



# IZA COMPACT

Considering the Future of Labor

www.iza.org

October 2006

## Workfare – An IZA Proposal to Overcome the Unemployment Crisis

Against the background of high and persistent unemployment, the current labor policy debate in Germany centers on the question of introducing in-work benefits (also termed “combi-wages”) in all sectors of the economy. What is often overlooked is the fact that this form of subsidy can only be effective if the basic level of benefit transfers for the unemployed is reduced at the same time. Such proposals have been made, but the public reaction shows that a political consensus in this area will hardly be achieved.

This is why IZA has long advocated a more effective – and also fairer – approach to providing the necessary incentives to take up low-paid employment without touching the existing basic welfare levels. Known as the “workfare” concept, this alternative is based on the simple principle of reciprocity, or “give-and-take”. IZA simulations show that the introduction of workfare could create over 800,000 additional jobs in Germany – much more than any of the wage subsidy models currently discussed. However, policymakers must decide between workfare and in-work benefits; there can be no compromise between the two approaches. So why not choose the better alternative?

### Political Background

Germany’s high unemployment is primarily due to its underdeveloped low-wage sector. The negative employment incentives inherent in the social welfare system raise the so-called implicit minimum wages. This means that for people who are unable to achieve high wages in the labor market, entering into regular employment is often not worthwhile. Their highest achievable wage rate would not be sufficiently above the basic income guaranteed by long-term unemployment benefits, housing subsidies, and other transfers. In many cases the only rational decision – based on time-utility considerations that

cannot at all be condemned – is to stay out of employment.

The problem is that most of the wage income generated from paid employment counts towards the individual’s benefit entitlements. Simply put, for every euro earned, benefits will be reduced by an almost equal amount. A single person receiving ALG II (a recently introduced benefit combining long-term unemployment benefits and welfare), given a realistic housing subsidy of 320 euros, generates an average monthly income of roughly 665 euros if no other income sources are available. If the same person were to accept a full-time job paying a gross hourly wage of 7 euros, the net disposable income would increase to just above 900 euros per month. In many cases this is not a sufficient employment incentive. In the above example, the individual would spend about 170 hours per month at work (assuming a 40-hour work week) for an additional income of 240 euros. This translates into a marginal hourly wage of 1.40 euros – hardly enough for most people to find it worth their while.

This problem mainly affects individuals without completed occupational training, but also those with formal qualifications that have been devalued by long periods of unemployment. Based on the number of ALG II recipients who are fit to work, almost 3 million people – or two-thirds of the registered unemployed – are prone to making the choice outlined above.

With these figures in mind, the introduction of in-work benefits may seem plausible at first glance. According to the common argument, wage subsidies by the government would create stronger incentives for transfer recipients to accept even a low-paid job. As more workers are willing to perform simple tasks for adequate wages, employers in turn would have an incentive to create more jobs in the low-wage sector – and stop exporting

### >> In This Issue

#### IN MEMORIAM: JACOB MINCER

Jacob Mincer, eminent pioneer of modern labor economics and first laureate of the IZA Prize in Labor Economics, passed away in August: A Memorial by Barry Chiswick.



The first volume of the IZA Prize Book Series honors Jacob Mincer’s lifetime achievement. [page 5/10](#)

#### MIGRANT ETHNICITY

An interdisciplinary IZA Study Group, funded by the Volkswagen Foundation, submits its first report on “The Economics and Persistence of Migrant Ethnicity” analyzing the determinants of ethnic identity and the successful integration of immigrants. [page 6](#)



#### JOINT IZA/WORLD BANK INITIATIVE ON “EMPLOYMENT AND DEVELOPMENT” CONTINUES IN KENYA

In June 2006, IZA held its first intensive training course for young African labor economists in cooperation with the World Bank and the African Economic Research Consortium (AERC). [page 10](#)

#### IZA RESEARCH FELLOW EDMUND PHELPS WINS NOBEL PRIZE IN ECONOMICS

On October 9, 2006, the Royal Swedish Academy of Sciences announced that *Edmund S. Phelps* (Columbia University), IZA Research Fellow since December 2001, is awarded this year’s Nobel Prize in Economics “for his analysis of intertemporal tradeoffs in macroeconomic policy.”



them to countries where labor is cheaper. Ultimately, however, in-work benefits are inadequate to achieve this goal.

**Basic Welfare Level and Implicit Minimum Wage**

The figure below (▼). shows the enormous impact of the basic welfare level on the employment incentives for low-income earners. It plots the disposable income of a single person against the number of working hours at a gross hourly wage of 7 euros, accounting for benefit entitlements (ALG II plus housing subsidy) as well as taxes and contributions. To better illustrate the point, the figure also shows the changes in net wage income for the same person.

**Employment Incentives of the Basic Welfare Level**

We see that disposable income hardly increases as long as wage income is below the basic welfare level. Although net wage income rises – more or less proportionately – with the number of hours worked, most of the additional labor income is deducted from the benefit entitlement. The gap between wage income and disposable income is equivalent to an in-work benefit.

From an economic point of view, taking up employment does not make sense in this case, as illustrated by the plotted “indifference curve” (MonEq of ALG II utility), which comprises all points that generate the same utility as not working and living off welfare. The curve is based

on the notion that people wish to be “adequately compensated” for the time they spend earning additional income. The utility of income generated without giving something back in return is naturally higher than the utility of the same income if it can only be achieved by working 40 hours a week. In other words, the monetary equivalent that would provide the same utility as the basic welfare level for someone who works 40 hours a week must be substantially above the basic welfare level.

This phenomenon is referred to as the “welfare trap”. Those who can only achieve low wages on the market would be able to make a living on labor income – and even earn more than they receive in welfare payments – but they choose not to work because their labor income would not be sufficiently above their welfare income. From an economist’s point of view, this behavior is strictly rational. The often heard accusations of “laziness” or “taking advantage of the system” therefore miss the point.

At the same time, those who choose to enter the labor market despite this lack of incentives are faced with a shortage of low-paid jobs because the market has long ago reacted to the problem of finding few workers willing to work for low wages. Firms try to automate their production processes or move production in this segment abroad. Private households choose to perform simple tasks themselves rather than creating a market demand for these services. Another large share of this demand is shifted to the shadow economy.

In sum, the real problem is rooted in a welfare state that – well-meaning though it may be – creates the wrong incentives.

**In-Work Benefits: The Wrong Path to More Employment**

The attempt to solve this problem with the introduction of in-work benefits is misguided because it fails to take into account the whole incentive mechanism associated with this concept. The purpose of in-work benefits is to raise the labor income of individuals with low market wages in order to create an incentive to take up employment. What tends to be overlooked is the substantial incentive effect of in-work benefits on workers who are already employed. This applies particularly to in-work benefit models that keep basic welfare on its current level. The so-called “mini” or “midi” jobs (low-paid jobs for which lower taxes and contributions are due) are existing examples of this form of wage subsidy. Other examples include labor income allowances on top of welfare benefit receipt, or reintegration allowances for the long-term unemployed. It has become obvious by now that the incentive effects of these programs are too small.

