



IZA COMPACT

Shaping the Future of Labor

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IZA Celebrates 10th Anniversary Ten Years of Independent Labor Market Research and Policy Advice

For more than a decade now, the Institute for the Study of Labor (IZA) has been devoted to high-quality research and international policy advice in all areas of labor economics. To celebrate its 10th anniversary with a series of high-profile events, IZA returned to the Petersberg Hill near Bonn, where the institute was presented to the public for the first time during a conference in 1998. The program of the anniversary event included a research conference on "Frontiers in Labor Economics" and a panel discussion on "The Economist's Role in Policy Advice."

At the same time, IZA Director *Klaus F. Zimmermann* introduced a comprehensive labor market program, which calls on policymakers to stay on the reform course in view of the global financial and economic crisis. Also on IZA's initiative, leading economists signed the "Petersberg Declaration" containing key proposals for a future-oriented labor market policy. The anniversary celebrations closed with the festive award ceremony for this year's IZA Prize in La-

bor Economics, which went to the British economists *Lord Richard Layard* and *Stephen J. Nickell*. Among the guest speakers of the anniversary events, which drew an audience of about 300 international guests from academia, politics and society, were former Czech presidential candidate *Jan Svejnar*, Harvard economist *Richard B. Freeman*, the CEO of the German Federal Employment Agency, *Frank-Jürgen Weise*, as well as the Chairman of the Verein für Socialpolitik, *Friedrich Schneider*.

Key Challenges for Labor Economics

The IZA anniversary conference offered a broad selection of topics related to the current state of labor market research. In the light of current events, the labor market effects of the global financial crisis were at the center of the discussion. *David G. Blanchflower* (Dartmouth College) described the monetary policy implications on the basis of his experience as a member of the Monetary Policy Committee of the Bank of England, while Richard Freeman (Harvard University;



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IZA PRIZE IN LABOR ECONOMICS 2008

During the 10th anniversary celebrations of IZA at the Petersberg Hill near Bonn, this year's IZA Prize in Labor Economics was awarded to the British economists Lord Richard Layard and Stephen J. Nickell. [Page 3](#)

THE PETERSBERG DECLARATION

Leading German economists followed an initiative by IZA urging policymakers to maintain the labor market policy reform course in light of the current financial crisis. [Page 4](#)

IZA PROMOTES EU EMPLOYMENT DIALOGUE

A high-level IZA Employment Seminar in Brussels served to stimulate the dialogue between research and policy making in Europe. [Page 7](#)

GERMAN DAY ON DEVELOPMENT

In cooperation with DIW Berlin, DIW DC and the World Bank, IZA presented key findings from recent German research in development economics to an expert audience in Washington, D.C. [Page 7](#)

STUDY: START-UP SUBSIDIES EFFECTIVE

A new study by IZA and IAB finds that two policy instruments to subsidize start-ups in Germany have been successful in terms of integration into the first labor market. [Page 9](#)



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Dennis J. Snower



Christoph M. Schmidt



Lex Borghans



Gerard A. Pfann

IZA Prize Laureate 2007) shed light on the worrying interactions between the “new financial disorder” and global labor market trends.

Among the other participants of the conference were the Director of the Institute for Employment Research (IAB, Nuremberg), *Joachim Möller*, former IZA Research Directors *Gerard A. Pfann* (Maastricht University) and *Armin Falk* (University of Bonn), and former IZA Program Directors *Dennis J. Snower* (President, Kiel Institute for the World Economy), *Christoph M. Schmidt* (President, RWI Essen), *Thomas K. Bauer* (Ruhr University Bochum, RWI Essen) and *Rainer Winkelmann* (University of Zurich). The presentation by IZA Prize-Winner *Stephen J. Nickell* (Nuffield College, Oxford) dealt with the question why people in some countries work much harder than in others. IZA Research Director *Daniel S. Hamermesh* (University of Texas at Austin) presented recent findings on the timing of labor demand, and *Lex Borghans* (Maastricht University) examined the reasons for and costs of learning at a later age. IZA Program Directors *Barry R. Chiswick* (University of Illinois at Chicago), *Pierre Cahuc* (Ecole Polytechnique, Paris) and *Gerard J. van den Berg* (VU University Amsterdam) analyzed the disadvantages of migrants in the labor market, interactions between policy and culture in the case of labor relations, as well as aging and heterogeneity in the analysis of mortality.

The meeting of the IZA Policy Fellows, which took place at the same time, was dedicated to the “future of labor.” Host-

ed by *Hilmar Schneider*, IZA Director of Labor Policy, the participants discussed future labor market trends and the potential for organizational changes. Guest speaker *Markus Albers*, journalist and author of a book on more freedom in employment contracts (“*I’ll come in later tomorrow*”), presented his thoughts on replacing traditional office work with a “more humane, flexible and mobile attitude towards work.”

The panel discussion on the role of economists in policy advice, moderated by *Klaus F. Zimmermann*, reflected the increased demand for policy advice in the wake of the global economic crisis. In his keynote, *Jan Svejnar* (University of Michigan, Ann Arbor) highlighted the need to provide policymakers, who are always searching for quick options to solve problems, with clear and concise recommendations based on available research findings. Participants of the ensuing discussion were *Jo M.M. Ritzen* (President, Maastricht University; former Dutch Minister of Education), *Ursula Weidenfeld* (Editor-in-chief, *Impulse* magazine) as well as *Lord Richard Layard* and *Hilmar Schneider*. The discussants agreed that there is a growing demand for scientific analysis based on problem-oriented models. There was also a broad consensus that the often ritualized exchange between science and politics must be improved.

IZA as an Ideal Platform for Research and Policy Advice

In her opening speech of the IZA anniversary gala, *Bärbel Dieckmann*, Lady Mayor

of the City of Bonn, described the excellent partnership between IZA and Bonn, emphasizing IZA’s great contribution to the scientific landscape of the region. A prominent member of the Social Democratic Party, she particularly lauded IZA’s commitment to the improvement of labor market policy advice. *Friedrich Schneider* (University Linz), Chairman of the Verein für Socialpolitik (the association of German-speaking economists), highlighted IZA’s achievements in advancing knowledge and stimulating methodological progress in labor economics. He also stressed the importance of the worldwide IZA network and thanked the IZA team for providing indispensable services to the international research community. According to *Schneider*, IZA offers “an ideal independent platform” for the pursuit of ambitious projects in research and policy advice. The CEO of the German Federal Employment Agency, *Frank-Jürgen Weise*, reported that his agency has made substantial progress over the past years, due in part to constructive criticism from scientific evaluations carried out, among others, by IZA. He described the continuous exchange between IZA and the Federal Employment Agency as exemplary of a fruitful cooperation between science and practice.

