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## Free Intra-EU Migration Helps to Solve Labor Market Challenges New Book Analyzes Post-Enlargement Migration Effects

Are immigrants from the new member states of the European Union a threat to the Western welfare state? Do they take jobs away from the natives? And do the source countries suffer from severe brain drain or demographic instability? In a timely and unprecedented contribution, a new book on "EU Labor Markets after Post-Enlargement Migration" (Springer, Berlin et al. 2009), edited by *Martin Kahanec* (IZA Deputy Director of Research) and *Klaus F. Zimmermann* (IZA Director), integrates what is known about post-enlargement migration and its effects on EU labor markets.

The new volume results from IZA's long-term commitment to the topic within the active research sub-area "EU Enlargement and the Labor Markets" led by the editors, which is part of IZA's pivotal Migration Program Area. The book includes a number of thorough country studies including analyses of the situation in Germany, UK, Ireland, Sweden, Spain, Poland, Albania and the Baltic States. It also presents new knowledge on the public perception of post-enlargement migration within selected member states.

Based on rigorous analysis and hard data, the book makes a convincing case that there is no evidence that the post-enlargement labor migrants would displace native workers or lower their wages, or that they would be more dependent on welfare. While brain drain may be a concern in the Eastern European source countries, the anticipated brain circulation between EU member states may in fact help to solve their demographic and economic problems, and improve the allocative efficiency in the EU. Five years after EU Eastern Enlargement the lesson is clear: Free migration is a solution rather than a foe for labor market woes and cash-strapped social security systems in the European Union.

### Recent trends in European migration

Initially, only a few old member states opened their labor markets with no or mild transitional measures. Following the 2004 EU enlargement, Ireland, the UK and Sweden opened access to their labor markets immediately. Gradually, more member states decided to lift restrictions, including Spain, Finland, Greece, Portugal, Italy, the Netherlands, Luxembourg and France. Belgium and Denmark followed suit on May 1, 2009, while Germany and Austria have announced they would continue imposing restrictions on labor mobility until 2011, although Germany had passed legislation earlier this year facilitating access for high-skilled migrants. As for the 2007 enlargement, ten EU25 member states (the Czech Republic, Estonia, Cyprus, Latvia, Lithuania, Poland, Slovenia, Slovakia, Finland and Sweden) liberalized the access of Bulgarian and Romanian workers to their labor markets during the first phase. The second phase for the EU2 countries started on January 1, 2009, and following a report by the European Commission, Spain, Greece, Hungary and Portugal have also opened their labor markets to the EU2 nationals. Most of the remaining EU25 Member States have simplified their procedures or have reduced restrictions in some sectors or professions.

Between 2003 and 2007, there was an increase in the number of immigrants from the new member states in the EU15. For EU8 migrants, the increase was particularly high in Ireland and the United Kingdom, while EU2 migrants continued to go to Spain and Italy. Such a concentration of migrant flows into some old member states may be an artifact of the variation in transitional arrangements, but also other important factors, such as geographic, linguistic or cultural distances between receiving and sending countries, as well as existing migrant networks. Indeed,

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#### 2009 IZA PRIZE GOES TO RICHARD EASTERLIN



Richard A. Easterlin

This year's IZA Prize in Labor Economics will be awarded to U.S. economist Richard A. Easterlin (University of Southern California). The prestigious award recognizes Easterlin's outstanding contributions to the analysis of subjective well-being and the relationship between demographic developments and economic outcomes. [Page 12](#)

#### EXPERTS DISCUSS ECONOMIC ASPECTS OF RISKY BEHAVIOR

During the First Annual Meeting on the Economics of Risky Behaviors (AMERB) organized by IZA, DIWDC and Georgia State University, international experts met in Washington, DC, to present and discuss recent research in this field. [Page 6](#)

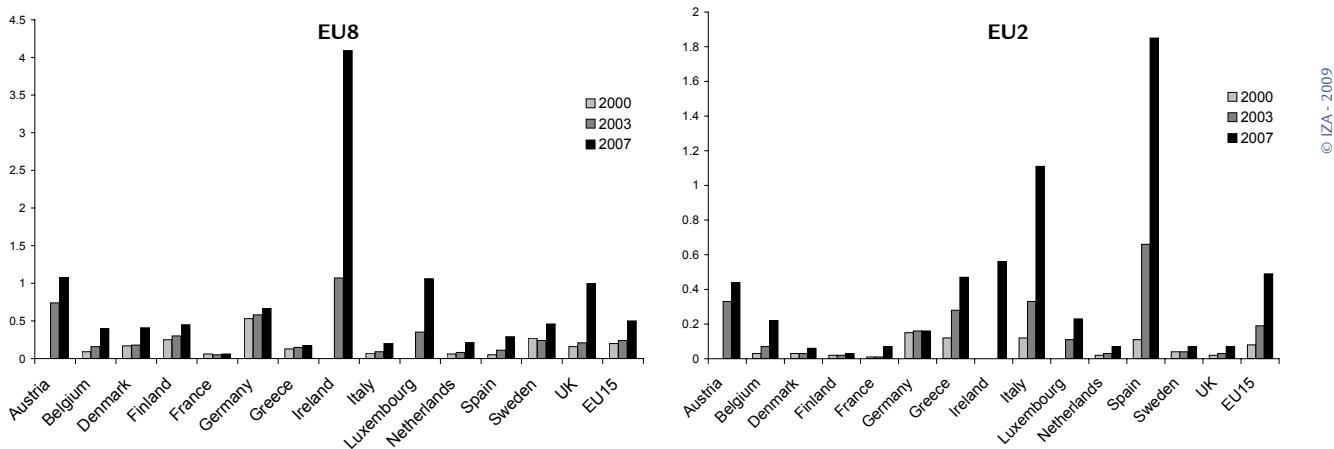
#### IDSC OF IZA PROVIDES WIDE RANGE OF DATA SERVICES