To achieve a more effective reduction of unemployment, the financial incentives would need to be much stronger than they already are. But this would also increase the counterproductive effect on employed workers. The more generous the in-work benefits, the more people become eligible for this subsidy – partly because their current labor income is close to the current subsidy level, and partly because generous in-work benefits would induce people to cut down on their working hours in order to become eligible. Since this working-time reduction incentive depends on whether the subsidy is based on monthly income, which is usually the case, it could be avoided if it were instead based on hourly wages.

But even then, it would likely become common practice to declare part-time work formally as full-time employment in order to receive the subsidy. In-work benefits thus not only reduce working time but, more importantly, they also lower the revenues from taxes and social security contributions that are needed to finance the subsidy.

Overall, in-work benefits (assuming an unchanged basic welfare level) would encourage windfall profits to such an extent that public funding of these subsidies would make no economic sense. For example, according to an IZA study published as early as in 2002, a subsidy on social security



contributions up to a gross monthly income of about 1,300 euros would induce no more than 100,000 benefit recipients to seek employment, while the funds needed to finance this program (also accounting for lost revenues) would amount to over 4 billion euros annually. This translates into almost 40,000 euros per year for each additional worker induced to enter into the labor market (see IZA Research Report No.5, [www.iza.org/files/IZA5.pdf](http://www.iza.org/files/IZA5.pdf)).

By limiting the subsidy to certain target groups, the windfall profit effect could be reduced but not eliminated. For instance, programs targeted exclusively at newly hired workers would inevitably cause massive labor turnover in order for employers and employees to become eligible for the subsidy through firing and re-hiring.

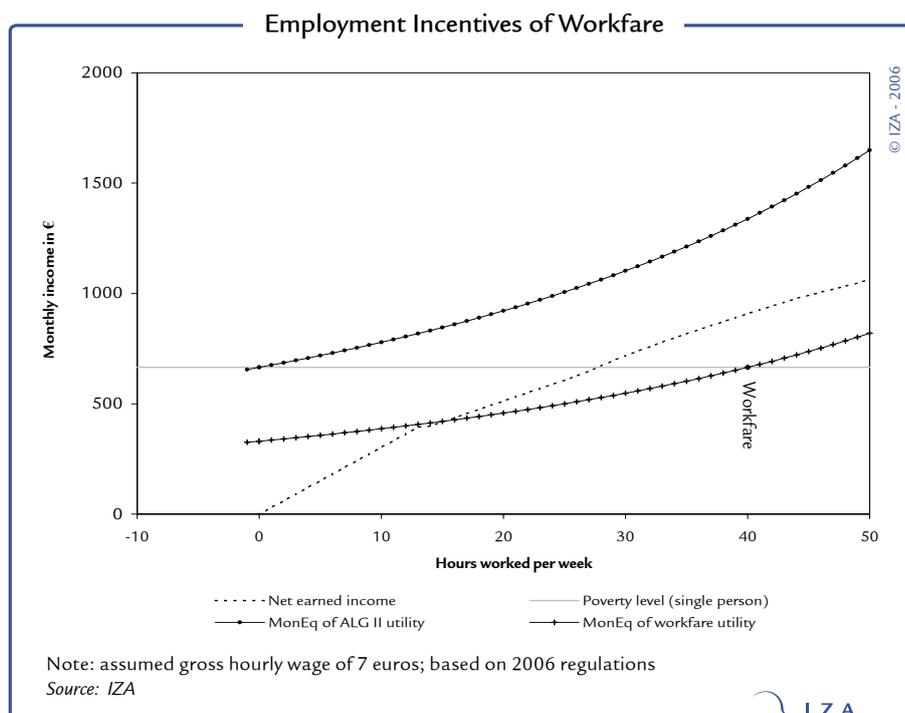
Other approaches to in-work benefits have recently been proposed by the German Council of Economic Experts and the Ifo Institute\*. Both models rely on a more or less drastic reduction of the basic welfare level. This is in line with the original purpose of in-work benefits, which were “invented” in the United States as a tool to alleviate the problem of the “working poor”. In other words, they were designed to reduce poverty, not to raise employment. This is why the concept makes sense only in a system in which the guaranteed minimum income through welfare payments is extremely low – or virtually non-existent.

Accordingly, a closer look reveals that the positive employment effect of the proposals above is primarily due to the reduction of basic welfare levels, which is even more drastic in the Ifo model than in that of the Council. In a manner of speaking, the in-work benefits would compensate for the lower basic welfare level, which virtually forces people into employment. As the guaranteed minimum income is lowered, in-work benefits increasingly lose their function as a policy instrument to stimulate employment incentives.

To sum up the argument above, in-work benefits only make sense in combination with a reduction of the basic welfare level. This is why the implementation is extremely

\* Sachverständigenrat (German Council of Economic Experts), Arbeitslosengeld II reformieren: Ein zielgerichtetes Kombilohnmodell ([www.sachverstaendigenrat-wirtschaft.de/download/press/ges\\_kombi.pdf](http://www.sachverstaendigenrat-wirtschaft.de/download/press/ges_kombi.pdf))

Ifo Institute for Economic Research, Aktivierende Sozialhilfe 2006: Das Kombilohn-Modell des Ifo Instituts ([www.cesifo-group.de/link/ifosd\\_02\\_2006\\_kombilohn.pdf](http://www.cesifo-group.de/link/ifosd_02_2006_kombilohn.pdf))



difficult for the German government. After all, the guaranteed minimum income for all citizens is one of the major achievements of the German social market economy. Before this achievement is called into question, we should opt for workfare as an alternative solution that has already proven successful in neighboring countries – and should be much easier for policymakers to implement.

**Workfare:  
The Fair Alternative**

To encourage a complete and permanent transition from welfare to work, the welfare state must do away with its unconditional guarantee of a minimum income for everyone. This is a lesson that can be drawn from the experience in other countries, such as the United Kingdom, the Netherlands, or Denmark, each of which has found a way out of the unemployment crisis.

Germans who are fit to work should no longer receive a guaranteed income unless they are willing to work. The workfare concept, first introduced in the United States, is based on the principle of reciprocity. The incentive to accept low-paid employment increases substantially if each individual must “give” in order to “take”. If the payment of long-term unemployment benefits (ALG II) is made conditional on the willingness to accept regular employment or a workfare job, low-paid jobs in the labor market would become attractive again, even without in-work benefits, and the social security burden would become much smaller.

The major advantage of the workfare concept is that it would lead to substantially stronger work incentives without touching the basic welfare level. Workfare does not question the justification of a guaranteed minimum income at all; it even contributes to the sustainability of the system by concentrating on the truly needy – those who are unfit to work or would be unable to generate a sufficient labor income to make a living.

The workfare effect is illustrated in the figure above (▲). In its strictest sense, workfare means that the government offers a job to all those who declare themselves as needy. The income paid for the job is equivalent to the subsistence level. This basically means that the option of an unconditional minimum income is replaced with the option to receive a guaranteed minimum income for a full-time job. The figure shows the indifference curve (MonEq of workfare utility) for the basic welfare level only for comparison. In practice, of course, workfare eliminates this option.