In his response, IZA Director *Klaus F. Zimmermann* announced that IZA will keep expanding its policy advice activities on the national and international levels. Within its core research programs, IZA will also continue to advance fundamental research in cooperation with its global



Stephen J. Nickell



Joachim Möller



Jan Svejnar



Jo Ritzen / Richard Layard

network of more than 850 Research Fellows and Affiliates. Zimmermann thanked many of the invited guests in the audience for their continuing support, which has helped IZA achieve an international leadership position in its field of research.

IZA Labor Market Program and Petersberg Declaration Call for Reform

The IZA Director presented a comprehensive labor market program outlining the most important challenges for labor market policy during the next election period and beyond. Entitled “Full Employment Is Not a Utopia,” the document contains a number of concrete recommendations for Germany’s future labor policy. It is also meant to provide guidance on this issue with the federal elections approaching. The key proposals include: an implementation of workfare to provide enhanced employment incentives, a systematic restructuring of social security, overdue reforms in education policy, and an economically efficient immigration policy. Against the background of the current financial crisis, IZA calls on policymakers to pursue a consistent reform strategy in labor market policy. “The IZA Labor Market Program is a must-read for the campaign strategists of all political parties,” said Zimmermann.

On the day of IZA’s anniversary, leading German economists also followed an IZA initiative urging policymakers to maintain the reform course in labor market policy. In light of the financial crisis, the experts warn not to jeopardize the clearly positive

effects of the recent reform efforts. The “Petersberg Declaration” also proposes an improvement of the market for social services, which has so far been dominated by voluntary work. Moreover, the welfare state should encourage risk-taking as a key factor for mobility, innovation, and

has strongly influenced the recent labor market reforms in the United Kingdom, and thus indirectly those in Germany as well. The welfare-to-work approach now adopted by many nations draws on the laureates’ finding that generous unemployment benefits need not be detrimental if they are granted only for a limited time and are accompanied by adequate instruments that require (and assist) unemployed individuals who are able to work to actively search for a new job. This insight also finds its reflection in the “workfare” model advocated by IZA in Germany. According to IZA calculations, implementing the workfare approach could generate up to 1.5 million new jobs and annual savings of around 25 billion euros. Recently the scientific advisory council of the Federal

Ministry of Finance supported the IZA model, parts of which have also been adopted in a model presented by the Federal Ministry of Economics.

Other work by IZA Prize-Winners Layard and Nickell provides evidence that stricter employment protection regulations do not generally increase the level of unemployment, but increase the persistence of unemployment by reducing short-term unemployment at the cost of raising long-term unemployment. Moreover, they have shed light on the interaction between wage setting institutions and unemployment. In particular, they were able to show that higher union coverage tends to increase unemployment, but these negative effects of collective wage bargaining can be offset if unions and employers co-

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IZA Prize Laureates S. Nickell and R. Layard with IZA Director K. F. Zimmermann

growth. The signatories of the “Petersberg Declaration” are: *Klaus F. Zimmermann* (IZA, University of Bonn, DIW Berlin), *Michael C. Burda* (Humboldt University of Berlin), *Kai A. Konrad* (WZB and FU Berlin), *Friedrich Schneider* (University of Linz), *Jürgen von Hagen* (University of Bonn) and *Gert G. Wagner* (DIW Berlin, TU Berlin, University of Erfurt).

IZA Prize in Labor Economics for Richard Layard and Stephen Nickell

A laudation by Richard B. Freeman, previous winner of the IZA Prize in Labor Economics, introduced this year’s laureates Lord Richard Layard (London School of Economics) and Stephen J. Nickell (Nuffield College, Oxford). Their joint policy-oriented work on the causes and consequences of European unemployment



Richard B. Freeman



Bärbel Dieckmann



Frank-Jürgen Weise



Friedrich Schneider

The Petersberg Declaration

Guidelines for a Future-Oriented Labor Market Policy

December 1, 2008

The German labor market has experienced many far-reaching changes in recent years as a result of various labor market reforms. There has been a move away from the policy of rewarding non-work, a deregulation of temporary work, and an efficiency-enhancing organizational reform of the employment administration. For the first time in three decades, structural unemployment has been successfully reduced. The labor market reforms have been accompanied with consistent corporate restructuring efforts and appropriate union wage moderation. Altogether, this has led to a drop of 1.5 million in the number of unemployed since 2005, and an increase in the participation rate of older people by almost 15 percentage points to a total of 50%.

Still, policymakers need to face a number of unsolved problems in the coming years. Those most heavily affected by the structural problems are the long-term unemployed, who have not profited enough from the recovery of the labor market. The current shortage of skilled labor could well develop into a serious obstacle to growth in view of the impending demographic change. Moreover, governments are putting past achievements at risk by once again increasing benefit transfers at the expense of the social security system. This is particularly problematic for German companies whose global competitiveness will also suffer from rising employer contributions due to demographic change.

1 Encouraging work instead of financing unemployment

One of the key problems of the German labor market is the work disincentives inherent in the current tax-benefit system. Low-skilled workers in particular have become a problem group in the labor market because regular employment is often not worthwhile for them. Furthermore, many married women are discouraged from working due to a high marginal burden on extra earnings, with the exception of the otherwise problematic "mini-jobs." Finally, older employees still find early retirement an attractive option to exit the labor force. This leaves an important employment potential unused while at the same time imposing high costs on society that result in lacking funds for education and other measures to promote equal opportunity.

The labor market would profit substantially from a systematic abolishment of various indirect subsidies for permanent exits from the labor force. This would also require the implementation of workfare principles in social security, which means that government benefits are tied to the participation in work, vocational training and other programs. This creates incentives for low-skilled workers to take up low-paid work, turning benefit recipients into tax and contribution payers.