IZA's International Data Service Center (IDSC) works towards establishing standardized electronic documentation of datasets, facilitating access to micro data from official statistics, and offering controlled remote data processing. [Page 9](#)

#### SUCCESSFUL MEETINGS OF MIGRATION RESEARCHERS AT IZA

The Annual Migration Meeting (AM<sup>2</sup>), which celebrated its 5th anniversary, and the Topic Week in Migration have become major forums for the scientific exchange within IZA's migration program. Both events regularly attract a productive blend of top-notch international experts and junior researchers from around the world. [Page 10](#)

### Share of foreign nationals from the new member states resident in the EU15



Source: H. Brücker/A. Damelang, *Labour Mobility within the EU in the Context of Enlargement and the Functioning of the Transitional Arrangements. Analysis of the Scale, Direction and Structure of Labour Mobility*, IAB Nuremberg (forthcoming 2009), Tables 3b and 4b.

Notes: In percent of the total population. Data from National Statistics, apart for France and Greece (LFS, annual), Ireland (Irish LFS, 4th quarter), Italy (2000: Eurostat), UK (UK LFS, 2nd quarter). In 2007, estimates for EU8 residents in Luxembourg, Spain. Data for Ireland from 2004, data for Portugal missing.

there seems to be no simple link between the scale of migration and the transitional arrangements. Overall, however, the proportion of non-EU27 nationals in the EU15 remains larger than that of migrants from the new member states. The impact of these migration flows on the labor markets of destination and source countries depends primarily on their magnitude, composition, temporal nature, as well as the overall functioning of the countries' economies.

To provide an updated picture of post-enlargement migration from the new member states is a formidable task, as statistical data is continually being updated and is often missing. Several countries do not report migrant stocks or flows in their statistics. Migrants are often underrepresented in the official data. Moreover, the definition of a migrant differs across countries, making cross-country comparisons difficult. The distinction that is often ignored is between the foreign-born and foreign citizens, and between temporary and permanent migrants. Finally, illegal migration is not accounted for in the official data. In fact, much of the observed migration flows after enlargement may have been the legalization of people originating from the new member states who already lived in the old member states.

The number of foreign residents from the EU8 in the old EU15 increased from almost 893,000 in 2003 to more than 1.91 million, or 0.5 percent of the population of the EU15 by the end of 2007. This suggests an average inflow (net immigration) of 254,000 people from the EU8 per year since 2004, compared to 62,000 per year between 2000 and 2003. The proportion of foreign residents from Bulgaria and Romania has been continually increasing since 2000, and in 2007

amounted to 1.86 million people, or 0.5 percent of the EU15 population. Similarly, the European Commission suggests that the proportion of nationals from the new member states have increased, and in 2007 nationals from EU10 and EU2 amounted to 0.5 and 0.4-0.5 percent of the EU15 population, respectively. The corresponding figure for 2003 was 0.2 percent for each group. However, these reports also suggest that the *overall* increase in immigration after 2004 was rather limited when compared with the population sizes of both sending and receiving countries, and in the case of EU10 migrants was mainly attributable to the increases in Ireland, the UK and Austria. At the same time, nationals from other EU15 countries constituted 1.7 percent of the EU15 population in 2007 (1.6 percent in 2003), while non-EU27 nationals amounted to 4.5 percent (3.7 percent in 2003).

Although the statistics on stocks of residents usually rely on registers of foreign population, which tend to underestimate return migration since no incentives to deregister exist, they provide several interesting observations. First, they show that the largest increase in the share of EU8 residents since the 2004 enlargement was in Ireland and the UK. Indeed, almost 70 percent of the immigrants from the EU8 have been absorbed by the UK and Ireland since 2003, and their share in the total number of foreign residents from the EU8 in the EU15 increased between 2002 and 2007, while the share of the traditional recipients, Austria and Germany, declined. Thus, it is likely that a "migration diversion" (Boeri/Brücker) has occurred into the countries that opened up their labor markets early. Otherwise, network effects and geographical proximity would probably have attracted many more migrants to Austria and Germany.

Other factors may also have contributed to the unexpectedly strong rise in the numbers of Eastern European immigrants in the English-speaking EU15 countries: many immigrants have studied English at home and valued the opportunity to use, improve or study it in these countries; enlargement may have contributed to the legalization of previously illegal immigrants already in the country, which would imply a purely statistical effect; and demand-driven immigration, especially in the case of Ireland, was likely to occur anyway to fill the available vacancies.

The picture is different for the EU2 countries because the main destination countries for these immigrants are Spain and Italy. The proportion of these immigrants has also increased during the 2000s. Moreover, given the relative geographic, and in the case of Romanians also linguistic proximity to Italy and Spain, these migration trends suggest that geographical and linguistic distance as well as networks are indeed very important pull factors. In general, however, the importance of geographical distance as a migration deterring factor has declined over time with the increased availability of low-cost airlines.

#### Who migrated, and how do they fare?

According to the European Commission, the post-enlargement migrants demonstrate greater labor market participation and have higher employment rates than the populations in either the sending or receiving countries. However, there are notable exceptions: recent EU8 immigrants in Germany exhibit lower employment and participation rates, but above average self-employment rates. The share of employed among EU8 migrants in the EU15 is larger for cohorts arriving after enlargement than

for pre-enlargement migrants, and the shares of unemployed and inactive are correspondingly smaller for the former than for the latter. Interestingly, the employment rate is almost the same for pre- and post-enlargement EU8 immigrants in Germany, while in the UK the share of post-enlargement migrants in employment is much higher than that for pre-enlargement migrants. Note also that self-employment seems to have been used as a means to circumvent transitory arrangements in Germany. While the share of self-employed among recent EU10 immigrants (those residing for four years or less) is low in the UK, around half of employed recent migrants from the EU2 in the UK and around 40 percent of recent EU10 migrants in Germany are self-employed.