**Employment Incentives of Workfare**

What is relevant for the decision to accept a job offer is the monetary equivalent of workfare. Those who are forced to give back working time in return for the guaranteed minimum income will likely be willing to accept any job in the labor market that pays more than the workfare job – and may even offer an opportunity for permanent reintegration and labor market success. Accordingly, workfare leads to a substantial reduction in the implicit minimum wage, which will be close

to the level of basic welfare (this is currently equivalent to a gross hourly wage of about 5 euros for a single person). Under the current system, the implicit minimum wage is about 2.5 times higher. The gap between these two levels is covered by workfare.

As a consequence, many jobs which previously would not have been considered by most unemployed due to their individual valuation of time are now becoming attractive. This leads to the creation of a large number of (unsubsidized!) new jobs, which would today be uneconomical for an employer to provide. A lot more of these jobs already exist, but they are disguised in shadow economic or do-it-yourself activities. Workfare creates new incentives to legally offer simple jobs while at the same time curbing illegal work.

IZA simulations show that workfare would substantially increase people's willingness to work. The results are based on a micro-econometric model of labor supply which describes the individual willingness to work under the current system. The model is also suited to estimate changes in the willingness to work under the conditions of workfare. It accounts for limited ability to work, e.g. due to child-rearing or home care for family members. According to the IZA estimates, the implementation of workfare would lead to more than 800,000 additional jobs.

Putting the workfare concept into practice, however, requires a permanent supply of workfare jobs for those who are unable to achieve a labor market income above the guaranteed basic welfare level. Over

the medium term, this group should be no larger than 300,000 persons. In view of the expected labor turnover in the market, a certain number of additional jobs would need to be provided in order to strengthen the plausibility of the program implementation. In the long run, the number of workfare jobs to be provided is unlikely to exceed the number of employment opportunities provided under today's job creation programs. While crowding-out effects on the regular labor market cannot be ruled out, this is not a valid argument against workfare. These effects are much more dramatic under the current system: Over the past four years alone, more than two million regular jobs have been crowded out because wages for low productive jobs are too high.

The employment opportunities created by the Hartz reforms ("one-euro jobs") are already founded on the basic idea behind workfare. In practice, however, the effect of these programs has been limited. One of the reasons is that the policy instruments have been applied rather reluctantly by the responsible government agencies, mainly to those who volunteered to accept a one-euro job. Most likely, this is the group that would be unable to achieve a better labor market income anyway. The goal to get the remaining welfare recipients to accept a job in the regular labor market cannot be achieved by applying this program as a voluntary instrument. The reluctance on the part of government agencies is largely due to a number of court decisions practically prohibiting a consistent implementation of one-euro jobs according to the workfare principle.

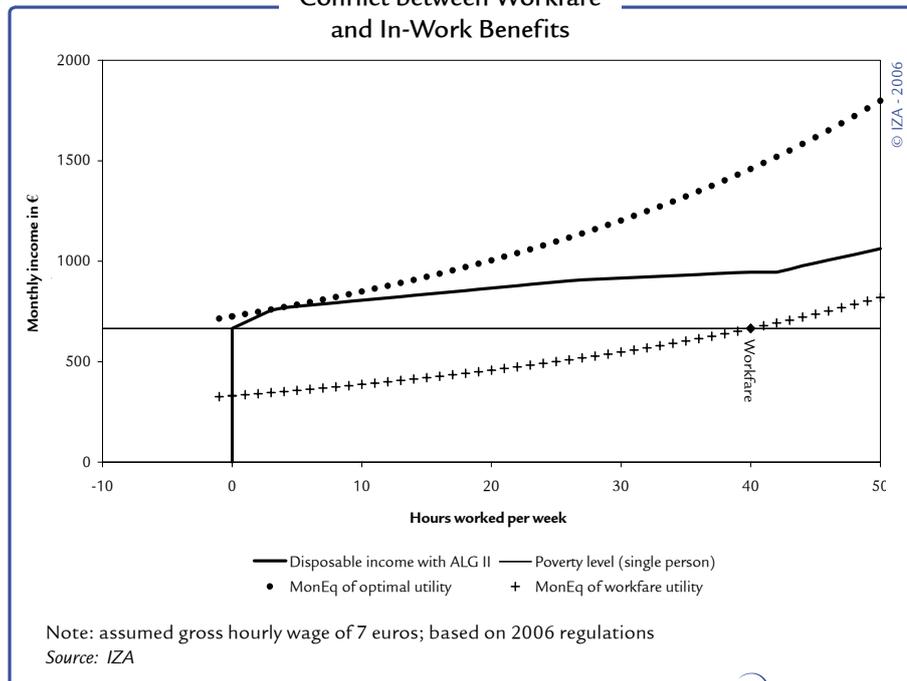
Another reason why the current system cannot accomplish its purpose is that it competes with the in-work benefit elements of the guaranteed minimum income. The figure below (▼) shows that as long as disposable income from subsidized part-time work is larger than workfare income, the system provides a strong incentive to prefer a subsidized part-time job over an unsubsidized full-time job.

**Unequal Competition:  
In-Work Benefits and Workfare**

There is no sensible way to combine the two concepts of in-work benefits and workfare because the former virtually neutralizes the power of the latter. The in-work benefit system allows the unemployed to avoid the strict requirements of "give-and-take" for the guaranteed minimum income under workfare by resorting to a (highly subsidized) part-time job. This phenomenon is already reflected by the rapidly increasing number people who supplement their ALG II benefit payments by working a few hours per week. Workfare can only be effective if the option to accept highly subsidized part-time work is eliminated. The welfare state must choose between the two alternatives.

Nonetheless, this modification of the existing welfare system would not be "revolutionary", but merely an evolutionary step towards a systematic improvement of the social policy reforms underway. Instead of contemplating in-work benefits and such accompanying measures as minimum wages, the enormous resources that would be needed to finance this system should rather be invested in a reduction of labor costs, from which the problem group of low-skilled workers would truly benefit. While in-work benefits and minimum wages are pseudo-solutions, workfare offers a genuine chance to reduce German unemployment substantially.

**Conflict between Workfare and In-Work Benefits**



Note: assumed gross hourly wage of 7 euros; based on 2006 regulations  
Source: IZA

## In Memoriam: Jacob Mincer (1922 - 2006)

Jacob Mincer, the first winner of the IZA Prize in Labor Economics (2002), died at his home in New York City on August 20, 2006 after a long illness. This brings to a close a long and productive career of a remarkable man.

### The Formative Period

Mincer was born in Poland in 1922 and at the age of 16 entered a Technical University in Brno, Czechoslovakia. His studies were soon interrupted by the invasion of Czechoslovakia in Spring 1939, and he spent much of the World War II years in various prisons and concentration work camps. After the war, his skills in several languages secured him a job working for the American Military Government in Germany. In 1948 he received a Hillel Foundation scholarship for exceptional survivors and a U.S. visa to resume his studies at Emory University in Atlanta, Georgia. Credit earned from placement examinations at Emory University enabled him to graduate in two years, after which he went to the University of Chicago to study economics.

Jacob Mincer met his wife Flora in Chicago. They went to New York in 1951 where she worked as a radiation oncologist. She interrupted her career when their three children were young.

Although Mincer's career centered on New York City, in addition to visiting appointments at the University of Chicago, he held visiting positions in Sweden, Israel, Argentina, and Brazil. He completed his doctoral studies at Columbia University (1957), and taught at the City College of New York until joining the Columbia University faculty in 1959. The other institutions that played a major role in his professional life were the New York office of the National Bureau of Economic Research (NBER) and the Labor Workshop at Columbia University. His close working relationship with Gary S. Becker, both at Columbia University and the NBER in the 1960s, was noteworthy. Each has acknowledged the enormous debt that they owed each other.