2 Promoting pre-school education and lifelong learning

With demographic change in full swing, knowledge and education have become the key sources of growth and prosperity. The German education system has been put to the test, particularly with the publication of the results from the PISA study carried out by the OECD. German education institutions have fallen

behind in the face of increasingly globalized labor markets. When compared internationally, education is still not being used enough as a key to the labor market. For instance, there are few childcare places with qualified teaching programs; educational outcomes vary greatly from region to region; the time to complete degrees and other vocational training is on average too long; and the share of unskilled workers in the labor force is still too large.

Among the most pressing problems are the need for more nursery school places; increased quality and equal opportunity in the school system; more external evaluations of schools; the introduction of uniform final exams; more competition between schools; more independence for schools in hiring and performance pay strategies; later entry into the different types of secondary school, and easier movement between them; independence for colleges and universities in setting tuition fees; as well as a general reorganization of tuition fees through a graduate tax. In addition, further training must become more attractive for older workers. This can be achieved partly by removing early retirement incentives, which have made investment in further training unattractive for workers over 50.

3 Making social services marketable

Social services continue to be provided on an honorary basis, or by those who perform community service as an alternative to military service, or a voluntary year of social service. While social commitment of these individuals is without a doubt of great importance to society, it should be clear that the impending demographic problems cannot be solved on the basis of voluntary service alone. Many households are already forced to rely on long-term care services provided by illegal workers from Eastern Europe. Market entry barriers in the form of regulations or monopolies still exist particularly in work-intensive service sectors, such as healthcare, care for the elderly, or childcare. These barriers must be removed to legalize existing employment and to exploit the vast potential for growth. Unequal competition between public and private service providers further adds to the market distortions. In many areas of social service, the privileged treatment of non-profit organizations should be reassessed.

Fairness considerations also suggest that social services should be more marketable. A voucher system would ensure sufficient purchasing power for social services. At the same time, it would have a socially desirable distributional effect. Finally, publicly funded service agencies could provide an important contribution to the organization of the market.

4 Bringing immigration policy in line with Germany's economic interests

With the implementation of the Immigration and Integration Act of 2005, Germany has achieved important progress in migration policy by providing a foundation for an economically

motivated control of immigration. At the same time, the EU Bluecard initiative is evidence of a changing attitude towards migration on the European level. There is a growing consensus that the economy as a whole will benefit from controlled immigration, particularly from admitting high-skilled foreign workers to the German and European labor markets. However, the current German immigration law does not fully meet the challenges of skilled labor shortage and demographic change.

The full potential of permanent immigration can only be exploited with a combined point and quota system. While the universities should be generally more open to foreign students, labor market access for foreign graduates must also be facilitated. Improved curricula can help attract and integrate the high-skilled workers of the future.

5 Separating redistribution from social security in the tax-benefit system

Due to substantial progress in capital taxation over the past decade, Germany has again become attractive to foreign investors. This came, however, at the expense of consistency in the tax system. While capital and corporate taxation should remain on the agenda, the most urgent need for action is in the area of labor taxation. When accounting for the co-payments introduced in the statutory health insurance, social security contributions have de facto increased. Demographic change will put additional pressure on the social security system over the next years. A decreasing number of contributors will have to finance an increasing number of benefit recipients.

Demographically induced labor shortages could be aggravated by the negative work incentives inherent in higher social security contributions. As an important step toward solving these problems, social insurances must be relieved from redistributive tasks. Benefits not related to insured risks ought to be financed primarily through taxes.

To promote the employment of low-skilled workers, consumption taxes should be preferred over taxation of production and social security contributions. This would reduce labor costs and thus also discourage shadow economic activities. Redistributive tasks should be handled through direct transfers.

6 Enabling risk-taking through social security

The German welfare state has reached its limits. It was an illusion to believe that the challenges of globalization could be met by rewarding labor force exit. The modern welfare state has to support its members to actively master the structural changes. It cannot take away all individual risk. On the contrary, people must be encouraged to take risks because this is a prerequisite for individual mobility, innovation and growth. Social security is still necessary, but it is no substitute for the potential benefits of risk-taking. Without insurance against certain individual risks, economically useful investment, e.g. in human capital, will not be undertaken if it seems too risky or uncertain. Risk-averse individuals will only make this investment if they are protected against failure. Therefore, active incentives must complement the passive risk-taking incentives of the welfare state.



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Award Statement of the IZA Prize Committee

The IZA Prize in Labor Economics 2008 goes to the outstanding European labor economists Richard Layard and Stephen Nickell for their path-breaking work on the relationship between labor market institutions and unemployment. Their research provided a theoretical and empirical framework for the analysis of equilibrium unemployment and the impact of labor market institutions on economic performance. Shaping the views of scholars and policymakers on how to address unemployment, the contributions of Layard and Nickell have served to illuminate the policy discourse in Europe and increased academics' understanding of the nature and causes of involuntary joblessness.

Their 1991 book "Unemployment: Macroeconomic Performance and the Labour Market" (co-authored with Richard Jackman) and their 1999 chapter "Labor Market Institutions and Economic Performance" in the Handbook of Labor Economics have become modern classics in labor economics. Layard and Nickell's approach incorporates stocks as well as flows into and out of unemployment in a way that previous models had neglected. Their work thus provides a unified framework for studying the sources of unemployment and the determinants of unemployment dynamics. In particular, it highlights the importance of understanding the impact of labor market institutions on labor market performance. For instance, Layard and Nickell have shown that stricter employment protection regulations do not generally increase the level of unemployment, but increase the persistence of unemployment by reducing short-term unemployment at the cost of raising long-term unemployment. The prize-winners have also pointed out that generous unemployment benefits need not be detrimental if they are granted only for a limited time and are accompanied by adequate instruments that require (and assist) unemployed individuals who are able to work to actively search for a new job. Moreover, Layard and Nickell have shed light on the interaction between wage setting institutions and unemployment. For example, they showed that higher union coverage tends to increase unemployment, but these negative effects of collective wage bargaining can be offset if unions and employers coordinate their wage bargaining activities effectively.