Migrants from the new member states are also more likely to be overrepresented in low and medium-skilled sectors (such as manufacturing, construction, hotels and restaurants, but also agriculture and private households) and occupations in spite of the majority having a medium educational attainment and almost a quarter of EU8 immigrants possessing high education.

The proportion of highly educated migrants from the EU8 in the EU15 is lower for cohorts that arrived after enlargement than for those who arrived before 2004, but also the share of the less-skilled has declined, resulting in a slight improvement of the average education level of the EU8 immigrants. Interestingly, the proportion of EU8 post-enlargement migrants in Germany with low education is substantially larger than the proportion of pre-enlargement migrants with low skills suggesting a negative selection of migrants, while in the UK the proportion of those with low education is smaller and of those with higher education is larger after enlargement. In addition, migrants from the new member states are disproportionately young, there is a relatively large share of females, and a significant proportion of these migrants is likely to be of a temporary or seasonal nature.

Regarding country-level evidence from the UK, Ireland and Sweden, in most cases, the majority of EU8 migrants were found to be male, young, originating from Poland, the Baltic states and Slovakia, with relatively high or medium skill levels and concentrated in relatively low-skilled sectors, indicating

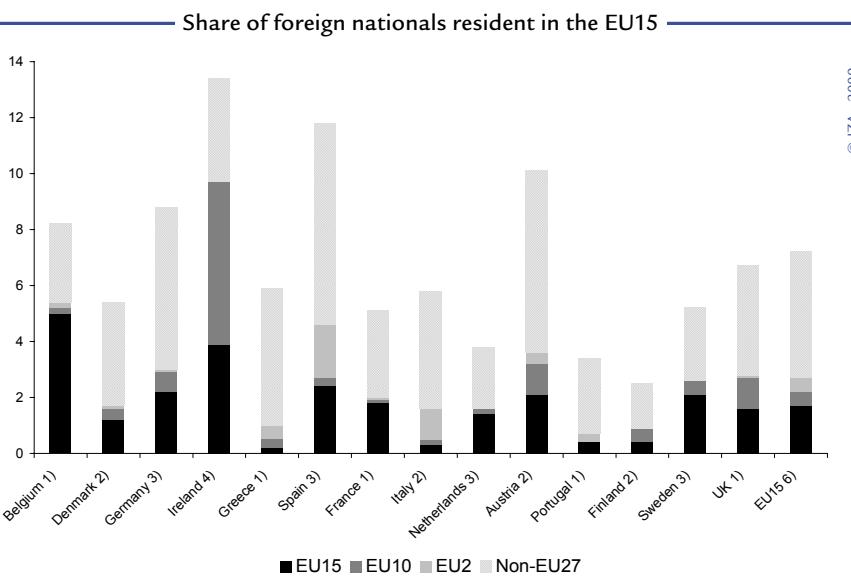
such issues as downgrading and imperfect transferability of human capital. Indeed, despite their relatively high educational levels, in the UK these immigrants are concentrated in low-skilled sectors, such as hotels and restaurants, manufacturing and agriculture and in the low-skilled occupations. They are also more likely to be self-employed, have a higher propensity to work than natives and hold a qualification. However, they were found to be relatively low paid. It is also argued that the higher unemployment rates for the most recent EU8 migrants arise largely because they are relatively young.

The reasons for migration from the new to the old member states and the barriers migrants face are important factors that shape the nature of east-west migration in Europe. Consistent with the above evidence, employment-related factors are the most important mobility motives for these emigrants. East Europeans were generally found to be unhappy with their lives, dissatisfied with their salaries and working conditions, concerned about the availability of good jobs and insecure about their current jobs. All these factors further contributed to reasons to move abroad. On the other hand, language and cultural barriers play key roles as factors deterring intra-European migration, while worries about finding a (suitable) job and the expected loss of social contacts with family or friends also matter.

#### Consequences of continued mobility restrictions for the German labor market

Unlike other EU countries, Germany has not immediately opened up its labor market for immigrants from the new member states. However, the numbers of migrants from the accession countries have clearly increased in Germany since the 2004 enlargement. The net gain of EU8 immigrants has become 2.5 times larger than in the four-year period before enlargement. Among EU8 immigrants, Poles constitute the largest immigrant group: after enlargement, 71% of EU8 immigrants and 63% of all immigrants came from Poland. On the other hand, without the immigration from the EU8, Germany would have had a net loss of migration. Therefore, it is essential to understand how this new immigrant influx from the EU8 countries has affected the labor market conditions in Germany, and whether the composition of these immigrants has changed since enlargement.

The analysis presented by *Karl Brenke* (DIW Berlin), *Mutlu Yuksel* (IZA) and *Klaus F. Zimmermann* in the new book suggests that the composition of EU8 immigrants has indeed changed. The recent immigrants from EU8 countries are comparably older and



Source: European Commission, *The Impact of Free Movement of Workers in the Context of EU Enlargement, Report on the first phase (1 January 2007 – 31 December 2008) of the Transitional Arrangements [...]*. Brussels, November 18, 2008, Table A1.

