkers and a placement pattern based on an econometric allocation method.

Conclusion

However, this analysis focuses only on one, albeit central, task of caseworkers. But Swiss caseworkers, as well as their equivalents from other developed countries, perform a number of functions in addition to service allocation, whose impacts were not subject of the study. These additional functions include monitoring the unemployed and encouraging them to look for work or training, networking with employers to develop opportunities for subsidized temporary jobs, keeping abreast of local ALMP training opportunities etc.

Nevertheless, the evidence found suggests that improvements could be achieved by supplementing subjective caseworker judgment

with econometric forecasts in the allocation of unemployed persons to services in order to maximize employment chances following the completion of a respective ALMP program. The findings of the study should spur increased research endeavors in this field, in particular with regard to a cost-benefits analysis for alternative programs. The study also raises the question whether caseworkers should receive additional training in order to enhance the efficiency of their allocation work. With regard to Germany, the IZA study should dampen some of the overly high expectations of those who believe that the reshaping of German further training placement procedures along the lines of a more individualized approach in the wake of the introduction of case management schemes will vastly improve the unemployed individual's chances of rejoining the labor market. The introduction of caseworkers might be able to increase allocation efficiency slightly, but a decisive improvement of the unemployed's prospects of rejoining the labor market via the introduction of caseworker schemes does not seem feasible. A substantial improvement would require the creation of an intelligent set of incentives to take up employment along the lines of the workfare concept proposed by IZA (cf. *IZA Compact April/May 2003*).

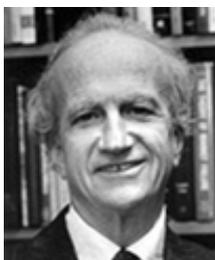
Well-known economists nominated for IZA Prize in Labor Economics – IZA Prize Committee decides on 2003 laureate



Klaus F. Zimmermann



George A. Akerlof



Gary S. Becker



James J. Heckman



Gerard A. Pfann

IZA thanks all IZA Research Fellows for their active participation in this year's nomination process for the IZA Prize in Labor Economics. The IZA Prize Committee, including Nobel Prize laureates *George A. Akerlof* (University of California, Berkeley), *Gary S. Becker* (University of Chicago) and *James J. Heckman* (University

of Chicago), as well as IZA Director *Klaus F. Zimmermann* and *Gerard A. Pfann* (University of Maastricht), will decide on the 2003 laureate within the next few weeks. As last year, the list of nominees contains many internationally well-known labor economists. One of them will be chosen to succeed the inaugural IZA Prize laureate

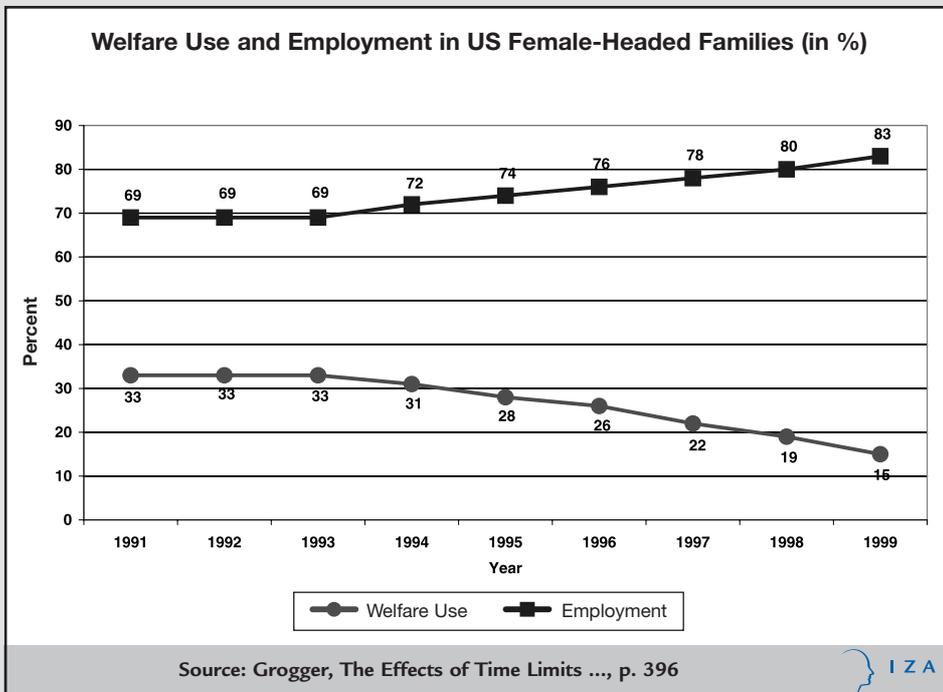
Jacob Mincer (Columbia University, New York). IZA will announce the name of this year's prize-winner on a special occasion. The official award ceremony will take place on September 22, 2003 in Berlin. All IZA Research Fellows are cordially invited.

Time Limits for Welfare and Tax Credits for Lower Incomes: Do They Reduce Welfare Use?

A recent study by IZA Research Fellow *Jeffrey Grogger* (University of California, Los Angeles) analyzes the effects of time limits, the EITC (Earned Income Tax Credit), and other policy changes on welfare use, work and income among American female-headed families, who are the primary target for cash aid under U.S. welfare law. It is the first study to provide direct estimates of the effects of the EITC on welfare use, and the only study to estimate the effects of the EITC on earnings or income (see *Jeffrey Grogger, The Effects of Time Limits, the EITC, and Other Policy Changes on Welfare Use, Work and Income Among Female-Headed Families*, in: *The Review of Economics and Statistics*, 85(2), pp. 394-408/IZA Reprint No. 190).

the findings from the Florida analysis in suggesting that time limits have had important effects on welfare use and work, accounting for about one-eighth of the decline in welfare use and about 7% of the rise in employment since 1993. They have had no significant effect on earnings or income, however. The analysis also shows that the collective effects of other reforms have had important impacts on employment and labor supply. Furthermore, it identifies the Earned Income Tax Credit (EITC) as a particularly important contributor to both the recent decrease in welfare use and the recent increase in employment, labor supply, and earnings.