A recurrent theme in Nickell's research is the role of labor market institutions and the interplay between unemployment, wages and investment, the latter being the focus of his early work. In each area he has developed the relevant theory and demonstrated its empirical relevance by using the theory to inform structural econometric models. Nickell pioneered the microeconomic analysis of unemployment duration and the way in which the behavior of the unemployed affects wage formation. His 1979 *Econometrica* article, "Estimating the Probability of Leaving Unemployment," broke new ground for the microeconomic analysis of unemployment duration and unemployment benefits. His seminal 1981 *Econometrica* paper, "Biases in Dynamic Models with Fixed Effects," inspired a whole new econometric and labor economics literature on the estimation of panel data models. In his 1990 *Economic Journal* article on "Insider Forces and Wage Determination" (with Sushil Wadhvani) he showed that the actions of those who already have secure employment have significant impact on the determination of wages, but that persistent long-term unemployment cannot be solely attributed to such insider.

Nickell has also made formidable contributions to the literatures on labor supply, firms' investment decisions, and productivity. All his work uses first-class technique and painstaking data collection. His 1996 *Journal of Political Economy* article entitled "Competition and Corporate Performance" was one of the first articles that provided systematic evidence on the impact of competition on productivity. Nickell has shown that market power tends to reduce productivity, whereas competition has a positive influence on firms' productivity by increasing total factor productivity growth.

Apart from his fundamental work on the determinants of unemploy-

ment, Richard Layard has also studied such diverse topics as education, happiness, and income inequality. For instance, in his 1974 *Journal of Political Economy* article on "The Screening Hypothesis and the Returns to Education" (with George Psacharopoulos), he challenged the view that education primarily serves as a signaling device for pre-existing ability differentials by supporting the human capital interpretation of educational investments having direct productivity-enhancing effects. In addition to his academic contributions, Layard has always set a high value on translating scientific results into political practice. In his early career he was Senior Research Officer for the Robbins Committee on Higher Education. He was founder-director of the Centre for Economic Performance (CEP) at the London School of Economics, one of Europe's leading research groups covering all areas of economic policy. Lord Layard actively participated in the policy debate and worked as an economic advisor for several government institutions, such as the British Department for Education and Skills, HM Treasury, or the Russian Government.

Layard is an early advocate of a welfare system based on the philosophy of welfare-to-work. In this respect, he advised the British Labour government from 1997 to 2001 on policies to fight youth and long-term unemployment. He pursued a welfare reform based on a system of conditionality: benefit payments to unemployed are provided in return for their active participation, e.g. in training activities or voluntary sector work. This idea has heavily influenced the "New Deal" programs implemented by the Labour government since the late 1990s.

Layard's recent research focus is on the economics of subjective well-being. He aims to achieve a unified understanding of the insights of economics, psychology, neuroscience and philosophy. Specifically, Layard has analyzed the influence of social comparison as well as income aspiration processes. He pointed out that both have profound implications for optimal taxation of labor income and consumption. Layard has argued that – since individuals' well-being strongly depends on their relative income compared to peers like neighbors or colleagues – people could be stuck in a "hedonic treadmill": in order to increase their relative income and status, many people tend to work "too much" and ultimately impair their life satisfaction.

Lord Richard Layard is currently Emeritus Professor of Economics at the London School of Economics and Director of the "Wellbeing Research Programme" at the CEP. He is a Fellow of the Econometric Society. Since 2000, he has been a Labour life peer in the House of Lords. Stephen Nickell is currently the Warden of Nuffield College, University of Oxford. He has served as Editor of the *Review of Economic Studies* and the *Oxford Bulletin of Economics and Statistics*. Nickell is a Past President of the Royal Economic Society and a Fellow of the Econometric Society. In 2007 he was appointed Commander of the Most Excellent Order of the British Empire.

The IZA Prize in Labor Economics 2008 honors the work of two European scholars whose contributions have impressively demonstrated the practical relevance of labor market research for today's policymakers.

George A. Akerlof
University of California, Berkeley; IZA

Richard Portes
London Business School; CEPR

Dennis J. Snower
Kiel Institute for the World Economy; IZA

Jan Svejnar
University of Michigan; IZA

Klaus F. Zimmermann
University of Bonn; IZA

ordinate their wage bargaining activities effectively.

“As we are heading towards a global economic crisis, the makers of economic, social and

labor policy are more dependent than ever on constructive criticism and advice from independent research. IZA will therefore continue and strengthen its commitment not only to excellent fundamental research, but

also to effective policy advice,” said Klaus F. Zimmermann at the conclusion of the institute’s 10th anniversary celebrations.

Promoting the European Dialogue on Core Employment Issues IZA Employment Seminar in Brussels: More and Better Jobs?

As part of its 10th anniversary celebrations, IZA held a high-level Employment Seminar in Brussels on November 27 and 28, 2008. This initiative was taken to strengthen IZA’s links with its European partners and international institutions as well as to stimulate the dialogue between research and policy making in Europe. The topic of the seminar, organized by IZA Director *Klaus F. Zimmermann* and IZA Deputy Director of Labor Policy *Werner Eichhorst* and co-funded by the German Thyssen Foundation, was the relation between labor market performance and distributional outcomes against the background of the EU’s Lisbon Strategy. The event brought together about 40 academic and policy-oriented participants from EU Member States, European institutions and other international organizations.

Starting from a general overview of labor market outcomes in terms of employment rates, flexible employment forms such as fixed-term contracts, temporary agency work and part-time jobs, wage dispersion and poverty given by *Werner Eichhorst*, leading European scholars analyzed potential core explanatory factors for employment and inequality trends such as globalization and European integration (*Raymond Torres*, International Institute for Labour Studies at the ILO), the liberalization of flexible labor contracts in Continental and Mediterranean countries (*Pierre Cahuc*, Ecole Polytechnique and IZA Program Director ‘Labor Markets and Institutions’), activation policies (*Torben M. Andersen*, University of Aarhus and IZA) and migration (*Klaus F. Zimmermann*).