Notes: 2007. In percent of the total population. Luxembourg is excluded due to the scale comparability; proportion of EU15 nationals in Luxembourg is 37.3, of EU10 nationals 0.8, of non-EU 3.4 and is missing for EU2 nationals. Choice of data sources according to data availability for individual countries. For population statistics end-of-year data, for LFS 4th quarter data. Figures are not fully comparable between member states due to the use of different sources. Data from the LFS should be treated with some caution due to limitations of the survey with regard to foreign populations, in particular concerning coverage of very recent migrants and collective households, relative levels of non-response and small sample sizes. 1) EU LFS quarterly data, 4th quarter. 2) National and Eurostat Population Statistics. 3) Eurostat population statistics, 2007 DG Employment estimate. 4) CSO Ireland, Quarterly National Household Survey, 4th quarter; for 2003 3rd quarter 2004; Nationals from BG and RO included under non-EU27 nationals until 2006 and under EU10 nationals in 2007. 5) EU LFS quarterly data, 4th quarter. EU10 and EU2 nationals included under non-EU27. 6) EU totals and sub-totals are only of an indicative nature, as they are the sum of country values that stem from different sources; EU totals and sub-totals include country data which are not shown individually due to small sample sizes. Data for Ireland on EU2 migrants and for Portugal on EU10 migrants are unavailable.

have lower levels of education relative to previous immigrants from EU8 countries. On the other hand, the majority of EU8 migrants are young males from either Poland or the Baltic states. The change in the distribution of recent immigrants is also reflected by their labor market outcomes in Germany. The authors find that recent EU8 immigrants work in low-paid jobs and work longer hours, and their net monthly income is the lowest on average among all immigrant groups except recent non-EU immigrants.

Similarly, recent EU8 immigrants are 23.7% less likely to be employed, and they have the lowest labor force participation among all immigrant groups except recent non-EU immigrants. On the other hand, recent EU8 immigrants are 15% more likely to be self-employed than natives. EU8 immigrants work 1.8 hours more a week than recent non-EU immigrants, but their mean levels of hourly wages do not statistically differ from each other, whereas both groups' hourly wage is 24% less than natives on average.

Taking these findings together suggests that recent EU8 immigrants in Germany are more likely to be self-employed than employed as a wage earner in Germany. Furthermore, they also earn less, conditional on being employed or self-employed. Given the large numbers of inflows and outflows of recent EU8 immigrants, they may serve as seasonal workers in low-paid jobs or in agriculture. The results suggest that recent EU8 immigrants are more likely to compete with immigrants from outside Europe for low-skilled jobs than with natives in Germany. Although Germany needs high-skilled immigrants, the analysis shows that these immigrants only replace non-EU immigrants in low-skilled jobs. These results underline the importance of more open immigration policies targeting high-skilled immigrants. The current German policy not only fails to attract the required high-skilled workforce, but is also unable to avoid the attraction of low-skilled immigrants, and thus has no positive impact on the labor market.

#### Brain drain in the source countries?

What are the demographic and economic impacts of the post-enlargement emigration in the EU8 and EU2, which are still troubled by post-transition structural and institutional weaknesses? The significant outflows of predominantly young and skilled individuals may have negative long-run impacts on these countries' economic growth, demographic situation and public budgets. For example, it has been estimated that the elderly dependency ratio will more

than double by 2050 in Lithuania, and without fundamental changes (such as adjusting benefits, the age of eligibility or promoting immigration) the social security system may fail entirely. A significant decline in population and labor force has also been predicted for Poland, which would place a serious burden on its labor market and public budgets over the next 50 years. This shrinking share of the working-age population is also likely to drive down the future emigration potential from the new member states.

Emigration from the new EU members goes hand in hand with a decreasing unemployment rate and an increasing employment growth rate. The number of vacancies rose until the last quarter of 2007, all indicating potential labor shortages. Indeed, emigration may exacerbate structural weaknesses in national labor markets, as there are shortages of high-skilled specialists in various sectors. Many unfilled vacancies and substantial labor shortages in manufacturing, construction and trade sectors have occurred in several new member states, e.g. in Lithuania and Poland. Also, there is often a mismatch between vacancies and workers. One of the consequences is increasing immigration into the new member states due to the increased demand for immigrant labor. In Poland, for example, the number of immigrants in 2004 was the highest since 1960, and the main countries of origin in 2003 were Ukraine, Belarus and Russia. This may be a sign of new migration patterns when citizens of new member states are substituted by non-EU immigrants. Another development has been increasing wages, and thus unit labor costs, in the new member states. However, wages in these countries are still several times lower than e.g. in the UK or Ireland.

In general, one has to be careful, however, when correlating emigration with these new developments in the labor markets. According to recent studies, the latest developments in the labor markets of new member countries are mainly driven by economic restructuring and growing labor demand, and only to a small extent by emigration. The relatively high level of education of these migrants together with the observed "downgrading" into less skilled occupations (due to incomplete transferability of migrants' skills) may suggest a potential danger of "brain waste", when human capital depreciates during periods of low-skilled work in the host country. On the other hand, investing in language skills, expanding professional networks, and learning other new skills abroad implies transferring these skills back home on returning. The tendency of increasing enrollment rates for tertiary education in the new

EU member countries may compensate for the outflow of skilled labor.

Migrant remittances is another important issue when analyzing the consequences of emigration. World Bank indicators show that remittances constitute a significant part of the GDP in Bulgaria and Romania, and are also non-negligible in the Baltic states. Their share increased in the majority of the new member states between 2003 and 2006. The remittances are mostly seasonal in nature in Poland and the Baltic states, which suggests a temporary seasonal pattern of migration from these countries. Remittances are largely used for household consumption and the purchase of durable goods, but there has been a recent tendency to invest in human capital, particularly tertiary education. The impact of these remittances on the economic development so far is difficult to document, but they may play a positive role in the economic development of the new member states inasmuch as they support aggregate demand and investments in education and business activities.