### The New Labor Economics

Mincer has been accurately described as a pioneer of the New Labor Economics – or “Modern” Labor Economics. The discipline had been dominated by the focus on institutions, such as trade unions, labor law and collective bargaining, and description rather than analysis. The New Labor Economics focused on the functioning of labor markets and used microeconomic theory and statistical (econometric)

techniques to rigorously test hypotheses and measure the magnitude of effects.

It focused on human capital, the idea that important insights regarding human behavior can be obtained by viewing people as analogous to a form of capital – a revolutionary approach in the 1950s and 1960s.



There were several basic principles that characterized Mincer's methodological approach. Mincer believed in Occam's Razor, the principle that simple models were to be preferred to complex models. He also had faith in the power of economic theory to explain human behavior, that is, that people act as if trying to maximize utility. He believed that economics was all about choices or opportunities. He also felt strongly that economic theory can tell you what might be, but empirical analysis was essential to know what is. It was not sufficient to just set out a model – it had to be tested using the best available data and statistical techniques. He did not believe that one test was sufficient; he was committed to testing the robustness of empirical findings.

Mincer's 1957 doctoral dissertation, which served as the basis of his famous 1958 Journal of Political Economy article, “Investment in Human Capital and Personal Income Distribution,” broke with the prevailing literature that emphasized stochastic and mechanistic models to employ a model of optimal investment in human capital. His most frequently cited work is his book *Schooling, Experience and Earnings* (1974). It delved much more deeply into the relationship between human capital, formal schooling and labor market experience, the distribution of earnings, and the determinants of individual earnings. It is here that he developed the relationship between earnings and labor market experience, as distinct from age. This was a key contribution to the human capital

earnings function, a statistical technique that quickly became a standard tool in labor economics.

Mincer was also a pioneer in research on the economic value of time and female labor supply. He recognized early in his career that time was an economic good, and that its value would affect behavior. His research in the early 1960s on the value of time and the labor force participation of married women has served as the theoretical basis for the economic literature over the next four decades.

### An Economist's Economist

Mincer was fundamentally an empirical economist. He sought to understand the world in which he lived, and his life experiences helped shape his insights. Mincer has said that his work on female labor supply was influenced by his wife's career and her movement in and out of the labor force in response to changes in the value of her time in home production and in the labor market. At his 1991 retirement party he was asked how he got the insight on the distinction between age and labor market experience as they affect earnings. In a typically terse Mincer response, he said it was based on his life experiences.

He became an Emeritus faculty member in 1991. Ironically, Mincer found that he had to retire two years earlier than the mandatory retirement age because as a precocious child his parents had to declare his age as seven for him to be admitted to school when he was only five years old.

In a sense, all labor economists today are the “students” of Jacob Mincer. He had a direct impact on labor economics through his own research, and an indirect impact through his students, many of whom have themselves contributed substantially to the field. His reach as a teacher was enhanced by a meticulous writing style. His classroom students benefited from lectures that were well organized and clearly articulated.

Mincer showed no interest in being in the public eye, even though he was deeply interested in empirical findings. As a result, his name never became a household word, except for the households of labor economists. However, for five decades Jacob Mincer was an outstanding scholar and teacher. His impact as an economist has been monumental. He will be missed.\*

*Barry R. Chiswick  
(University of Illinois at Chicago and IZA)*

\* Later this fall, OUP will publish the first volume of the IZA Prize Book Series “Jacob Mincer – The Founding Father of Modern Labor Economics” (► see page 10).

# The Economics and Persistence of Migrant Ethnicity

## Successful Research of IZA Study Group Funded by Volkswagen Foundation

### IZA Migration Topic Week Provides Ideal Forum for Interdisciplinary Collaboration

Since April 2005, an interdisciplinary study group headed by IZA has been analyzing the economic impact of ethnicity and the determinants of successful immigrant integration in the labor market and society. The objective of the project, which is funded by the Volkswagen Foundation, is to arrive at a better understanding of the costs and benefits of ethnic diversity, and to formulate proposals for an improved migration and integration policy. One of the key approaches to this goal is the development of instruments for the measurement of ethnicity and “ethnic capital”. In addition, the significance of naturalization, interethnic marriages, and immigrant entrepreneurship are used as indicators for the effectiveness of integration efforts. The research activities undertaken in this project are part of a broader initiative by the Volkswagen Foundation in the field of “Migration and Integration” (see IZA Compact, November 2005), which aims at analyzing the ongoing social changes associated with globalization and demographic change in order to deal with these challenges more effectively. The IZA Study Group involved in this project is headed by IZA Director *Klaus F. Zimmermann* and *Amelie Constant*, IZA Senior Research Associate and Deputy Program Director for Migration. Among the project leaders are also *Barry R. Chiswick*, IZA Program Director for Migration (University of Illinois at Chicago) and IZA Research Fellow *Don J. DeVoretz* (Simon Fraser University, Burnaby, Canada).

#### Project Focus within the “IZA Migration Topic Week”

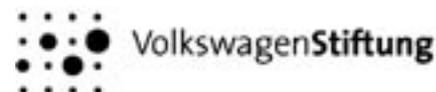
The research project plays a prominent role in the workshops and conferences organized by IZA on migration and integration topics. This year, for the first time, an entire “IZA Migration Topic Week” (May 13–21, 2006) brought together more than 50 international experts on migration and integration research to present and discuss their most recent findings. The topic week comprised presentations of selected high-quality research papers as well as opportunities for group discussion and close interaction between IZA staff members and visiting researchers. It proved to be an ideal forum for the exchange of knowledge particularly between different scientific disciplines. Among the participants were also *Alfred Schmidt* and other representatives of the Volkswagen Foundation, members of

various study groups from the Foundation’s “Migration and Integration” initiative, and the Greek Consul-General in Cologne, *Rosa Ieremia*.

Organized by *Amelie Constant*, *Barry Chiswick* and *Klaus F. Zimmermann*, the IZA Migration Topic Week centered around the 2<sup>nd</sup> Migrant Ethnicity Meeting (MEM). This interdisciplinary conference constitutes a unique platform for the discussion of highly topical issues of immigrant integration from the viewpoint of economists, political scientists, sociologists, and anthropologists.

For example, presenters at MEM included the political scientist *James F. Hollifield* (Southern Methodist University, Dallas) with a paper on “Immigrants, Markets, and Rights: The US as an Emerging Migration State” and the social psychologist *Amélie Mummendey* (University of Jena), who presented “Immigration, Racism, and Acculturation: A Three Nation Study”. The sociological approach was represented, for instance, by *Hartmut Esser* (University of Mannheim) with his study on “Language Acquisition as an Investment: An Elaboration of the Chiswick-Model” and *Guillermina Jasso* (New York University), who provided insights into “Interethnic Marriage, Citizenship, and Measurement of Ethnicity.”

Overall, representatives from 21 countries contributed their insights to the project (see conference program ► page 8). A wide range



of new findings in this field were presented during the conference. The event also reflected the immediate relevance of the research project for the design of an adequate integration policy.