On the second day, a keynote address on the role of skills and education in explaining

labor market performance was given by *Daniel Gros* (CEPS). This was followed by four panels discussing potential policies to reconcile job creation and equity objectives: a) sustainable activation policies, b) more egalitarian and comprehensive education and training, c) flexicurity, i.e. new combinations of flexibility and security, and d) a general debate on the role of national and European level action. Speakers on the panels included *Daniel Finn* (University of Portsmouth), *John P. Martin* (OECD and IZA), *Peter Auer* (ILO), *Niels Ploug* (Statis-

of inequality. In particular, some Nordic countries such as Denmark, Sweden, but also the Netherlands, were found to combine high levels of economic efficiency, i.e., high employment, with equity in terms of low income inequality and poverty. Comparative analysis shows that labor market and welfare state institutions shape the relation between job creation and social cohesion, but that interactions between policies and the economic environment change over time. Hence, there is a role for well-designed public policies that generate

both more and better jobs. Activation policies should not only lead to quick labor market entry, but they should also help stabilize labor market attachment and upward mobility. More equal access to education and a more egalitarian approach to lifelong learning can be seen as a core element of a policy package to achieve employability for all. Easing transitions between different jobs by way of removing barriers in accordance with flexicurity policies can contribute to overcoming the frequently assumed trade-off between more and better jobs. As the seminar emphasized, a core issue in this respect is the efficient delivery of public services in activation, education and continuous training. The EU can facilitate national reforms by setting targets and stimulating exchange between the Member States.

The first IZA Employment Seminar will be followed up by regular European workshops on topics that are relevant in the European context, and by the creation of an international network of labor policy experts.



A. Sapir, J. Leschke, W. Eichhorst, N. van der Pas, J. Hurley

tics Denmark), *Paolo Sestito* (Bank of Italy), *André Sapir* (Bruegel and ULB), *Bob Gregory* (Australian National University), *Wiemer Salverda* (Amsterdam Institute for Advanced Labor Studies), *Jules Theeuwes* (SEO Economic Research), *Janine Leschke* (European Trade Union Institute), *John Hurley* (European Foundation for the Improvement of Working and Living Conditions) as well as *Lucie Davoine*, *Robert Strauss* and *Nikolaus van der Pas* from the European Commission.

A major conclusion of the seminar was the observation that in a dynamic and volatile economic environment rising inequality is not inevitable, but countries continue to exhibit considerably different levels

Forthcoming IZA Conferences and Workshops

May 28 – 31, 2009

8th IZA/SOLE Transatlantic Meeting of Labor Economists

Deadline 01/16/2009

June 21 – 23, 2009

IZA Conference: The Economics of the Minimum Wage

Deadline 02/15/2009

October 2 – 3, 2009

5th IZA Conference on Labor Market Policy Evaluation

Deadline 04/15/2009

German Day on Development in Washington, D.C.

Hosted by IZA, DIW Berlin, DIW DC and the World Bank, the German Day on Development (December 3, 2008, at the World Bank in Washington, D.C.) sought to bring together a showcase of talented German researchers in an international forum. The conference was chaired by *Amelie Constant*, Executive Director of DIW DC, and opened by *Michael Hofmann*, Executive Director for Germany at the World Bank. He emphasized the importance of establishing such events to promote German research to the world. IZA Director *Klaus F. Zimmermann* introduced the participating research institutions, highlighting the German day as part of the Development Week DIW DC has hosted with the support of IZA and DIW Berlin.

Leading the conference was *Markus Frölich* (Program Director at IZA), who presented his research on “Teacher Shortages, Teacher Contracts, and Their Impact on Education in Africa: Evidence for Primary Education in Mali, Niger and Togo.” In many West

African countries, teachers’ high salaries prohibited the hiring of sufficient teachers to achieve primary education for all. Frölich investigated the impact of reforms to hire teachers on short fixed-term contracts with lower pay and lower qualification requirements. *Randall Akee* (IZA) presented his work on “Parents’ Income and Children’s Outcomes: A Quasi-Experiment with Cash Transfers.” He analyzed the effects of the sudden opening of a casino in an American Indian reservation, which led to an exogenous increase in family income for all members of the tribe, on children’s schooling and criminal activity.

In “Violent Conflict and Inequality,” *Tilman Brück* (DIW Berlin and IZA) examined the impact of civil war on income inequality. He found that income inequality often worsens even several years after the civil war ended, suggesting that inequality should be monitored and addressed during post-conflict recovery. The final presentation was given

by *Joppe de Ree* (DIW Berlin) on “Localizing Conflict Spillovers: Introducing Regional Heterogeneity in Conflict Studies.” He found only for Africa that civil war in one country might increase the probability of civil war in a neighboring country. The research results were subsequently discussed by senior economists of the World Bank.

Historically, economic research on developing countries has not been a priority for German social scientists. As the German Day on Development showed, however, this is changing. Academics at IZA, DIW Berlin and DIW DC have not only increased the amount of research they conduct on developing countries, but their research is more empirical and policy-oriented than ever before, according to Frölich. Hofmann and Zimmermann agreed that the German Day on Development should become an annual fixture at the World Bank and a jumping-off point for a closer relationship between all those involved.

Metropolis 2008 in Bonn: IZA Supports World’s Largest Migration Conference

The 13th International Metropolis Conference took place in Bonn on October 27-31, 2008. Hosted by the NRW State Ministry for Intergenerational Affairs, Family, Women and Integration, the world’s largest conference on migration issues dealt with “Mobility, Integration and Development in a Globalized World.”

IZA supported the conference by organizing one of the plenary sessions and two workshops. *Klaus F. Zimmermann*, CEO and Director of IZA, chaired the plenary session “Circular and Temporary Migration,” hosting *Philippe Fargues* (Euro-Mediterranean Consortium for Applied Research on International Migration, Italy), *Modibo Keita* (Sciences Sociales pour le Développement, Mali), *Pawel Kaczmarczyk* (Board of Strategic Advisers to the Prime Minister, Poland) and *Jacques Poot* (Population Studies Centre, University of Waikato, New Zealand). The panelists discussed the positive and negative aspects of circular and temporary migration as a potential solution to the economic need for labor force. Some of the key aspects of temporary migration that were raised include integration of temporary migrants in the host society as well as their reintegration upon return, the question of turning brain drain into brain gain or brain circulation, and the demographic stability of the sending as well as receiving countries.