Another objective of the analysis was to understand the broader effects of time limits. The regression estimates carried out show that time limits have substantial effects on welfare use and employment, somewhat lesser effects on labor supply, and little if any effect on earnings or income. That the effects on labor supply and earnings are smaller seems reasonable. This is also due to hastened job search resulting in jobs that are both less durable and less remunerative. Time limits have had no significant effect on family income, which involves not only the work of the family head but also the family's living arrangements and the work behavior of other family members.



Of all the welfare reforms that were implemented during the 1990s, time limits may represent the single greatest break from past policy. Under the new law, introduced in 1996, families with underage children (younger than 18 years) generally may receive federally funded benefits for no more than 60 months during their lifetimes. Many states have imposed even shorter time limits. Although early evidence from administrative caseload data suggested that time limits had little effect on welfare use, a recent analysis of data from a Florida welfare reform demonstration found them to have substantial effects (see: *Jeffrey Grogger/Charles Michalopoulos, Welfare Dynamics under Times Limits*, in: *Journal of Political Economy*, 111(3), pp. 530-554).

The results from Grogger's study on time limits and the EITC based on data from the March Current Population Survey confirm

Time limits lower number of welfare dependents

According to the analysis, time limits can lead to different behavior among families with underage children. Families whose youngest children exceed the threshold age of 13 years are unaffected by time limits because these amount to a nonbinding constraint for those families - i.e. they can only receive welfare for a maximum of five years anyway and thus tend to take full advantage of their entitlement. In contrast, the estimates indicate that the average family whose youngest child is three years old reduces its welfare use in response to time limits by 6.6 percentage points and increases its employment by 3.4 percentage points. But time limits may hasten job search and thus lead to poorer job matches, which potentially has negative effects on job duration and income level.

EITC: Tax cuts explain decrease in welfare

A further goal of this study was to estimate the effects of the EITC on a broader range of outcomes than had previously been considered. In this regard, the results indicate that the recent EITC expansions have had substantial effects on almost all dimensions of behavior. In fact, as Grogger's analysis shows, the EITC may be the single most important policy measure for explaining the decrease in welfare and the rise in work and earnings among female headed families in recent years. Beyond time limits and the EITC, other reforms have had small net effects on welfare use but important effects on employment, labor supply, and (to some extent) earnings and income.

Overall, the results show that time limits have substantial effects on welfare use but smaller effects on employment, suggesting that time limits primarily move families off the welfare rolls who were previously combining work and welfare. The EITC, in contrast, had similar effects on welfare use and employment, suggesting that tax cuts primarily moved non-working welfare families into the workforce.

Although this analysis contributes in a number of ways to an understanding of the effects of time limits and other recent policy changes, it leaves a number of questions unanswered. A full assessment of the impact of welfare reform will require information on its effects on the well-being of children in poor families. It will also require insights into the effects of other specific reforms, such as work requirements, sanctions policies, and reduced benefit reduction rates. The work presented here contributes in only a limited way to the broader question of whether welfare reform has been successful. Nonetheless, the findings provide evidence that social policy reforms help to increase work incentives and get people back into employment.

“IZA Tower Talk” with Labor Market Expert of the Green Party



Thea Dückert

On July 10, 2003, Hilmar Schneider, IZA Director of Labor Policy, welcomed Thea Dückert, MP as guest speaker at the 2nd IZA Tower Talk. Dückert is vice chair and labor market expert of the Green Party parliamentary faction in the German Bundestag. In her speech she analyzed the vast need for reform in Germany. According to Dückert, the labor market reform efforts combined in the concept presented by the “Hartz Commission” and in the Agenda 2010 merely “mark the beginning of more comprehensive measures yet to come.”

She rebutted the accusation by unions that the proposed reforms would negatively affect certain groups in society while favoring others such as civil servants. “The German people comprehend faster than their politicians”, she said. “They know that it will take fundamental reforms of the labor market and the social security system to ensure the future functioning of our welfare state.” Dückert also rejected the argument that the Green Party gets crushed between the two major parties as their positions are increasingly converging: “The reform proposal by the German government has an unmistakably Green touch to it.”

The topic of her speech, “Redefining Solidarity – Creating Fair Access to the Labor Market”, hinted at the Green Party’s new approach to restructuring the labor market and the welfare state according to what has come to be called “Flexicurity”. This concept is based on enhanced flexibility, the reduction of red tape, the removal of obstacles to employment, and the requirement of more individual initiative on the part of the unem-

ployed. At the same time, the goal of this initiative is to ensure the sustainability of a modified social security system.

Dückert named the redesign of the German crafts code as one example of abolishing obsolete privileges and employment impediments. The merging of unemployment assistance and social welfare benefits is supposed to create more flexibility. This reform would not only lead to a slimmer bureaucratic apparatus but also reduce the discrimination of welfare recipients. It would furthermore relieve the budgets of the municipalities, which would no longer be responsible for this new form of unemployment assistance.

The labor market expert of the Green Party also emphasized the need to restructure the intergenerational contract more thoroughly than what has been discussed so far. To avoid placing an ever greater financial burden on labor, the current generation of retirees would also have to contribute their fair share. According to Dückert, the spiral of pension contribution hikes, which is accompanied by decreasing prospects of adequate old-age income security, needs to be stopped: “This is a misguided interpretation of solidarity.” She also demanded that the “horrible practice of early retirement” be abandoned since the resulting vacancies often remain unfilled. With respect to demographic change, she called for a “culture of senior citizens’ work”. The Green Party politician also advocated a form of health insurance that involves all groups of society while substantially reducing the financial burden on each individual.