#### Who wins, who loses?

The new book includes a comprehensive study, authored by Timo Baas, Herbert Brücker and Andreas Hauptmann (all IAB Nuremberg), which sheds light on the impact of the change in labor supply on macroeconomic aggregates and the distribution of earnings and employment opportunities. For this purpose, the study employs two general equilibrium models which analyze the migration impact in a setting with imperfect labor markets. Based on scenarios of labor migration from the EU8 into the EU15 from 2004 to 2007, the study finds substantial gains of migration for the enlarged EU: the aggregate GDP of the integrated area increases by about 0.2 percent, which corresponds to a sum of 24 billion euros. The total factor income of the native population increases slightly in the receiving countries. The labor market effects are surprisingly small: in the short run, wages decline by about 0.1 percent in the EU-15, and the unemployment rate increases by about 0.1 percentage points. Conversely, wages may increase by 0.3 percent in the new member states, and the unemployment rate may decline by 0.4 percentage points. In the long run, after the adjustment of capital stocks, migration is by and large neutral for wages and unemployment. Since the skill structure of the migrant workforce does not differ largely from the native workforce in the sending and the receiving countries, only moderate distributional effects across the different groups in the labor markets can be observed. Less-skilled workers in the receiving countries lose more proportionally, while high-skilled

workers tend to benefit. The converse holds for the sending countries.

#### Effects of the current economic crisis

With the downswing of European economies in early 2008, some deterioration of labor market variables have recently been observed in the destination countries. However, with the numbers of immigrants from the EU8 and EU2 declining and the rise of the global crisis, this can hardly be attributed to immigration. Similarly, the crisis also affects the new member states and will potentially cause a slowdown in vacancies and employment growth as well as an increase in unemployment.

Obviously with the crisis, the “natural experiment” of politically determined enlargement and the opening up of some labor markets is coming to an end, or better said, moving to a different stage in the analysis. This is unfortunate, since the study of the outflow of EU8 and EU2 emigrants caused by enlargement, their size, performance and effects on the natives cannot be completed. Nevertheless, more information about this regime will be available with the release of micro data until 2008. To date, even the 2007 data waves are often still unavailable. With the release of the 2009 micro data at the latest, we will have to focus on a new research question, namely, how migration will perform under free mobility and an economic downturn.

Labor migrants are very responsive to economic cycles, especially if there are no mobility restrictions for returning home and re-returning to the host country. EU8 and EU2 immigrants in the EU15 countries do not face any long-term mobility constraints. On the contrary, mobility barriers will decline in the EU over the next years because some currently existing restrictions have to be removed. Also many migrants, especially the Polish, turned out to be temporary movers. At times of high and rising unemployment, policymakers, employers and the public become more concerned about the potential adverse effects of immigration on the job opportunities of natives. As a consequence, there is a growing social pressure on migrants to leave. Since social networks are very important for migrant job searches, an increase in unemployment will reduce the availability of valuable information, and hence the employment chances of ethnic networks. Migrants are further over-educated while working in lower-paid jobs in the host country; if they become unemployed, they may prefer to return to more skilled occupations back home. This all suggests that many foreign workers will now, or with a further worsening of the crisis, move home.

However, unlike in normal business cycles, the current downturn is not asymmetric across economies but occurs in a parallel manner. This implies that migrants face a deepening of the crisis in both the host and home countries, suggesting that it is less reasonable to return home. In fact, the relative situation in the old EU15 may still be better than in the new EU member countries. The crisis also affects the host economies differently. For instance, Germany is hit in the export-oriented investment goods industries with their many skilled workers, whereas Ireland and the UK suffer from a more global economic downturn. High-skilled immigrants, who are also typically young, single and with no other strong family ties in the host country, are more likely to return home than low-skilled immigrants who cannot expect to find a job back home. Moreover, such factors as established networks, language or the worsening economic situation at home may further serve as push or pull factors for east-west European migration.

#### Conclusions

The Eastern Enlargement of the EU was an institutional impetus to the migration potential in Europe. While the overall numbers of migrants from the new member states in the EU15 increased between 2003 and 2007, this increase was distributed unevenly among countries. The proportion of these migrants in the EU15 remains smaller than that of non-EU27 migrants.

The transitory arrangements may have diverted some migrants from the EU8 mainly to Ireland and the UK. Migrants from the EU2 continued to go predominantly to Italy and Spain. To date, as the new volume conclusively demonstrates, there is no evidence that these primarily economic migrants would displace native workers or lower their wages (and even if crowding out happened in certain sectors or occupation, aggregate data suggest that such natives found well-paid jobs elsewhere), or that they would be more dependent on welfare than the natives. The drain of mainly young and skilled people could pose some additional demographic challenges on the source countries. However, the anticipated brain circulation may in fact help to solve their demographic and economic problems. While the ongoing economic crisis may change the momentum of several migration trajectories, free migration should in fact alleviate many consequences of the crisis and generally improve the allocative efficiency of EU labor markets.

Free mobility of people is a cornerstone of the European Union. How to ensure that it is upheld in all aspects, that it contributes to economic prosperity as well as the well-being of the individual and the society, and that it helps to alleviate economic and financial disturbances such as the ongoing economic crisis, is a major policy task for the present and future.

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# First Annual Meeting on the Economics of Risky Behaviors (AMERB)

## Cutting-Edge Research Presented in Washington, DC

Risky behaviors touch individuals and families alike in many ways and go beyond race, gender and age. They affect the realms of economics, education and health as well as social, political, psychological, legal, security, criminality and police enforcement issues. What causes individuals to engage in risky behavior, and what are the risk factors influencing such behavior? Is it all in the brain, are people hardwired for this? What is the role of culture, ethnicity, adverse childhood experiences, or socio-economic status? What kind of disincentives would discourage individuals from risky behavior? What are the implications of risky behavior on other outcomes like education, marriage, and employment? Can risky behavior be managed, or channeled to a positive outcome? The First Annual Meeting on the Economics of Risky Behaviors shed light on many of these questions. Co-organized by IZA's Deputy Program Director for Migration *Amelie F. Constant* (DIW DC and George Washington University) and IZA Research Fellow *Erdal Tekin* (Andrew Young School, Georgia State University), the meeting took place on March 20–22, 2009, in Washington, DC.