The workshop on “Ethnic Identity in a Globalized World” organized by *Klaus F. Zim-*

mermann and *Amelie F. Constant* (DIW DC and IZA) brought together some of the leading scientists on ethnic identity and diversity in the context of a globalizing world. The participants discussed various aspects of assimilation, integration, marginalization and separation, as four typological acculturation strategies. Among the main factors hindering successful integration are the host society’s negative attitudes towards immigrants. They create barriers in the social and economic domains, but also trigger negative reactions towards the members of the host society, including rejection of the host society’s culture. The experts agreed that experience with the host society, sociocultural adaptation as well as fluency in the host language are positively related with integration. They concluded, however, that complete assimilation into the host society may not be the best strategy for ethnic minorities.

The adverse labor market situation of the Roma people and Russian speakers in Eastern Europe was the key topic of the workshop on Ethnic Divide in Eastern Europe organized by Martin Kahanec. The first part of the workshop focused on the integration challenges of Russian speakers in the Baltic States, highlighting the role of language competence and industrial or geographic allocation. The second part focused on the difficult integration situation of the Roma in the Czech Republic and Hungary. The speakers identified low demand for low-skilled labor, lack of mobility, and indebtedness of the Roma as key factors for the poor labor market outcomes of this group. There are also reasons to believe that the Roma are discriminated against in the labor market and beyond.



Start-Up Subsidies for the Unemployed: A Five-Year Balance

The “Me, Inc.” (start-up subsidy, *Existenzgründungszuschuss*) was one of the pivotal instruments that were incorporated into the toolbox of labor market policy in the course of the “Hartz” reforms of the German labor market. Along with the bridging allowance (*Überbrückungsgeld*), which had been available for some time, it supported more than one million unemployed people in founding a business between 2003 and 2006. Earlier studies have shown that both programs complemented one another by motivating different groups of individuals to set up their own business. The short- and medium-term analyses as part of the “Hartz” evaluations also provided a positive assessment of both programs. However, their long-term effects have not been examined yet.

A recent IZA Discussion Paper authored by IZA staff researchers *Marco Caliendo* and *Steffen Künn*, joint with *Frank Wießner* (IAB), has closed this gap and shed light on how recipients of the start-up subsidy and the bridging allowance fare five years after their business was set up. To this end, about 2,800 formerly unemployed found-

ers of a new business were interviewed roughly five years after they had entered self-employment. Apart from their current employment situation, the respondents were also asked for other markers like income, the number of employees and future prospects. A group of unemployed persons who had not been supported served as a control group and was interviewed during the same period. The results show that at this point almost 60% of the former “Me, Inc.” founders and nearly 70% of former recipients of the bridging allowance are still self-employed. In terms of the integration into the first labor market, both programs may be deemed successful: Their participants not only exhibit higher employment rates than a control group of unemployed people who did not receive support, but they also earn significantly higher incomes. Moreover, the employment effects induced by the bridging allowance are rather large: 100,000 cases of business start-ups supported by this subsidy have led to the

creation of additional employment equaling almost 80,000 full-time jobs.

Against the backdrop of these results, the motivation for merging the bridging allowance and the start-up grant into a single instrument (*Gründungszuschuss*) in August 2006 must be critically challenged. Both programs had larger positive effects than were found for many other labor market policy instruments. It remains to be seen whether the new instrument will be similarly successful. The analysis has also shown that sufficiently long observation periods and a thorough evaluation are indispensable to policymaking based on scientific evidence.

Marco Caliendo
Steffen Künn
Frank Wießner

Die Nachhaltigkeit von geförderten Existenzgründungen aus Arbeitslosigkeit: Eine Bilanz nach fünf Jahren

IZA Discussion Paper No. 3880

► <http://ftp.iza.org/dp3880.pdf>



New IZA Book: Labor Market Activation Schemes in Europe and the US

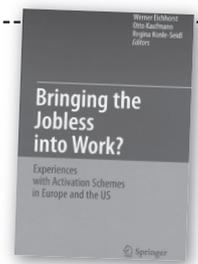
Over the last decade, many industrialized countries shifted from passive unemployment and welfare benefit regimes and traditional active labor market and social policies to activation strategies by making benefit receipt conditional upon accepting job offers or participation in active labor market schemes. But countries differ with regard to the design of activation instruments and their implementation, the definition of target groups and the effects of activation in the national labor market setting. A newly published volume, edited by *Werner Eichhorst*, IZA Deputy Director of Labor Policy, *Otto Kaufmann*, Senior Research Fellow at

the Max Planck Institute for Foreign and International Social Law in Munich, and *Regina Konle-Seidl*, Senior Researcher at the Nuremberg-based Institute for Employment Research (IAB), provides an up-to-date overview of activation strategies in unemployment benefit systems and social assistance. It covers seven European countries, namely Germany, France, the Netherlands, Switzerland, Denmark, Sweden and the UK, as well as the US. A particular focus lies on the development of activation schemes, governance

and implementation and on the outcomes of activation in terms of labor market and social integration. The volume is the first to address these issues both from a socio-economic and a legal perspective.

Werner Eichhorst
Otto Kaufmann
Regina Konle-Seidl (Eds.)
Bringing the Jobless into Work? Experiences with Activation Schemes in Europe and the US

Berlin et al. 2008
ISBN 978-3-540-77434-1



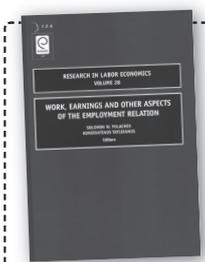
Latest Volume of Research in Labor Economics Co-Edited by IZA

Since 2006, the renowned Research in Labor Economics series has benefited from the contribution of IZA. The most recent volume on “Work, Earnings and other As-

pects of the Employment Relation” was co-edited by *Solomon W. Polachek* (State University of New York at Binghamton and IZA) and *Konstantinos Tatsiramos* (IZA). It contains

labor market questions. These include: Why has part-time work increased so dramatically in the 15 European Union countries? What changes in retirement behavior will be expected as countries change pension laws? Why do firms often use fixed-term instead of long-term employment contracts? Why do both employers and employees often prefer additional fringe benefits to wage increases? Do academic certifications really signal higher worker quality? How is an individual’s work ethic influenced by others in residential neighborhoods?