Given the desolate state of the economy, Dückert warned not to expect the current reform efforts to show a fast and visible impact. Although important steps have already been taken, they will require “some fine-tuning here and there” and still leave much to be desired. She also pointed at the



Dr. Thea Dückert

- ▶ Ph.D. in Economics
- ▶ Member of Parliament (German Bundestag) since 1998
- ▶ Vice chair and expert for labor and social policy of the Bündnis 90/ Die Grünen (Green Party) parliamentary faction
- ▶ Standing member of the parliamentary committee on economics and labor

high degree of political responsibility to be borne by the parliamentary opposition and the state representatives in the Bundesrat.



Thea Dückert

Hilmar Schneider



Second Conference of the “International Research Consortium in the Economics of Time Use”



Daniel Hamermesh

On May 26 and 27 the second conference of the International Research Consortium in the Economics of Time Use was held at the Chateau Saint Gerlach in the Netherlands. The conference consisted of papers covering issues in time use based on data from Australia, Denmark, Germany, Italy, the Netherlands, Spain, Sweden, the United Kingdom and the United States.

Time use data typically are collected in “time-budget” surveys, in which researchers or, more typically, government agencies develop large samples of citizens who, in addition to the usual demographic and economic information, maintain diaries of what they were doing at each hour of the previous day. Such data are the only vehicle for investigating a huge variety of issues in the behavior of labor, and they are becoming increasingly available.

Stephen Jenkins (University of Essex and IZA) and Lars Osberg (Dalhousie University), presented new research results on the issue whether the presence of people with similar demographic backgrounds affects an individual’s leisure time activities. Using longitudinal British data, they showed that in this case individuals will engage in more leisure-time activities that are done with a group. These findings have implications for the social integration of communities. Nina Smith (University of Aarhus and IZA), Nabanita Gupta and Jens Bonke (both University of Aarhus) used Danish data to examine the impact of the amount of housework that people do on their wages and particularly on the male-female wage gap. They conclude that the impact of the amount of time spent at home on wages is minor. The kinds of tasks performed at home, however, do matter, with women performing the preponderance of tasks whose timing is inflexible. Joyce Jacobsen (Wesleyan University) and Peter Kooreman (University of Groningen and IZA) looked at the impact of a change in the law that expanded shopping hours in the Netherlands. For many people the main effect was to allow

them to shop at more convenient times, with no change in total hours spent shopping. For others the previous law had been so restrictive that, in addition to changing the timing of shopping, they also increased their total hours spent in this activity.

The determination of the total hours of labor supplied to the market is probably the most well-studied issue in labor-market behavior, but nearly all research relies on individuals’ recalling how much time they spent in a previous week or year. Anders Klevmarken (Uppsala University and IZA) used Swedish time use data to study how our inferences about such determinants of labor supply as higher wage rates are affected when we measure hours of market work based on time diaries rather than retrospective reports. The effects are substantial and indicate that much of what we have been led to believe about labor supply is questionable. Based upon Australian, German, Dutch and American data Daniel Hamermesh (University of Texas at Austin and IZA) studied the determinants of temporal routine-performing the same activity at the same time on each of a number of days. As peoples’ income rises, they engage in less routine behavior. While variety is costly, in terms of the time it takes to switch activities, it is also something that people apparently find desirable.

According to the study by Namkee Ahn (FEDEA Madrid) and Juan Francisco Jimeno (FEDEA Madrid and IZA) the unemployed spend more time in comparison to employed workers and to those who do not participate in the labor market enjoying passive leisure (for example, watching television) and performing household chores. Using data from Germany, Italy and Sweden, Andrea Ichino (European University Institute and IZA) and Anna Sanz de Galdeano (University Carlos III, Madrid) considered the interaction between the flexibility of work hours and the amount of time mothers devote to child care. They observe that if mothers have access to part-

time jobs the time that they devote to child care does not differ from that of women who do not work for pay. Where part-time jobs are scarce, however, women who work for pay cut back on the hours they devote to caring for their children.

Michael Horrigan and Diane Herz (both U.S. Bureau of Labor Statistics) presented a chronicle of the development of the new American Time Use Study. Until this survey the U.S. had been relatively backward in its collection of time-diary data. Since 2003, however, the new survey is systematically collecting time diaries and other information from around 1,700 individuals a month, thus promising to be the largest time-budget survey in the world and the only one conducted at frequent regular intervals.

Patricia Apps (University of Sydney and IZA) and Ray Rees (University of Munich) integrated Australian data on time use with other



Nina Smith

Australian data on wealth and savings to examine the interaction of the two. This integration modifies our notions of how people’s behavior varies over the life cycle of marriage, child-rearing, “empty-nesting” and retirement.

René Fahr (IZA) examined how the amount of time spent in informal education in Germany differs by the level of formal schooling. Apparently, there is a positive correlation between the two, which suggests that informal activities help widen the gap in earnings, and economic status, that is created by differences in the amount of formal schooling that people acquire. Frank Stafford (University of Michigan) and Jean Yeung (New York University) studied how mothers’ and fathers’ time spent with children differs in the United States.

The IZA conference gave stimulus to intensified research on the economics of time use and showed the importance of this research area for a better understanding of labor market behavior.



Stephen Jenkins

“The Phillips Curve Revisited” – Renowned International Economists Held Conference in Berlin on IZA Initiative



Harald Uhlig



Gustav A. Horn



Dennis J. Snower

A conference on “The Phillips Curve Revisited,” in Berlin on June 5-7, 2003, was sponsored by IZA in conjunction with the London based Centre for Economic Policy Research (CEPR), the German Institute for Economic Research (DIW Berlin), and the Schumpeter Institute of Humboldt-University, Berlin. The organizers were *Gustav A. Horn* (DIW Berlin), *Harald Uhlig* (Humboldt-University, Berlin), and IZA Program Director *Dennis J. Snower* (Birkbeck College, London). The conference took stock of the latest developments on the interaction between monetary phenomena and real economic activities (such as production, employment, and unemployment). One objective was to bring alternative approaches to the Phillips curve – theoretical and empirical – into contact with another, so that their relative strengths and weaknesses, their explanatory power, and policy implications could be clarified. In this context, another aim was to help explain the performance of the European and U.S. economies in recent years, particularly the long-lasting low-inflation boom of the 1990s and the subsequent recession.