The IZA Migration Topic Week ended with the two-day Annual Migration Meeting (AM<sup>2</sup>, see program ► page 8), which took place for the third time and perfectly complemented the range of topics discussed at the Migrant Ethnicity Meeting. *Timothy J. Hatton* (University of Essex), member of the IZA Study Group on ethnicity and co-author of a recent book on “Global Migration and the World Economy – Two Centuries of Policy and Performance” (see IZA Compact, July 2006), delivered the Julian Simon Lecture in honor of the great pioneer of migration research. His speech was entitled “Should We Have a WTO for International Migration?”.

#### Exchange of Opinion and Knowledge with Practitioners

Another integral part of the activities pursued by the IZA Study Group – in accordance with the requirements by the Volkswagen Foundation – is the open exchange of knowledge between scientists and practitioners in order to continuously assess the practical relevance of the latest research findings. To serve this purpose,



Participants of the IZA Migration Topic Week, May 14 - 21, 2006



Klaus F. Zimmermann at MEM



Amelie Constant at MEM



Zimmermann, Constant, Schmidt (VW Foundation)



Barry R. Chiswick, Carmel U. Chiswick at MEM



Interethnic Practitioners' Meeting, June 30, 2006

IZA has organized a series of “Interethnic Practitioners’ Meetings” focusing on different topics. The discussion with members from various ethnic communities and associations in a special focus-group setting enables the IZA researchers to better understand migrant realities, integration experiences, perspectives and shortcomings, as well as to stimulate further research.

As part of the 2<sup>nd</sup> Migrant Ethnicity Meeting the first IZA Interethnic Practitioners’ Meeting on May 15, 2006 focused on “Education and Integration” with invited practitioners sharing their insights into the relevance and necessary incentives of language acquisition and the efficiency of German integration courses introduced by law in 2005. The participants voiced criticism as well as support for the concept of mandatory language acquisition for immigrants entering the country. One of the concerns was that migrants with insufficient language skills would be further disadvantaged by the high requirements of the course.

The second Interethnic Practitioners’ Meeting on June 30, 2006, provided a forum for a very fruitful exchange with nine practitioners on “Ethnic Entrepreneurship”. Invited for this meeting by Amelie Constant and Don J. DeVoretz, this diverse group of immigrants with different ethnic and social backgrounds represented nine individual businesses. The broad range of topics covered included problems of business start-up, ethnic apprenticeship and employment, pros and cons of ethnic community entrepreneurship, gender differences in entrepreneurship, and suggestions for government initiatives to stimulate migrant entrepreneurship. Further Interethnic Practitioners’ Meetings are planned for the near future.

Moreover, IZA has undertaken a variety of communication activities targeted at migration and integration practitioners, policymakers and media representatives interested in the field. On March 30, 2006, the spring meeting of the “IZA Policy Fellow Network” (whose task is to relay the institute’s research findings to public opinion and decision makers as well as to provide recommendations for further research) focused on the topic of “migration and integration”. The meeting centered on an in-depth presentation of the current project results by Klaus F. Zimmermann. Among the active presenters at the meeting were a number of high-ranking representatives from politics, business, academia and the media including Peter Altmaier (Undersecretary, Federal Ministry of the Interior) and Albert Schmid (President, Federal Office for Migration and Refugees), who both accepted to join

the IZA Policy Fellow Network. In addition, IZA has reached an agreement with the Federal Office for Migration and Refugees to cooperate closely in the “European Migration Network” (► page 11) initiative for the advancement and exchange of knowledge in the area of migration and integration.

At the international level as well, there was a strong demand for leading IZA Study Group members to share their knowledge with top-level policymakers. Barry R. Chiswick was invited by the United States Senate Judiciary Committee to deliver his expert testimony on the economic impact of immigration at a hearing in April 2006. In the previous year, Don J. DeVoretz had been invited by the Canadian House of Commons Standing Committee to testify on citizenship and immigration. Moreover, IZA maintains close contact with the U.S. Government Accountability Office (GAO) in Washington, which is directly involved in the currently prepared reforms of U.S. immigration policy. During a visit to Germany, GAO representatives met with IZA staff members *Holger Bonin* and *Holger Hinte* on February 3, 2006, to discuss the problems and goals of German and American immigration and integration policies. IZA took this opportunity to underscore the relevance of the Volkswagen Foundation project. By invitation of the GAO, Klaus F. Zimmermann and Amelie Constant engaged in further consultations in Washington on March 8, 2006. Amelie Constant also participated in meetings on migration at the German Embassy, the Dutch Embassy, and the National Press Club, stressing the importance of intensified studies on migrant ethnicity.

#### Preliminary Results of the Project

In September 2006 the IZA Study Group submitted its first report to the Volkswagen Foundation. The report contains research findings on the measurement of ethnicity, the role of citizenship, interethnic marriages, and entrepreneurship.

Using a two-dimensional understanding of ethnic identity as a balance of cultural and social commitments to the host country and to the country of origin, empirical analysis on the measurement of ethnicity has demonstrated that age at entry, religion, education in home country, and the origin of an arriving immigrant predetermine this balance. Immigrants identity levels can be differentiated into four types: *assimilation*, a strong identification with the host culture and full detachment from the culture and

## Second Migrant Ethnicity Meeting (MEM), IZA, May 14 - 16, 2006\*

Welcoming Address by *Klaus F. Zimmermann* (IZA, DIW Berlin and University of Bonn)

### Session I: Migrant Ethnicity

Chair: *Barry R. Chiswick* (University of Illinois at Chicago and IZA)  
*Guillermina Jasso* (New York University and IZA)  
 "Interethnic Marriage, Citizenship, and Measurement of Ethnicity"  
*Amélie Mummendey* (University of Jena and IZA)  
 "Immigration, Racism, and Acculturation: A Three Nation Study"  
*Amelie Constant* (IZA)  
 "Ethnosizing Immigrants"

### Session II: Immigrant Citizens

Chair: *James F. Hollifield* (Southern Methodist University and IZA)  
*Don J. DeVoretz* (Simon Fraser University and IZA)  
 "The Economics of Citizenship: A Common Intellectual Ground for Social Scientists?"  
*James F. Hollifield* (Southern Methodist University and IZA)  
 "Immigrants, Markets, and Rights: The US as an Emerging Migration State"  
*Francesca Mazzolari* (Rutgers University and IZA)  
 "Determinants and Effects of Naturalization: The Role of Dual Citizenship Laws"  
*Denis Fougère* (CREST-INSEE and IZA)  
 "The Effects of Naturalization on Immigrants' Employment Probability: France, 1968-1999"

### Session III: Immigrants and the Host Country (1)

Chair: *Amelie Constant* (IZA)  
*Björn Gustafsson* (Göteborg University and IZA)  
 "Economic and Ethnic Segregation among Youth and Young Adults in Urban Sweden - Extent and Consequences"