13 chapters covering aspects of the employer-employee relationship. The volume is focused at the academic audience, but is also geared to government and business policymakers worldwide. The chapters use data from the United States, Europe, Asia, and the Middle East to answer a number of vital



Solomon Polachek
Konstantinos Tatsiramos (Eds.)

Work, Earnings and Other Aspects of the Employment Relation

Research in Labor Economics, Vol. 28 (2008)

Bingley 2008
ISBN 978-0-7623-1397-6

IZA Program Director Armin Falk Receives Prestigious Leibniz Prize

The German Research Foundation (DFG) has selected IZA Program Director *Armin Falk* as a winner of the Leibniz Prize for his outstanding and innovative work in behavioral economics. The prize, worth 2.5 million euros, underscores the high relevance of this discipline, to which IZA devotes an own research program area coordinated by Falk. “The decision of the DFG is a great and well-deserved honor for Armin Falk. The results of his research have highly enriched today’s discussions of labor market policies and personnel management practices,” said IZA Director *Klaus F. Zimmermann*.

Armin Falk is Professor of Economics at the University of Bonn and Director of the Bonn Laboratory for Experimental Economics founded by Nobel laureate *Reinhard Selten*. After serving as IZA Director of Research between 2003 and 2007, he has continued to cooperate closely with IZA as Program Director for Behavioral and Personnel Economics. His work has achieved a wide international reputation, for which he had already received the Gossen Prize awarded by the Verein für Socialpolitik during its annual meeting in September.



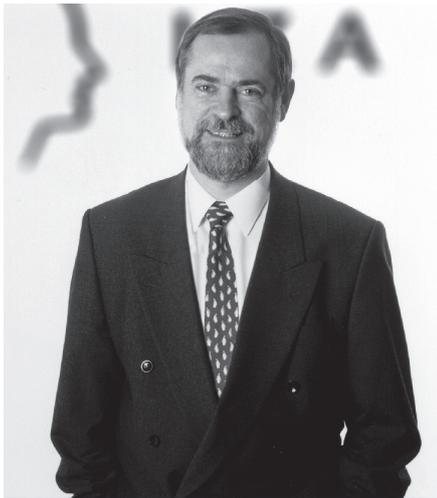
Armin Falk

IZA Director Appointed to WEF Global Agenda Council on Migration

Klaus F. Zimmermann, CEO and Director of IZA, has been appointed as a member of the World Economic Forum’s Global

Agenda Council on Migration. This council, consisting of a small group of the most knowledgeable and relevant personalities in this field, is integrated into the Network of Global Agenda Councils of the World Economic Forum addressing all the crucial challenges of humankind to ensure that interlinkages among global issues are fully explored. The Network of Global Agenda

Councils has a major impact on shaping the global agenda by monitoring and prioritizing global challenges, by elaborating solutions and by being available in crisis management situations. It will also act as an advisory board to the World Economic Forum and other interested parties, such as governments and international organizations.



Klaus F. Zimmermann

Klaus F. Zimmermann Will Serve Third Term as President of DIW Berlin

The Board of Trustees of the German Institute for Economic Research (DIW Berlin) has appointed IZA Director *Klaus F. Zimmermann* for a third term as President of DIW Berlin. Chairman of the Board of Trustees *Holger Hatje* underscored Zimmermann’s achievements in “pushing the institute for-

ward.” The Scientific Advisory Board also acknowledged the great scientific progress of DIW Berlin since Zimmermann took office in 2000. IZA and DIW Berlin have cooperated closely for many years. Both institutes also share a privileged relationship with DIW DC in Washington.

IZA Research Director Daniel Hamermesh Celebrates 65th Birthday

On October 20, 2008, IZA Research Director *Daniel S. Hamermesh* celebrated his 65th birthday. Among the first to congratulate him was IZA Director *Klaus F. Zimmermann*: “For many years, Dan has been a source of inspiration and with his loyal support he has been of great help for the further development of our institute. I am very grateful for his service to the IZA, and the profession. We all wish Dan good health, happiness and splendid research ideas, as well as a further deep and ongoing relationship with IZA.”

Daniel S. Hamermesh is Sue Killam Professor in the Foundations of Economics at the University of Texas at Austin. His A.B. is from the University of Chicago (1965),

his Ph.D. from Yale (1969). He taught from 1969-73 at Princeton, from 1973-93 at Michigan State, and has held visiting professorships in the United States, Europe, Australia and Asia. He is a Fellow of the Econometric Society, a research associate of the National Bureau of Economic Research, and was President of the Society of Labor Economists in 2001. He authored *Labor Demand; The Economics of Work and Pay; Economics Is Everywhere*; and a wide array of articles in labor economics in the leading general and specialized economics journals. His research concentrates on time use, labor demand, social insurance programs (particularly unemployment insurance), and unusual applications of labor economics (to suicide, sleep and beauty).



Daniel S. Hamermesh

He joined IZA as a research fellow in July 1998. From December 2001 until July 2008, he was IZA Program Director for the institute’s research program “The Future of Labor” before he became IZA Director of Research in August 2008.

Call for Papers: 12th European Summer School in Labor Economics

The IZA European Summer School in Labor Economics was created in 1998 as an annual event taking place at the conference center of Deutsche Post World Net at the Ammersee Lake (near Munich) in Bavaria, Germany. It will be held for the 12th time from April 27 until May 3, 2009. The Summer School is supported by the Centre for Economic Policy Research (CEPR), the European Economic Association (EEA), the European Association of Labour Economists (EALE), and the European Society for Population Economics (ESPE).

The objective of the Summer School is to bring together a large number of PhD students and senior lecturers to study new areas in labor economics. Students have the opportunity to present their work and discuss ideas with established researchers in a relaxed and open atmosphere.

The School is open to advanced graduate students from European universities, or Europeans studying abroad, engaged in the preparation of a doctoral dissertation or approaching that stage. Around 35 students will be selected, based on their prep-

aration to participate in advanced study on the subject.