Session 1 of the conference was concerned with microeconomic foundations of the Phillips curve, which have revolutionized our understanding of the trade-off between inflation on the one hand, unemployment, employment, and output on the other. It has given rise to the New Keynesian Phillips curve, which is at the heart of recent models of the monetary transmission mechanism and the interactions between monetary and fiscal policies. The session examined how the dynamic relation between inflation and macroeconomic activities is affected by the slow dispersion of information (“Monetary Policy for Inattentive Economies” by *Laurence Ball*, *N. Gregory Mankiw* and *Ricardo Reis*), by “menu costs” of price change (“Menu Costs and Phillips Curves” by *Mikhail Golosov* and *Robert E. Lucas Jr.*) and the interaction between money growth and nominal inertia (“A Reappraisal of the Inflation-unemployment Trade-off” by *Marika Karanassou*, *Hector Sala* and *Dennis Snower*).

Session 2, devoted to empirical issues, saw a clash between defenders of the traditional Phillips curve and those supporting the New Keynesian Phillips curve. *Robert Gordon* (North-

western University, Evanston/Illinois) argued that his “triangle model” can successfully explain inflation and unemployment dynamics (“Nesting the New Keynesian Phillips Curve within the Mainstream Model of US Inflation Dynamics” by *Robert Gordon* and *Jon W. Eller*), while *Jordi Galí* (University Pompeu Fabra, Barcelona) presented evidence in favor of the new, microfounded approach (“Robustness of the Estimates of the Hybrid New Keynesian Phillips Curve” by *Jordi Galí*, *Mark Gertler* and *J. David Lopez-Salido*). *Wolfgang Franz* (President of the Center for European Economic Research/ZEW, Germany) presented German evidence against the NAIRU hypothesis that there is no tradeoff between inflation and unemployment in the long run (“Will the (German) NAIRU Please Stand Up?”).

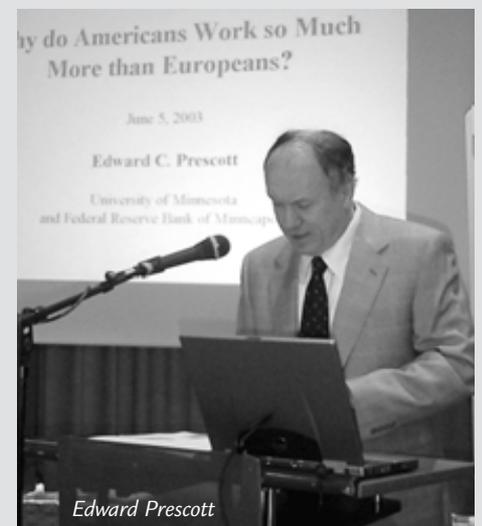
Session 3 was concerned with the implications of the Phillips curve for monetary and fiscal policy. *George Evans* (University of Oregon) presented one of two papers examining the influence of central bank learning (“Adaptive Learning and Monetary Policy Design” by *George Evans* and *Seppo Honkapohja* and “Rule-based Monetary Policy and Central Bank Learning” by *Kosuke Aoki* and *Kalin Nikolov*). Three further papers dealt with the optimal interaction between monetary and fiscal policy (“Optimal Fiscal and Monetary Policy Equivalence Results” by *Isabel Correia*, *Juan Pablo Nicolini* and *Pedro Teles*, “Optimal Fiscal and Monetary Policy under Sticky



George Evans

Prices” by *Stephanie Schmitt-Grohe* and *Martin Uribe*), and “Optimal Monetary and Fiscal Policy: A Linear Quadratic Approach” by *Michael Woodford* and *Pierpaolo Benigno*). *Lawrence Christiano* and *Martin Eichenbaum* (both Northwestern University, USA) presented their latest simulations on the effects of economic fluctuations in a monetary economy (“Monetary Policy and the Dynamic Effects of Technology Shocks” by *David Altig*, *Lawrence Christiano*, *Martin Eichenbaum* and *Jesper Linde*). *Julio Rotemberg* (Harvard University) showed that the effectiveness of monetary policy can be explained through a new nominal rigidity: customer resentment of price increases (“Customer Anger at Price Increases, Changes in the Frequency of Price Adjustment, and Monetary Policy”).

The final session was devoted to understanding the recent performance of the European economies. *Robert Hall* (Stanford University) presented a new model of “Wage Determination and Employment Fluctuations,” showing how labor turnover costs can affect employ-



Edward Prescott

ment via the wage setting process. *Edward Prescott* (University of Minnesota and Federal Reserve Bank of Minneapolis) examined the role of taxes in answering the question “Why Do Americans Work So Much and Europeans So Little?” *Boyan Jovanovic* (University of Chicago) presented a model to explain stock market crashes, particularly the inflation of stock prices followed by a sudden burst (“Shakeouts and Market Crashes” by *Boyan Jovanovic* and *Alessandro Barbarino*). Finally, *Varadarajan V. Chari* (University of Minnesota) showed how the predictions of a large class of economic models are observationally equivalent to a prototype growth model with time varying efficiency, labor, and investment wedges, thereby providing a new method for guiding development of quantitative models of economic fluctuations (“Business Cycle Accounting” by *V. V. Chari*, *Patrick J. Kehoe* and *Ellen R. McGrattan*).

The conference succeeded in evaluating the main theories of the Phillips curve, assessing their distinctive empirical predictions, and exploring their policy implications. The papers are downloadable from the conference website: www.phillips-curve-revisited.de.

Obituary on IZA Research Fellow Mark C. Berger



Mark C. Berger †

The members of IZA are deeply saddened by the sudden passing of *Mark C. Berger* on April 30, 2003 at the age of 47. He had been an IZA Research Fellow since December 2000 and recently came to IZA for a research visit.