### Session IV: Ethnic Entrepreneurship

Chair: *Don J. DeVoretz* (Simon Fraser University and IZA)  
*Ken Clark* (University of Manchester and IZA)  
 "Changing Patterns of Ethnic Minority Self-Employment in the UK: Evidence from Census Microdata"  
*Klaus F. Zimmermann* (IZA, DIW Berlin and University of Bonn)  
 "Legal Status at Entry, Economic Performance, and Self-employment Proclivity: A Bi-National Study of Immigrants"  
*Caroline B. Brettell* (Southern Methodist University)  
 "Immigrant Entrepreneurship in a US Southwestern Suburban Metropolis: Contexts, Niches, and Community Building"  
*Magnus Lofstrom* (University of Texas at Dallas and IZA)  
 "Hispanic Self-Employment: A Dynamic Analysis of Business Ownership"

### Session V: Interethnic Marriages

Chair: *Klaus F. Zimmermann* (IZA, DIW Berlin and University of Bonn)  
*Carmel U. Chiswick* (University of Illinois at Chicago and IZA)  
 "The Economic Determinants of Ethnic Group Assimilation"  
*Stephen Trejo* (University of Texas at Austin and IZA)  
 "Intermarriage and the Intergenerational Transmission of Ethnic Identity and Human Capital for Mexican Americans"  
*Xin Meng* (Australian National University and IZA)  
 "Intermarriage Language and the Assimilation Process: A Case Study of France"  
*Delia Furtado* (University of Connecticut and IZA)  
 "Cross-Nativity Marriages and Human Capital Levels of Children"

### Session VI: Immigrants and the Host Country (2)

Chair: *Amelie Constant* (IZA)  
*Hartmut Esser* (University of Mannheim and IZA)  
 "Language Acquisition as an Investment: An Elaboration of the Chiswick-Model"  
*Catalina Amuedo-Dorantes* (San Diego State University, California and IZA)  
 "Labor Market Assimilation of Recent Immigrants in Spain"

### Session VII: Migrant Ethnicity - Assessment

Chair: *Klaus F. Zimmermann* (IZA, DIW Berlin and University of Bonn)  
 Round Table Discussion: Perspectives of the Project  
*Klaus F. Zimmermann, Amelie Constant, Barry R. Chiswick, Don J. DeVoretz, Timothy J. Hatton, Hartmut Esser, Amélie Mummendey, James F. Hollifield*

### Session VIII: Migrants in Germany

Chair: *Timothy J. Hatton* (University of Essex and IZA)

### Interethnic Practitioners' Meeting: Education and Integration

*Vitaly Pekelis*, Chairman, "New Times" Society for Support of Russian-Speaking Residents, Dortmund  
*David Schah*, Director of Schooling, Steinke-Institut, Bonn  
*Joseph Somogyi*, Manager, Förderverein Ausbildungs- und Fortbildungsverbund Emscher-Lippe e.V.

Concluding Remarks by *Amelie Constant* (IZA)

Supported by



## Third Annual Migration Meeting (AM<sup>2</sup>), IZA, May 20 - 21, 2006\*

Welcoming Address by *Barry R. Chiswick* and *Klaus F. Zimmermann*

### Session I: Immigrant Earnings and Payoffs

Chair: *Klaus F. Zimmermann* (IZA, DIW Berlin and Bonn University)  
*Paul W. Miller* (University of Western Australia and IZA)  
 "Why is the Payoff to Schooling Lower for the Foreign Born?"  
*José Varejão* (University of Porto)  
 "Immigrants' Earnings and Workplace Characteristics"

### The Julian Simon Lecture

by *Timothy J. Hatton* (University of Essex and IZA)  
 "Should We Have a WTO for International Migration?"

### Session II: Saving and Remitting

Chair: *Barry R. Chiswick* (University of Illinois at Chicago and IZA)  
*Thomas Bauer* (RWI Essen and IZA)  
 "The Savings Behavior of Temporary and Permanent Migrants in Germany"  
*Randall K. Filer* (Hunter College/CUNY and IZA)  
 "Albanian Emigration: Causes and Consequences"

### Session III: Immigrant Health and the Neighborhood

Chair: *Don J. DeVoretz* (Simon Fraser University and IZA)

*Albert Saiz* (Wharton School, University of Pennsylvania and IZA)

"Immigration and the Neighborhood"  
*Ilana Redstone Akresh* (University of Illinois at Urbana-Champaign)  
 "Dietary Assimilation and Immigrant Health"

### Session IV: Immigrant and Native Employment

Chair: *Amelie Constant* (IZA)  
*Gil S. Epstein* (Bar-Ilan University and IZA)  
 "Ethnic Goods, Migration and Employment"  
*Uzi Rebhun* (Hebrew University, Jerusalem)  
 "Double or Single Negative: Immigrant Women and Labor Force Participation in Israel"  
*Sara Lemos* (University of Leicester and IZA)  
 "The Impact of Free Movement of Workers from Central and Eastern Europe on the UK Labour Market"

### Session V: Immigrants and the Public Sector

Chair: *Barry R. Chiswick* (University of Illinois at Chicago and IZA)  
*Karin Mayr* (University of Linz)  
 "Immigration and Public Spending"  
*Eskil Wadensjö* (Swedish Institute for Social Research and IZA)  
 "Immigration and the Net Transfer to Different Parts of the Public Sector"

Closing Remarks by *Amelie Constant* (IZA)

## Interethnic Practitioners' Meeting on Ethnic Entrepreneurship IZA, June 30, 2006

### Participating Practitioners:

*Despina Kourmatzi* (Managing Partner, Latrovalis & Meyer International GmbH)  
*Martin Barton* (Consul, The Branch Embassy of the Slovak Republic in Bonn)  
*Carla Batuca* (Association of Portuguese Entrepreneurs in Germany)  
*Giorgos Pachiadakis* (Business Owner, SIMEION - Communication Agency)  
*Viktor and Elena Oujegov* (Business Owners, Restaurant and Catering Service ViktorsParty)  
*Despina Kazantzidou* (Business Owner, UNISOLO GmbH)  
*Sahinder Capraz* (Attorney)  
*Olga Matykov* (Attorney)  
*Maria Schatton* (Managing Director, KliniPharm GmbH)

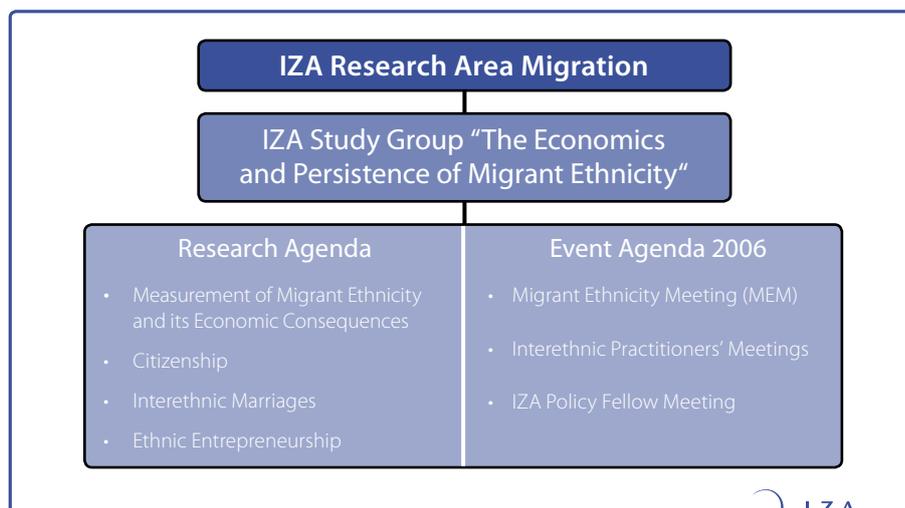
Supported by



\* A complete version of MEM and AM<sup>2</sup> programs is available at [www.iza.org/link/events](http://www.iza.org/link/events).

society of origin; *integration*, an exhibition of strong dedication to the origin and strong commitment to the host society; *separation*, an exclusive commitment to the origin, paired with weak involvement in the host culture and country realities; and, *marginalization*, detachment from both the dominant culture and the culture of origin. The findings suggest that the ethnic identity significantly affects the immigrants' working probability rates, and that this effect differs for males and females. For male immigrants high levels of assimilation or integration have a very strong positive effect on working rates. Female immigrants' success in the labor market, however, is determined only by their level of integration. Separation and marginalization have no relative positive effect on the working probability of either male or female immigrants. Most importantly, assimilation (defined as total "absorption" by the natives, or acculturation) is not necessarily an advantage in the labor market.