The lecturers at the 2009 Summer School will be *Gary S. Fields* (Cornell University) on “Modeling Labor Markets and Labor Market Policies” and *Eric V. Edmonds* (Dartmouth College) on “Child and Family Labor Supply in Low Income Economies.” Applications to participate should be submitted online by January 30, 2009. Selected participants must deliver a complete paper by March 22, 2009.

► <http://www.iza.org/link/SUMS>

New Additions to IZA’s International Team of Researchers

Between August and October 2008, four new researchers from four different nationalities joined the IZA team. Their combined research interests cover all of IZA’s main program areas – from policy evaluation to labor markets in developing countries.

Alpaslan Akay completed his Ph.D. at Gothenburg University (Sweden) in March 2008. During and after his doctoral studies, he worked as a research associate for the Swedish International Development Agency (SIDA). His main research interests are labor economics and migration, experimental and behavioral economics, economics of happiness, microeconometrics and Monte Carlo simulations. He joined IZA as a Research Associate in September 2008.

Alexander Muravyev joined IZA in October 2008. He received his Ph.D. in economics from the European University Institute (Florence) in July 2007. Previously, he studied at St. Petersburg State University and Stockholm University. He has held positions as a lecturer in St. Petersburg, as an economist at the Russian-European Centre for Economic Policy in Moscow, as a visit-

ing researcher at the Copenhagen Business School and the Bank of Finland, and as a Research Associate at the German Institute



Alexander Muravyev, Alpaslan Akay
Andreas Peichl, Zahra Siddique

for Economic Research (DIW Berlin). His main research interests are in labor economics, economics of transition and applied microeconometrics.

Andreas Peichl joined IZA as a Research Associate in September 2008. He received

his Ph.D. from the University of Cologne in May 2008. During his Ph.D. studies he also worked as a research associate at the Cologne Center for Public Economics (CPE). In spring 2008 he was visiting scholar at the Institute for Social and Economic Research (ISER), with which he is still affiliated. His current research interests include public economics, applied micro-econometrics and labor and welfare economics with particular reference to tax reforms and their empirical evaluation, tax benefit micro-simulation, CGE modeling and the analysis of income distribution with a special reference to the measurement of richness at the top of the distribution.

Zahra Siddique completed her Ph.D. in Economics at Northwestern University in June 2008. She also holds an M.A. from Northwestern University and a B.Sc. Honors from the Lahore University of Management Sciences. Her fields of interest are labor and development economics, with a particular focus on the role of ethnicity, race and gender in labor markets. She joined IZA as a Research Associate in August 2008.

IZA Guest Researchers Program

National and international exchange of knowledge is at the heart of IZA’s activities. Each year the IZA guest researchers program offers more than 100 scholars from around the world the opportunity to visit IZA in order to use the institute’s excellent service infrastructure, work on joint projects with IZA staff researchers, or combine a seminar presentation with an extended research stay.

In November and December 2008, IZA hosted the following guests:

Rolf Aaberge (Statistics Norway); **Olivier Bargain** (University College Dublin); **Manoel F. Bittencourt** (University of Cape Town); **Mas-similiano Bratti** (University of Milan); **Tilman Brück** (DIW Berlin); **Michael C. Burda** (Humboldt University, Berlin); **Christian Dustmann** (University College London); **Oleksiy Gorbachyk** (Kiev International Institute of Sociology); **Eric D. Gould** (Hebrew University, Jerusalem); **Bob Gregory** (Australian National University); **Natalia Nikolaevna Kharchenko** (Kiev International Institute of Sociology); **Astrid Kunze** (NHH, Bergen); **Margaret Maurer-Fazio** (Bates College); **Xin Meng** (Australian National University); **Øivind Anti Nilsen** (NHH, Bergen); **Ott Toomet** (University of Aarhus); **Linda Yuet-Yee Wong** (Binghamton University, New York)



Further Training in Times of Crisis

The current economic crisis in Germany has turned into a recession that has the potential to leave the labor market bruised again for quite a while. Despite the successful reforms of the past years, the high-risk groups of the labor market will still be most vulnerable. Long-term unemployment will go up again, albeit – thanks to the reforms – at a slower pace than during previous recessions. In this situation we are now hearing frequently voiced demands to pull back on the reforms, and especially to increase the level of transfer payments as an effective means to stimulate consumption.

This would be wrong for various reasons. Right now domestic consumption is not Germany's biggest problem. But it could well become a problem if slackening reform efforts and suspended programs allow unemployment to rise again. Our tax-benefit system provides few work incentives for the low-skilled, but strong incentives for early labor force exit due to generous provisions for (partial) early retirement and extended unemployment benefit periods for older workers. Germany must still cope with a high level of long-term unemployment and a vast shadow economy.

Therefore, the problem groups of the labor market must be activated at an early stage. This requires a proactive approach, i.e., intervention before damage is done, and a consistent implementation of the workfare principle. Moreover, job placement for high-risk groups must be handled right from the start by one single institution, preferably the same institution that is in charge of supporting the long-term unemployed.

Among the major problem groups are unskilled workers, older workers and migrants. Mobilizing these groups through further training should be at the core of a strategic and sustainable labor market policy. The

Federal Employment Agency should provide specific training programs for all short-time workers and laid-off unskilled workers. This activation serves to ensure that unemployment will not rise substantially during the current crisis.

But the topic of education is much broader, and its challenges are becoming much more significant in these times of crisis. Knowledge and education are the key resources for growth, innovation and prosperity. Despite the recent downturn, we are still faced with high-skilled labor shortages and constantly aging workforces. It is never too early to tackle these problems because their solution will take a long time. Yet, Germany's efforts to provide further training are still rather weak by international standards. A qualification initiative involving training vouchers for all workers aged 45 and over could be part of an anti-recession package and serve as a starting point for further modernization efforts in Germany. The focus must be on providing high-quality training services.

Since Germany does not yet have an industry for further training, a wide distribution of training vouchers would constitute an activating industrial policy with the long-term goal of efficient private-sector competition in this sector. Soon this would lead to the creation of numerous qualified jobs in newly established firms. This model could also include public-private partnerships involving adult education centers, schools and universities, which could contribute their expertise and facilities. This would mark the beginning of a knowledge society from which everyone can benefit.



Klaus F. Zimmermann



Institute for the Study of Labor



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