The meeting attracted the best ongoing research on the economics of risky behaviors and an international audience of leading scientists in this field. Sixteen papers were chosen out of nearly one hundred submissions. This high-quality academic work, which extends, enriches, refines, and challenges our understanding of the broad array of issues related to risky behavior, was presented, discussed and debated among leading scholars and more junior researchers. The meeting was well attended by local and international experts.

Starting with a session on risky behaviors related to children, *Keith Finlay* (Tulane University) addressed the question of whether children of single mothers, who have never been married, exhibit lower levels of academic achievement than others. He shows

that children of women whose marriage decisions are affected by variation in incarceration rates of men are not negatively affected; on the contrary, Hispanic children of never-married mothers tend to do better than their peers. *Kristiina Huttunen* (Labour Institute for Economic Research) presented her research on the rehabilitative effects of alternative criminal sanctions on recidivism, education and employment of convicted adolescents. Using data from a juvenile punishment experiment that comprised a rehabilitative program in seven municipalities in Finland, she finds that alternative juvenile punishment did not have a significant effect on the probability to commit a crime in the future, albeit it clearly increased the employability of young individuals.

The renowned criminologist *Alfred Blumstein* (Carnegie Mellon Heinz College) gave the conference's keynote entitled "Risky Behavior in Crime and the Criminal Justice System." He discussed national crime trends over the last 20 years and the particularly high incarceration rates in the US. In his compelling presentation, Blumstein argued that incarceration does not incapacitate drug trade as long as there are enough replacements available to cover up for incarcerated drug dealers. Showing the decreasing average age for convicted drug dealers, he claimed that incarcerated drug dealers were replaced by ever younger cohorts of criminals, thus rendering incarceration ineffective for crime prevention.

*David E. Marcotte* (University of Maryland and IZA) opened the session on Drugs, Pharmaceuticals, Crime and Employment. He asked whether there is a relationship between the steep drop in crime rates in the

US in the 1990s and prescription rates for two main categories of psychotropic drugs – antidepressants and stimulants. He shows that increased prescriptions for mental illness, in particular antidepressants, are associated with a decrease in violent crime. This link is particularly strong for robbery and assault. The impact of widespread employer drug testing since the early 1980s on an array of labor market outcomes was discussed by *Abigail Wozniak* (University of Notre Dame and IZA). She finds that while youth employment declined in the testing sector, youth who were already employed had on average better jobs than in the non-testing sector. She also finds that drug testing increased labor force participation and wages of black youth. While it improved access to jobs for less skilled white men, Hispanics showed lower employment and found fewer qualified jobs in high-testing industries.

*Julio Cáceres-Delpiano* (Universidad Carlos III de Madrid) studied the divorce revolution after the marital law reforms in the US and its effect on crime and arrest rates. His results show that unilateral divorce had a positive impact on violent crime rates, specifically on murder and property crimes. Considering age, he finds that individuals who exhibited an increase in the probability of engaging in crime were those who were already born at the time of the reform.

*Aureo de Paula* (University of Pennsylvania) started off the session on risky sexual behavior by discussing young males in Malawi, their beliefs on their HIV status and the effect of these beliefs on their sexual behavior. Interestingly, he finds that while a low prior belief of being HIV positive has a negative significant effect on extra-marital affairs,



Alfred Blumstein



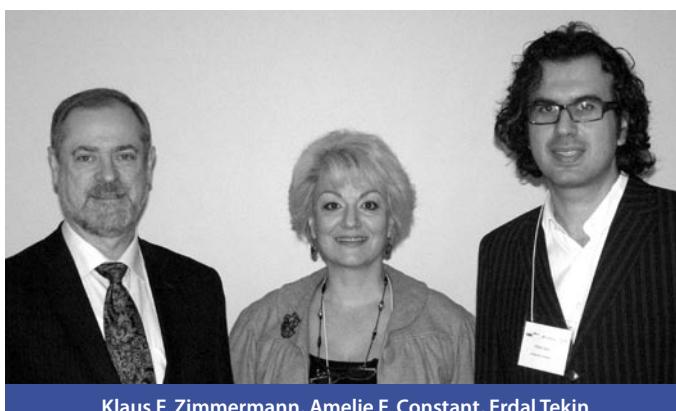
it has no effect on condom use. *Berk Özler* (World Bank) looked at the causal effect of conditional cash transfers (CCT) on English literacy, marriage, teen pregnancy rates, and sexual activity of adolescent girls in Malawi. He shows that CCT programs increase school enrollment, delay marriage, reduce sexual activity and especially the likelihood to engage in sex with older men. How the number of sex partners during youth affects the educational attainment of 22 to 24-year-old women was discussed by *Joseph Sabia* (American University). He finds that while an increase in the number of sex partners has a significantly negative effect on the educational attainment of girls, it bears no significant effect on boys. *Scott Cunningham* (Baylor University) examined the relationship between internet diffusion, arrests related to prostitution, and the effect of the internet on street prostitution. According to his study, the rise of the internet has a significantly negative effect on prostitution-related arrests in the US. New data from an online escort service website reveal that the internet market for prostitutes grows among women, who tend to disappear from the street prostitution market.

During his distinguished luncheon address "Minimizing the Risk of Prisoners' Reentry into the Community," *Stefan LoBuglio* (Pre-Release and Reentry Services in Montgomery County, MD), gave an invaluable insight into Pre-Release Centers that are set up to train all kinds of crime committers within one year of their release to society. These centers can also help to address issues around probation violation by giving privileges as incentives to prisoners that are accompanied by a detailed system of monitoring, such as regular drug and alcohol tests. In his powerful and motivational speech, LoBuglio emphasized that the current challenges are foremost related to implementation and information issues, notwithstanding the risk prisoners take to use their privileges to escape.