Mark Berger was the William B. Sturgill Professor of Economics and Director of the Center for Business and Economic Research at the University of Kentucky (CBER). After receiving his doctorate in economics from Ohio State University in

1981, he joined the University of Kentucky as an assistant professor. He spent his entire, influential teaching career at the University's Department of Economics (since 1996 Gatton College of Business and Economics) as an Associate Professor until 1989 and Professor since 1989, before named Director of CBER in 1994 and Sturgill Professor in 1998. Several visiting professorships and fellowships led him to the University of Chicago and the European Universities of Vienna, Ekaterinburg and Dublin. Furthermore, he served on the editorial boards of the scholarly journals *Growth and Change*, *Applied Economics*, and *Economics of Education Review*.

Mark Berger conducted applied research on a broad field of subjects including on-the-job-

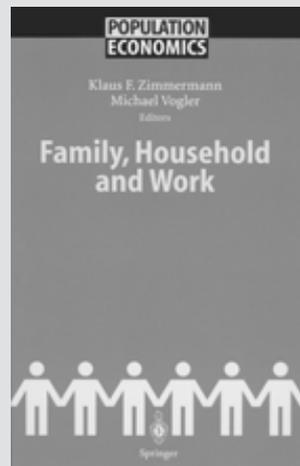
training, the earnings and employment of workers, unemployment insurance, health insurance issues and higher education. His research has been published in such journals as *American Economic Review*, *Journal of Political Economy*, *Review of Economics and Statistics*, *Journal of Labor Economics*, *Industrial and Labor Relations Review*, and *Journal of Human Resources*. Among his colleagues and students he was highly valued as a great scientist and teacher. In Mark's memory the "Mark C. Berger Applied Microeconomics Workshop Endowment Fund" has been established.

IZA and all IZA Research Fellows will cherish Mark Berger's important contributions to labor economics in memory.



New IZA Book: "Family, Household and Work"

Statistics provide clear observations of recent trends of family change: The number of single-person households increased. Age of marriage, as well as women's age at first motherhood became remarkably higher. Fertility has fallen rapidly. The number of divorces has steadily increased. The ancestral role allocation became less relevant in practice, because today neither economic nor social constraints are as important for the decision to start a family as they were in the past. From an economic point of view, there are several reasons: In the course of increasing equality today the average woman is by far better educated than before. In some industrial countries she even has a school education superior to that of the average man. This led to more financial autonomy and



higher professional ambitions. Furthermore, the expansion of social security systems decreased the need of family assistance in distress and old age.

A new IZA volume, edited by IZA Director *Klaus F. Zimmermann* and IZA Scientific Manager *Michael Vogler*, presents a collection of recent economic research work on the resources management and development of families and households respectively. Assorting three general topics, it focuses on the time allocation within the household, the family structure and development, and the transition to work of young adults. (*Klaus F. Zimmermann/Michael Vogler (eds.), Family, Household and Work, Berlin 2003 – ISBN 3-540-00360-6*).



New IZA Book: "Labor in an Aging Society"

The labor force participation rate as well as the conditions and consequences of the work-retirement transition of older individuals are pivotal topics in social science. In the light of a rapidly changing labor market and the demographic aging process they become even more explosive. Will the future demand for older employees increase? Will shortages of young qualified workers and severe financial problems of the social security systems force our society to extend the life working time and to establish new retirement models? What are the challenges for firms with regard to qualification and conservation of productivity among older employees? A new book, provides answers to these questions. It is the result of an extensive cooperation between IZA, the Social Science Information Centre



(IZ), the research group "Aging and Curriculum Vitae" (FALL) and the Institute of Sociology at the Free University of Berlin. The volume, edited by *Matthias Herfurth* (IZ), *Martin Kohli* (FALL) and IZA Director *Klaus F. Zimmermann*, offers a comprehensive overview of the present research in the field of sociology and economics. A scientometric description of the research area as well as a commented selection of information resources (institutions, websites) and a glossary are additional parts of the book. A CD-ROM with bibliographic references is also included. (*Matthias Herfurth/Martin Kohli/Klaus F. Zimmermann (eds.), Arbeit in einer alternden Gesellschaft. Probleme und Perspektiven der Erwerbsbeteiligung Älterer, Leverkusen 2003 – ISBN 3-8100-3816-4*).

External CPB Review Committee chaired by Klaus F. Zimmermann presents final report

Chaired by IZA Director *Klaus F. Zimmermann*, an external Review Committee of the CPB Netherlands Bureau for Economic Policy Analysis, The Hague, presented its final report to the public on June 26, 2003. The high-ranked international expert committee evaluated the performance of CPB and identified possible areas for further improvement. CPB's main task is to provide independent economic analyses and forecasts that are relevant for policy decisions of government, parliament, and other societal organizations such as

political parties, trade unions, and employers' associations.

"This external assessment gave us a unique opportunity not only to understand the functioning of CPB, but also the working of Dutch politics and the economic process in the country," said Zimmermann. He applauded CPB's effort to sharpen its strategy of scientific research and policy advice through a serious external evaluation, which "sets an example for other institutions in the field."



CPB Review Committee, headed by Klaus F. Zimmermann

Armin Falk to succeed Gerard A. Pfann as IZA Research Director



Gerard A. Pfann

Klaus F. Zimmermann

After two productive years as IZA Research Director, *Gerard A. Pfann* has returned to Maastricht University where he will continue to head the Business Investment Research Center (BIRC). As managing editor of the *European Economic Review* and co-organizer of the IZA/SOLE TransAtlantic Meeting of Labor Economists, he will continue to maintain close ties to IZA. IZA Director *Klaus F.*

Zimmermann honored Pfann's contributions to stimulating the institute's research activities and establishing the IZA Prize in Labor Economics. His successor as IZA Research Director as of October 2003 will be *Armin Falk* (currently University of Zurich), who has been appointed to a faculty position at the University of Bonn (see IZA Compact April/May 2003).