With respect to the effects of citizenship, the research results of the study group underscore that economic forces, including future job prospects and a rise in income, affect the decision to obtain citizenship in the New World countries (Canada and USA), while non-economic forces influence the decision to obtain citizenship in most Old World countries (e.g. Sweden and the Netherlands). Other research shows that immigrants who recently were granted dual citizenship experience significant employment gains. In addition, naturalization has a significant positive effect on immigrants' employability. This effect is particularly high for those groups of immigrants who have a low probability of employment in the host country.



Focusing on the determinants of **interethnic marriages**, it turns out that individuals who migrated below the age of 14 are more likely to be intermarried than individuals who migrated between the ages of 14 and 17 or above. Low language ability is associated with high levels of endogamy for both women and men. The same holds true for the availability of potential spouses. Women are less likely to be in a marriage within the same ethnic group, but the likeliness rises when they hold a college degree.

Considering the role that intermarriage plays in the process of the economic assimilation of immigrants, the empirical analysis shows that among all immigrants those who are intermarried earn around 25 to 35 percent more than married couples from the same ethnic group, with an advantage for those who have a better grasp of the language. It is shown that the connection to an ethnic network has an ambiguous effect on socio-economic outcomes as more involvement in the ethnic communities provides access to more information, while on the other hand

this comes at the expense of association with natives. The findings suggest that the reason why children with two foreign-born parents do better than children with a foreign-born father and native-born mother lies in the benefits of ethnic networks as opposed to attributes of the marriage itself. Expanding on the concept of ethnic human capital, a distinction between cultural assimilation compatible with persistent ethnic groups and assimilation through intermarriage could be drawn. Economic determinants of "successful" and "disadvantaged" group outcomes are shown to be sensitive to the relationship between ethnic and general human capital.

The drive into **self-employment** and the generation of earnings largely follow a similar pattern for natives and migrants in Germany. The only differences between e.g. Turks and Germans arise with the facts that, first, immigrants start with a higher probability to work than natives but have a slower increase in the self-employment probabilities thereafter, and, second, earnings from self-employment are initially higher for immigrants, but their earnings path eventually crosses that of the natives. This confirms the hypothesis that self-employment is a powerful instrument to integrate immigrants economically into the host country.

The research results acquired so far stress the fact that migrant ethnicity has been an understudied area and that traditional research on immigrants is not adequate to capture the complicated processes of the evolution of ethnicity and how this ethnicity is reflected in the social and economic domain of the host country. With generous support by the Volkswagen Foundation, the IZA Study Group will further advance the research on these topics as the project on "The Economics and Persistence of Migrant Ethnicity" continues.



Participants of the IZA Interethnic Practitioners' Meeting, June 30, 2006

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

## First Volume of the IZA Prize Book Series Honors the Lifetime Achievement of Jacob Mincer and His Fundamental Impact on Labor Economics

Later this fall, the renowned publishing house Oxford University Press will issue the first volume of the IZA Prize Book Series entitled “**Jacob Mincer – The Founding Father of Modern Labor Economics**”. In this book, IZA Research Fellow *Pedro Teixeira* depicts the extraordinary lifetime achievement of the first IZA Prize laureate Jacob Mincer, who passed away only recently.

Teixeira presents an overview of Mincer’s scientific research and explains his pioneering insights of the 1960s and 1970s as well as his contributions to the foundations of modern labor economics

and human capital theory. Teixeira delivers a detailed analysis of Mincer’s publications and the theoretical and methodological approaches that make his research unique. Today, Mincer’s techniques have become standard tools in modern labor economics and provide the basis for countless studies in the field. No other volume provides a more comprehensive insight into Mincer’s work as well as his private life, which has for many decades shaped his research interests and, ultimately, the development of the entire discipline of modern labor economics.



### IZA Course at University of Nairobi

## IZA Intensive Course in Labor Economics in Kenya as Part of Joint Project with World Bank on “Employment and Development”

The ongoing project of IZA and the World Bank on “Employment and Development”, launched in May during an inaugural expert conference in Berlin (see IZA Compact July 2006), aims at a more forceful approach to fighting mass unemployment in the developing world. To continue this important initiative, a first intensive course in labor economics for promising African Ph.D. students, has been held by IZA researchers *Thomas Dohmen*, *Winfried Koeniger*, *Uwe Sunde* and *Olivier Bargain* (coordinator) at the University of Nairobi. This special training course was carried out by IZA in collaboration with the World Bank and the African Economic Research Consortium (AERC). It was designed to pass on knowledge in the field of labor economics and its methodology, to establish contacts between European and African institutions, and to set a stepping stone for future labor market research in Africa. In the longer run, the outcomes of the course should strengthen the capacity by locals to analyze labor market issues, including impact evaluation of labor market programs and policies, and to contribute to evidence-based policy input into the highly relevant Poverty Reduction Strategy Papers process (PRSP) of the World Bank and the International Monetary Fund.

Furthermore, the AERC Ph.D. training, which integrates African distinctions in economic theory and methods and whose students come from various countries in Sub-Saharan Africa, was an ideal basis for

determining the most urgent labor market problems in Africa and developing and evaluating possible solutions. The course therefore covered basic concepts and theoretical tools in labor economics as well as empirical applications and relevant topics for labor policies in African countries, including specific aspects of low income countries and additional complementary topics innate to developing countries. Future courses are planned to incorporate hands-on experience in working with data in order to address the difficulties African researchers may face during empirical research.

AERC representatives *William Lyakurwa* (Executive Director), *David Olusanya Ajankaiye* (Research Director) and *Njuguna S. Ndung’u* (Director of Training) were very satisfied with the outcome and looked forward to having IZA researchers back next year for a similar course as well as a two-month elective course at the AERC as part of their Ph.D. program. IZA is also contemplating the possibility of inviting a limited number of participants in the training course as doctoral researchers for several months.



Participants of the IZA Course at the University of Nairobi

## IZA Research Fellow Jens Ludwig Wins Kershaw Prize

IZA Research Fellow *Jens Ludwig* (Georgetown University) has been chosen by the Association for Public Policy and Management (APPAM) to be this year's recipient of the David N. Kershaw Award and Prize.