The risky behaviors and adulthood session included *Daniel Kuehn* (Urban Institute), who explored youth risk behavior and dropping out as a potential indirect mechanism through which income and single parenthood have an impact on connectedness to school and the labor market during transition to adulthood. He finds that the direct channels dominated the total effect of income on youth connectedness for the full sample, as well as both race sub-groups. This suggests that the best way to break the vicious cycle of poverty is to address

poverty directly, rather than targeting the causal mechanisms through which poverty operates (such as risk behavior or dropping out). *Rodrigo Pinto* (University of Chicago) concentrated on three factors that can explain risky behavior and schooling decisions: cognitive ability, non-cognitive skills, and health. His study shows that schooling level increases with cognitive skills, and as it increases, the probability of becoming a gang member or of having an irresponsible sexual behavior decreases.

Problems of alcohol abuse were tackled by *Emily Owens* (Cornell University) and *Manuela Angelucci* (Arizona State University and IZA). Exploiting a recent change in Metro schedule in Washington DC, Owens finds that late-night Metro service caused a large increase in the drinking population (by 8%), but the Metro service expansion re-



Klaus F. Zimmermann, Amelie F. Constant, Erdal Tekin

duced the number of drunk drivers in these neighborhoods (by 15%). Studying alcohol abuse and domestic violence in rural Mexico, Angelucci finds that the Oportunidades program causes a 15% reduction in alcohol abuse and a 37% decrease in drunken violence among households entitled to the minimum transfer. At the same time, the program causes an increase in violence committed by uneducated husbands, especially when married to younger women who are entitled to large transfers.

*Horst Entorf* (Goethe University Frankfurt and IZA) discussed crime in Germany from the side of police effectiveness, public prosecution and the courts. He finds that the criminal policy of diversion failed as increasing shares of dismissals by prosecutors and judges enhance crime rates; crime is significantly deterred by higher clearance and conviction rates, while the effects of indicators representing type (fine, probation, imprisonment) and severity (length of prison sentence, amount of fine) of punishment are often small and insignificant. *Aico van Vuuren* (Free University Amsterdam) examined crime in the Netherlands in relation to general attitudes towards Muslim

minorities and their impact on house prices in neighborhoods where more than 25% of the people belong to an ethnic minority from a Muslim country. After the Theo van Gogh murder, house prices decreased by about 0.07% per week relatively to other neighborhoods in Amsterdam but the decrease stopped after 10 months. However, the willingness of native Dutch to live in such neighborhoods severely dropped and segregation increased to some extent.

*Leslie S. Stratton* (Virginia Commonwealth University and IZA), shed light on the US obesity epidemic by linking behavioral risk factors such as eating habits, sleeping and physical activity to measures of obesity. She shows that individuals' behaviors are significantly associated with weight status and differ by gender. Overall, however, results indicate that including measures of behavioral factors does little to alter the estimated impact of the demographic factors.

The meeting was organized in a manner designed to foster interaction and exchange of ideas among the participants in a relaxed atmosphere. The program also included a reception at the DIW DC quarters and a dinner speech by IZA Director *Klaus F. Zimmermann*, who gave a witty and timely talk relating risk behavior to trust, forecasting, the financial crisis and the wealth of nations. Two strategies to deal with a risky environment are defensive pessimism (reducing expectations to be prepared for the worst outcome) and strategic optimism (setting high expectations and generating forces that improve the likelihood of success), he said. The financial market crisis and the great recession have demonstrated that we need to much better understand the psychology of economics.

"Our exciting conference here has shown to me that there are many fascinating and promising attempts to model and analyze risky behavior that can be generalized to attack these problems," said Zimmermann. "In the current crisis we have to rely on those of us who have the option to act as strategic optimists and concentrate on the potential positive outcomes. This will set high expectations and keep the perspectives open for innovations, investment and high consumption."

View the complete program online:

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

# IZA Partner Institute DIW DC Influences Policy in Washington

Founded in January 2007, IZA's American partner institute, DIW DC, is an independent, nonpartisan, nonprofit economics think tank incorporated in Washington, DC. With *Amelie F. Constant* at its helm, the Institute contributes to academic research and teaching, effective policy solutions and stronger transatlantic relationships between the United States and Europe.

Seeking to enrich understanding of public policy issues through work with international scholars, government leaders, the general public and the private sector, DIW DC is committed to promoting conscientious economic research and disseminating knowledge to the public. The Institute focuses on current socioeconomic and policy issues, offering practical policy solutions and advice to both the general public and policymakers. It achieves its goals by bringing new knowledge to the attention of decision-makers and affording scholars greater insight into public policy issues. Dedicated to researching and interpreting American and European economic trends for the transatlantic market, DIW DC also serves as a platform for joint research and policymaking.

DIW DC's collaborative research efforts are therefore international and multidisciplinary, drawing upon political science, law, sociology, geography, social psychology and anthropology to explain economic forces and behaviors. Projects can be initiated by DIW DC staff or individual fellows. They can also be commissioned or funded by foundations or governments. Together with its partner organizations, DIW DC is linked to research in migration; the evaluation of labor market programs; labor markets, institutions and development; macroeconomic analysis, business cycle measurement and forecasting; international economics; public economics; energy,

transportation, environment; information society and competition; innovation, manufacturing, service; political economy; and health.

In addition to conducting cutting-edge research, DIW DC is also strongly committed to educating tomorrow's economic scholars. Each year, DIW DC hosts students from DIW Berlin's Graduate Center of Economic and Social Research, arranging internships, classes, and weekly guest lectures from prominent American economists and high-profile policy pundits. Students

are given career advice and encouraged to make lifelong American connections. DIW DC's Executive Director Amelie Constant acts also as the Vice-Dean of DIW Berlin's graduate program. In addition, DIW DC works closely with several universities in DC. As a visiting professor at Georgetown and George Washington universities, Constant shares her in-depth knowledge of the European economic landscape with her students and encourages them to attend DIW DC lectures and events. DIW DC also employs many graduate students as interns or part-time research assistants and fosters a growing exchange program.