IZA Research Fellow Röller becomes Chief Economist at EU Directorate General for Competition



Lars-Hendrik Röller

Mario Monti, Head of the Directorate General for Competition of the European Commission, has appointed anti-trust expert *Lars-Hendrik Röller* (Humboldt University Berlin, WZB and IZA) as Chief Economist of his institution. After the recent

reorganization of the EU anti-trust authority, Röller will face a number of great challenges. He will start his new post in September for a period of three years.

"Lars-Hendrik Röller is the ideal candidate for this important position. Under his leadership, the merger control efforts of the EU will no doubt be based on sound economic analysis," said IZA Director *Klaus F. Zimmermann* in response to this hiring decision.

Röller has been an IZA Research Fellow since 1999 and heads the Research Unit "Competitiveness and Industrial Change" (CIC) at the Social Science Research Center Berlin (WZB). IZA congratulates Röller on his new assignment and wishes him the best of success.

David Jaeger succeeds Ken Troske as IZA Visiting Research Fellow Alexander von Humboldt Foundation awards fellowship to Jaeger

After a 12-month research stay at IZA, *Ken Troske* (University of Missouri, Columbia) returns to the United States. Troske said he was impressed by the constantly high quality of IZA's research work and the excellent working conditions at the institute. Besides his own research, he also acted as an important counselor for other IZA projects and enriched several IZA events and discussions with his presentations.

IZA Director *Klaus F. Zimmermann* was very pleased at the successful première of the IZA Visiting Research Fellowship. "This opportunity to spend an extended period of time at IZA demonstrates our close relationship with the American research community and commits



K. Troske

K. F. Zimmermann

D. Jaeger

renowned US economists to our institute for future cooperation and joint projects. This should become a good tradition", said Zimmermann. He welcomed *David Jaeger* (College of William and Mary, Williamsburg, Virginia), who was awarded an Alexander von Humboldt

Fellowship for his stay in Germany, as Troske's successor.

The new IZA Visiting Research Fellow is currently Professor of Economics at the College of William and Mary. After receiving his Ph.D. from the University of Michigan in 1995, he worked for the U.S. Bureau of Labor Statistics, at Hunter College and the Graduate Center of the City University of New York. He was also Visiting Professor at Princeton University. His research focuses on immigration and migration, education, job stability and mobility, and applied econometrics. His work has been published in the *Journal of the American Statistical Association*, the *Review of Economics and Statistics*, the *Journal of Labor Economics*, and *Research in Labor Economics*, among others.

Ruhr-University of Bochum offers Faculty Position to IZA Program Director Thomas Bauer



T. Bauer

After his habilitation at the University of Bonn, IZA Program Director *Thomas Bauer* received an offer to join the Department of Economics at the Ruhr-University of Bochum, where he is supposed to assume a professorship in the next winter term. His habilitation thesis was supervised by IZA Director *Klaus F. Zimmermann* and dealt with "Labor Market Effects of Flexible Workplace Systems: Evidence from Germany".

US Economists Carmel and Barry Chiswick visit IZA



C. Chiswick

B. Chiswick

On July 28, IZA welcomed its renowned Research Fellows *Carmel* and *Barry Chiswick* (both University of Illinois, Chicago) for a research visit in Bonn. IZA Director *Klaus F. Zimmermann* stressed the important role of the IZA Guest Researchers Program in establishing IZA as a central place of academic communication for international labor economists.

IZA Workshop on "Interactions between Labor and Financial Markets"

The workshop hosted by IZA on May 30-31, focused on an emerging area of economic research with participants discussing various aspects of labor and financial market interactions. An emphasis lay on an analysis of the microstructure of these interactions, including the effects of corporate governance and product market competition on managerial

compensation and workers' wages. Moreover, the participants investigated the role of firms providing partial insurance to workers, the sorting of workers into firms with different risks and the interactions between self-employment and financial wealth. The workshop then went on to discuss the macro level effects of capital market imperfections on em-

ployment, job creation and rent sharing. The seminar also incorporated a politico-economic perspective by providing an economic analysis of why labor markets tend to be more regulated when capital markets are less efficient.

Second IZA/SOLE TransAtlantic Meeting of Labor Economists

Co-organized by IZA, the second IZA/SOLE TransAtlantic Meeting of Labor Economists took place in Buch on Lake Ammersee, Germany, June 5-7, 2003. Again a large number of well-known economists discussed recent progress in labor economics and econometrics.

They also used this opportunity to develop future research cooperation in these fields. Several specialized sessions dealt with "Economics of the Family", "Women and the Labor Market", "Search and Matching", "Firm Behavior and Work", "Wage Determination" and "Nat-

ural Experiments". This broad variety of topics reflects the main goal of the annual TransAtlantic Meeting, which is to foster further research in all areas of labor economics. See www.iza.org for a complete conference program and the presented papers.

IZA expands its apprenticeship program

As part of its own "active labor market policy", IZA has established two new high-quality apprenticeships in the areas of IT and office organization. Both vacancies were filled immediately. *Astrid Zeitz-Fehse* joined IZA as an IT trainee in July 2003. Her tasks include the maintenance of hardware and software components. She also takes part in providing support for the TeX typesetting system and related graphical user interfaces. She will finish her



Astrid Zeitz-Fehse



Manuela Buchholz

apprenticeship in 2006. In September 2003 *Manuela Buchholz* will start her three-year apprenticeship as an office administrator for business communications. Her program includes office management as well as assistant and secretary tasks, information processing, personnel administration and accounting.

IZA Research Associates René Fahr and Thomas Dohmen receive doctorate



K. F. Zimmermann R. Fahr M. Kräkel

René Fahr is the fourth IZA Resident Research Affiliate who completed his Ph.D. studies at the Bonn Graduate School of Economics (BGSE) in May 2003. His dissertation entitled "Occupational Mobility and Occupational

Matching: Some Implications for Career Choice and Labor Market Policy" includes chapters on the demand for informal education and the evaluation of the German apprenticeship system when occupational mobility is important, as well as empirical investigations of mismatch unemployment in Germany. IZA Director *Klaus F. Zimmermann* and IZA Research Fellow *Matthias Kräkel* (University of Bonn) were part of the examination committee.