According to APPAM, the David N. Kershaw award has been established to honor persons who, under the age

of 40, have made significant contributions to the field of public policy analysis and management. The award is given once every two years, and Jens Ludwig is the 13th person to receive it. He joins a very distinguished group of scholars that includes, among others, IZA Research Fellow *Alan B. Krueger* (Princeton University).



Jens Ludwig

## New Visiting Research Fellow

On invitation by IZA Director *Klaus F. Zimmermann*, *Qinqin Shen* (National University of the Chinese Trade Union, Beijing and IZA) is currently visiting IZA for two months as a Visiting Research Fellow. After she received her diploma in political economics from Jiaotong University in Xian she worked as a lecturer at the same university. She obtained her doctorate in labor economics from Renmin University

of China in Beijing. Since 1992 she holds a position as Assistant Professor at the National University of the Chinese Trade Union in Beijing. Her main studies concentrate on the future of the Chinese labor market. In particular, she is interested in the experiences with active and passive labor market policies in Germany and the ways in which these might be adapted for the Chinese labor market.



Qinqin Shen

## New IZA Researcher

*Anzelika Zaiceva* joined IZA as a Research Associate in September 2006. She holds a bachelor's degree in economics from Klaipeda University, Lithuania, and a Master of Science in economics from the University of Southern Denmark. This summer she finished her doctoral studies at the department of econom-

ics of the European University Institute in Florence. Her main areas of interest are labor and population economics, with special emphasis on migration. She joined the IZA Interdisciplinary Study Group on "The Economics and Persistence of Migrant Ethnicity", funded by the Volkswagen Foundation.



Anzelika Zaiceva

## IZA to Cooperate with European Migration Network (EMN)

Since 2002 the European Migration Network (EMN) has been developed on the basis of a European Council decision from December 2001. Its objective is to provide the EU "with objective, reliable and comparable information on the migration and asylum situation at the European and Member State levels." The EMN consists

of National Contact Points (NCPs) named by the member states. For Germany the Federal Office for Migration and Refugees (BAMF) has taken over this task, which is to establish a systematic foundation for monitoring and analyzing the multi-dimensional phenomenon of migration and asylum. In order to accomplish this mission,

the Federal Office cooperates closely with selected partners from academic science and political practice. In August 2006, IZA joined this national network to contribute its expert knowledge in the area of migration to the construction process of the European Migration Network.

## IZA Data Service Center Continues to Expand Its Documentation

The well-established IZA Data Service Center is continuously working on the expansion of its services for authorized researchers to further facilitate the search for and within relevant datasets as well as the analysis of datasets through controlled remote data processing. A large number of projects using the remote data processing service have already been conducted by international research teams. Often initiated by members of the large IZA Fellow network, these projects include long-term analyses of labor market participation, wage increases and vocational training in Europe. Other projects focus on wage and employment structures, immigration issues or educational attainment. All these research activities rely

on datasets made accessible to the scientific community only recently.

The documentation available at the IZA Data Service Center now includes the on-site scientific use file of the Microcensus 1985-2004 from the Federal Statistical Office, and the German Time Use Surveys 1991/92 and 2001/2002. Additionally, the Income and Expenditure Survey 1962-2003 documentation is available. The Center has completed the documentation for the IAB employment sample 1975-2001, the IAB employment subsample regional file 1975-2001, the IAB Establishment Panel Survey, and the IAB Linked Employer-Employee Dataset. A correspondence overview list for

all variables of the survey is now available for the German Microcensus and the IAB Establishment Panel Survey.

In line with its mission to acquire, maintain, and make available international datasets that are crucial to the work of labor economists, the IZA Data Service Center has completed the documentation for the most important international datasets such as the European Labour Force Survey, the Health and Retirement Study (HRS), and the Survey of Labour and Income Dynamics (SLID). By the end of October, more than twenty international datasets will be documented.

► <http://metadata.iza.org>



## >> Opinion

### The Importance of Lifelong Learning

In view of the impending demographic change with its two-fold effect of aging corporate workforces and a shortage of young skilled workers, the catchword of “lifelong learning” is gaining significance. Human capital, when continuously developed and enhanced to meet the requirements of professional life, is the most important asset in the quest to achieve competitive firms, a functioning labor market, and a wealthy society. This is why workers must be enabled to adjust to the changing demands of modern labor markets. Since a lack of further training lowers the productivity of employees in aging workforces as well as their individual reemployment prospects, it will ultimately lead to higher government expenditures for labor market policy.

Countries that were running early retirement policies for many decades now have the greatest need for longer average working lives. Strikingly, it is precisely these countries that also have the greatest shortcomings in the provision and acceptance of further training. In this respect, Continental Europe lags far behind Scandinavia and the Anglo-Saxon countries. The reason is quite simple: The shorter the working life, the weaker the incentives for firms and employees to invest in human capital. Low-skilled workers have the poorest access to further training – and the highest risk of unemployment as they grow older.

Lifelong learning offers a solution to this dilemma. However, as plausible as this concept sounds, the real difficulty is to find the right instruments for its implementation. Today’s employers already have strong incentives to invest in firm-specific knowledge. But this alone is not enough. The key objective must be to improve the employability of workers through the acquisition of transferable human capital. This is mainly up to each worker’s own initiative.

The need for individual investment in occupational training must become as firmly entrenched in our minds as the need for private old-age provision. Systematic public subsidies in this area can be useful to prevent underinvestment that may eventually lead to long-term unemployment and wel-

fare dependence. Policymakers should therefore consider the introduction of individual training accounts that would be subsidized according to individual unemployment risk. This would encourage people to undergo further training on a regular basis, particularly those who have been rather inactive in the past.

The success of this proposal hinges on an improved transparency of the market for further training. Broad participation in lifelong learning can only be achieved if the potential participant is able to find and assess the wide range of available programs, and to combine courses offered by different providers. Independent classification, certification, and quality control of training providers must therefore become an integral part of the system.

Apart from further training, the structure of vocational and academic training at the beginning of a professional career must also be critically assessed. The ability to learn and to adjust to changing requirements at a later stage in the working life is much greater among those who have acquired general rather than occupation-specific skills before starting their careers. While Germany’s dual system of vocational training is highly formalized and well-structured, it leads to an occupational specialization that tends to become problematic over the long term. Based on this insight, vocational and academic training should be reorganized to allow for a core element of basic education, which can be complemented by modular elements. In the very sense of lifelong learning, these additional elements could be acquired on the job. Important first steps in this direction that have already been taken include the restructuring of German university education towards bachelor’s and master’s degrees based on the Anglo-Saxon model. With regard to vocational training, there is a lot we could learn from Denmark.



Klaus F. Zimmermann



Institute for the Study of Labor



Editor: **Prof. Dr. Klaus F. Zimmermann**  
 Managing Editors: **Holger Hinte, Mark Fallak**  
 Address: IZA, P.O. Box 7240, 53072 Bonn, Germany  
 Phone: **+49 (0) 228 - 38 94 222**  
 Fax: **+49 (0) 228 - 38 94 180**  
 E-Mail: **compact@iza.org**  
 Web: **www.iza.org**  
 Graphics/Photographs: IZA  
 Printing: Verlag Andrea Dynowski, Cologne, Germany  
 Layout: IZA