Thomas Dohmen, who has been an IZA Research Associate since January 2003, received his doctorate from the University of Maastricht also in May 2003. His thesis entitled "Internal Labor Markets: Theory and Evidence at the Firm Level" was supervised by IZA Research Director *Gerard A. Pfann*, who is also Director of BIRC at Maastricht University.



G. A. Pfann T. Dohmen K. F. Zimmermann F. C. Palm

Among the members of the examination committee were *Franz C. Palm* (University of Maastricht) and IZA Director *Klaus F. Zimmermann*.

IZA DISCUSSION PAPER SERIES

From May to July 2003 IZA Discussion Papers included the following titles
(a complete list is available on our homepage at www.iza.org - all papers are downloadable):

- 827 Hielke Buddelmeyer, Emmanuel Skoufias**
An Evaluation of the Performance of Regression Discontinuity Design on PROGRESA
- 826 Karsten T. Hansen, James J. Heckman, Kathleen J. Mullen**
The Effect of Schooling and Ability on Achievement Test Scores
- 825 Antonio Filippin, Andrea Ichino**
Gender Wage Gap in Expectations and Realizations
- 824 Antonio Filippin**
Discrimination and Workers' Expectations: Experimental Evidence
- 823 Antonio Filippin**
Discrimination and Workers' Expectations
- 822 Doris Weichselbaumer, Rudolf Winter-Ebmer**
The Effects of Competition and Equal Treatment Laws on the Gender Wage Differential
- 821 Pedro Carneiro, James J. Heckman**
Human Capital Policy
- 820 Christopher M. Cornwell, Kyung Hee Lee, David B. Mustard**
The Effects of Merit-Based Financial Aid on Course Enrollment, Withdrawal and Completion in College
- 819 Michel Beine, Frédéric Docquier, Hillel Rapoport**
Brain Drain and LDCs' Growth: Winners and Losers
- 818 John Pencavel**
The Surprising Retreat of Union Britain
- 817 Torben Andersen, Trygvi Thor Herbertsson**
Measuring Globalization
- 816 Trygvi Thor Herbertsson, Michael Orszag**
The Early Retirement Burden: Assessing the Costs of the Continued Prevalence of Early Retirement in OECD Countries
- 815 Arild Aakvik, Kjell G. Salvanes, Kjell Vaage**
Measuring Heterogeneity in the Returns to Education in Norway Using Educational Reforms
- 814 Geert Ridder, Gerard J. van den Berg**
Measuring Labor Market Frictions: A Cross-Country Comparison
- 813 Edward Lazear**
Firm-Specific Human Capital: A Skill-Weights Approach
- 812 John T. Addison, Thorsten Schank, Claus Schnabel, Joachim Wagner**
German Works Councils in the Production Process
- 811 Miles Corak, Wen-Hao Chen**
Firms, Industries, and Unemployment Insurance: An Analysis Using Employer-Employee Data
- 810 Jaap Abbring, Gerard J. van den Berg**
A Simple Procedure for the Evaluation of Treatment Effects on Duration Variables
- 809 Simon Commander, Mari Kangasniemi, L. Alan Winters**
The Brain Drain: Curse or Boon?
- 808 Frédéric Docquier, Hillel Rapoport**
Remittances and Inequality: A Dynamic Migration Model
- 807 Paul Frijters, Michael A. Shields, Nikolaos Theodoropoulos, Stephen Wheatley**
Price Testing for Employee Discrimination Using Matched Employer-Employee Data: Theory and Evidence
- 806 Gerard J. van den Berg**
Multiple Equilibria and Minimum Wages in Labor Markets with Informational Frictions and Heterogeneous Production Technologies
- 805 Gerard J. van den Berg, Aico van Vuuren**
The Effect of Search Frictions on Wages
- 804 Jaap Abbring**
Dynamic Econometric Program Evaluation
- 803 Rafael Lalive**
Social Interactions in Unemployment
- 802 Heather Antecol, Peter Kuhn, Stephen Trejo**
Assimilation via Prices or Quantities? Labor Market Institutions and Immigrant Earnings Growth in Australia, Canada, and the United States
- 801 Andrey Launov**
A Study of the Austrian Labor Market Dynamics Using a Model of Search Equilibrium
- 800 Thomas Beissinger, Christoph Knoppik**
Sind Nominallohne starr? Neuere Evidenz und wirtschaftspolitische Implikationen
- 799 Robert A. Hart**
General Human Capital and Employment Adjustment in the Great Depression: Apprentices and Journeymen in UK Engineering
- 798 James J. Heckman, Jeffrey A. Smith**
The Determinants of Participation in a Social Program: Evidence from a Prototypical Job Training Program
- 797 Espen Bratberg, Øivind Anti Nilsen, Kjell Vaage**
Assessing Changes in Intergenerational Earnings Mobility
- 796 Patricia Apps**
Gender, Time Use and Models of the Household
- 795 Barry T. Hirsch**
Reconsidering Union Wage Effects: Surveying New Evidence on an Old Topic
- 794 Paul Frijters, Michael A. Shields, Stephen Wheatley**
Price Investigating the Quitting Decision of Nurses: Panel Data Evidence from the British National Health Service
- 793 Tapio Palokangas**
Foreign Direct Investment, Labour Market Regulation and Self-Interested Governments
- 792 Lex Borghans, Bas ter Weel**
What Happens When Agent T Gets a Computer? The Labor Market Impact of Cost Efficient Computer Adoption
- 791 Maia Güell**
Fixed-Term Contracts and the Duration Distribution of Unemployment
- 790 Alessandro Cigno, Annalisa Luporini, Anna Pettini**
Hidden Information Problems in the Design of Family Allowances
- 789 José A. Cabral Vieira, Ana Rute Cardoso, Miguel Portela**
Recruitment and Pay at the Establishment Level: Gender Segregation and the Wage Gap in Portugal
- 788 Felix Büchel, Joachim R. Frick**
Immigrants in the UK and in West Germany - Relative Income Position, Income Portfolio, and Redistribution Effects
- 787 Pietro Garibaldi, Lia Pacelli, Andrea Borgarello**
Employment Protection Legislation and the Size of Firms
- 786 Peter R. Mueser, Kenneth Troske, Alexey Gorislavsky**
Using State Administrative Data to Measure Program Performance
- 785 Rita K. Almeida**
The Effects of Foreign Owned Firms on the Labor Market 2
- 784 Olivier Pierrard, Henri Sneessens**
Low-Skilled Unemployment, Biased Technological Shocks and Job Competition
- 783 Barry T. Hirsch, Edward J. Schumacher**
Match Bias in Wage Gap Estimates Due to Earnings Imputation
- 782 Maia Güell, Barbara Petrongolo**
How Binding Are Legal Limits? Transitions from Temporary to Permanent Work in Spain
- 781 Jaap Abbring, Jeffrey R. Campbell**
A Structural Empirical Model of Firm Growth, Learning, and Survival

IZA GUEST RESEARCHERS

From May until July 2003 the following renowned economists stayed at IZA to discuss issues of labor market research and policy:

- Patricia Apps**
(University of Sydney)
- Michael L. Bognanno**
(Temple University, Philadelphia)
- Carmel U. Chiswick**
(University of Illinois, Chicago)
- Barry R. Chiswick**
(University of Illinois, Chicago)
- Leif Danziger**
(York University, Toronto)
- Don J. DeVoretz**
(Simon Fraser University, Burnaby)
- Daniel S. Hamermesh**
(University of Texas, Austin)
- Barton H. Hamilton**
(Washington University, St. Louis)
- Ashok Kaul**
(University Pompeu Fabra, Barcelona)
- David B. Mustard**
(University of Georgia, Athens)
- Shoshana Neuman**
(Bar-Ilan University, Ramat-Gan)
- Solomon Polachek**
(Binghamton University, New York)
- David Ribar**
(George Washington University, Washington DC)
- Álmos Telegdy**
(Central European University, Budapest)
- Manuelita Ureta**
(Texas A&M University, College Station)
- Edward Vytlacil**
(Stanford University)
- Till von Wachter**
(University of California, Berkeley)

O P I N I O N

Germany's Unions – Ready for a Fresh Start?



The current crisis of the German Metalworkers' Union (IG Metall) has startled many observers at home and abroad. It appears as if the power of the German unions, which is quite significant by international standards, is beginning to erode. This could be a good opportunity to adopt a "new modesty" in the face of scandalously high unemployment rates.

The first act of the play: The IG Metall, formerly the most powerful single trade union in the world, goes down with all flags flying for the first time in an industrial dispute. Against all economic reason, the union had attempted to reduce the eastern German workweek of currently 38 hours by eight percent to the level of 35 hours as it is in effect in the western part of the country. Eventually, however, union leaders had to retreat and content themselves with an agreement delaying the implementation of their demands until 2009.

In the second act of the play, the historic surrender aggravates the fight over the direction of the union, particularly with a change in leadership coming up this fall. Previously made personnel decisions are being contested

while the current head of the IG Metall and his deputy, who is eager to succeed him in office, are staging a public showdown that leaves the audience with the impression of a badly hit IG Metall staggering into an uncertain future without a leader or a concept. In the end, the boss resigns. Although he does not leave without reiterating his call for reform, the pre-agreed personnel decisions are foreshadowing an adherence to traditionalism.

So where are the German unions headed? Their current power is based upon their bargaining autonomy, as symbolized by the industry-wide collective agreements, their integration in the decision-making structures on the firm level in the form of co-determination and works councils, and their notion of representing all union members politically. The legislators have not only transferred most of the responsibility for organizing the working world to the collective bargaining parties, but they have also accepted for quite some time that these institutions are striving to influence the political process on all levels.

But times have definitely changed. The modern working world has different rules, which leave no room for the unions' outdated friend and enemy concepts. The majority of workers are no longer subject to the traditional working-time scheme, and firms are increasingly introducing flexible wage models. At the same time, the aging of the working population dries up the union's supply of new blood. The trend towards individualization further reduces people's willingness to become organized and mobilized. The decline in membership and the damaged public reputation on the one hand, and the erosion of political influence on the other, are the consequences of a backward-looking union policy. This is most evident in the failure of union opposition against the government's Agenda 2010 reform proposals in Germany and the pension reform in France.

As a result, the institution of industry-wide collective agreements itself has moved to the center of the debate on labor market policy

reform. This form of agreement, which is already quite ineffective in eastern Germany due to a lack of acceptance, has further suffered from the IG Metall's defeat in the recent negotiations. This is despite the numerous advantages of industry-wide agreements, such as allowing firms to plan more reliably, saving the economic cost of firm-level wage determination, and increasing the chance that the negotiating parties give thought to the economy as a whole. Abandoning centralized wage negotiations would most likely result in more strikes.

How will the drama end? The script for the final act will mainly depend on the behavior of the unions themselves. They will have to summon the strength to get back on track and finally give adequate attention to the interests of those whose labor market prospects should be their main focus, namely the unemployed.

The unions are currently running the risk of disqualifying themselves as negotiating partners. The recent defeat of the IG Metall can hardly be expected to increase the employer associations' willingness to negotiate. Now is the time for the unions to completely modernize their structures, redesign their strategies, and adopt a policy based on economic reason. This would imply, for instance, a return to longer and more flexible working hours as well as lower minimum wages for low-skilled workers. Industry-wide collective agreements will only be able to survive if opening clauses allow individual firms to opt out under certain circumstances, and if the agreements are no longer legally extended to non-organized firms. This would allow for more innovation and creativity in a far too rigid system. The ball is now in the unions' backcourt. What they need is a key player who knows how to handle it.

K. F. Zimmermann



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