IZA and DIW DC are linked through two of their most prominent members: DIW DC's Executive Director Amelie Constant serves as IZA's Deputy Program Director of Migration, while IZA Director *Klaus F. Zimmermann* chairs DIW DC's Board of Directors. Members of the two institutes frequently collaborate in their work, co-writing papers and co-organizing scientific conferences, such as the First Annual Meeting on the Economics of Risky Behaviors, the First German Day on Development Meeting with the World Bank, or the IZA Annual Migration Meeting, to name a few.



DIW DC's offices in the heart of Washington, DC

DIW DC recently welcomed the addition of *Guillermina Jasso* (New York University and IZA) to its Board of Directors, as well as *Wolfgang Pordzik* (Executive Vice President of DHL Americas) to its Board of Distinguished Advisers. Other prominent board members include *Rebecca Blank* (Brookings Institution and IZA), *Larry Hedges* (Northwestern University), *Douglas Massey* (Princeton University), *Christopher Pissarides* (London School of Economics and IZA), *Howard Silver* (Partner in Hogan and Hartson LLP), *Rita Süßmuth* (former President of the German Federal Parliament), and *Jan Svejnar* (University of Michigan and IZA).

In addition to its close relationship with IZA, DIW DC also enjoys partnerships with DIW Berlin, the largest German think tank in economics, George Washington University and its prestigious Elliot School of International Affairs, and Georgetown University. The Institute is also affiliated with the Migration Policy Institute and Southern Methodist University's John Goodwin Tower Center for Political Studies and enjoys special relationships with the World Bank, the Urban Institute, the American Institute for Contemporary German Studies, the Centre for Economic and Policy Research, Welch Consulting, the German Marshall Fund, the Turkish Industrialists and Business Association in the United States, the International Food Policy Research Institute, the IMF and other organizations. DIW DC is also an active member of the German American Business Council and maintains good contacts with Deutsche Telekom, DHL, Deutsche Welle, Representatives of German Industries and Trade, the German Embassy, the German School and the local German expatriate community. Through these connections, DIW DC bridges the gap between academic research and public policy.

► [www.diwdc.org](http://www.diwdc.org)



Graduate students from DIW Berlin during classes regularly held in DIW DC's conference room

# Serving the Scientific Community:

## IZA's International Data Service Center (IDSC) Offers Comprehensive Services for the Documentation and Analysis of Data in Labor Market Research

In light of the growing demand for empirical data, the services offered by the International Data Service Center (IDSC) of IZA are met with great response from the scientific community. The IDSC provides a wide range of services for researchers and raises the quality standard in data access and data processing. Since 2003, the IZA International Data Service Center has been supported by the Federal Ministry of Education and Research, following an initiative by the commission on improving the informational infrastructure by cooperation of the scientific community and official statistics (KVI). The goal was to enhance the link between official data providers and data users. In concert with other data service centers, the IDSC offers an efficient interface for this cooperation and has constantly expanded its services over the past years. The Center will continue to broaden its service range even after the publicly funded program ends in 2010.

### Broad range of services

Economists typically face three structural obstacles when working with empirical datasets. First, there is often a lack of standardized electronic documentation, which would enable efficient search for and work with data, for instance by using keywords. As a member of the international Data Documentation Initiative (DDI), the IDSC works towards establishing such standards, which are continuously developed and refined during the annual meetings of the European DDI User Group (EDDI). All data made available through the IDSC are documented in accordance with these standards.

The screenshot shows the homepage of the IDSC website. It features a header with the title "IDSC INTERNATIONAL DATA SERVICE CENTER @ IZA". Below the header is a navigation menu with links to "Home", "About", "Contact", "History", "Projects", "Services", and "Logout". A search bar is located at the top right. The main content area is titled "HOME" and contains a brief introduction to the IDSC's purpose and activities. To the right of the text is a small image of a bridge. On the left side, there is a sidebar with links to "Date Envelope", "Econ News", "Econ Reports", "Jobs", "Meetings", and "Econ Curve Seminar". At the bottom of the page, there is a footer with copyright information and a link to "Job Studies in the catalogue".

When trying to work with German datasets, researchers from abroad face an additional barrier. Before the IDSC took up its work, very few German datasets were documented in English. As a consequence, there is a lack of international studies using these datasets because non-German speaking researchers were unable to analyze them. Committed to an international orientation from the very beginning, the IDSC has therefore systematically documented datasets in English. This will ultimately benefit German policymaking as well, because there will be a greater abundance of research findings by international experts.

Access to this data is, of course, subject to the relevant regulations on data privacy and security. Such legal problems are the third obstacle faced by foreign scientists who wish to work with German data. Solving this problem is nearly impossible without the help of data service centers such as the IDSC. In particular, foreign scientists and research institutes are effectively prohibited from working with German official statistics because the German authorities cannot monitor foreign data protection standards or impose sanctions on those who violate German data privacy laws. Therefore, one of the most important tasks of the IDSC is to act as an intermediary between the data

analysis, such as STATA, the IDSC has developed a special software program for controlled remote data processing – the Job Submission Application (JoSuA). This means that the micro data is not made available by IZA's data service center, but instead it is processed at the IDSC on the basis of remote computing analyses. The IDSC staff thus ensures that data protection regulations are observed. The results of the data analysis are only released after being edited and cleared by the staff member according to the data producer's restrictions. To this end, JoSuA offers a comprehensive and adjustable selection of tools and criteria that guarantee controlled remote data processing.

### Successful cooperations



Nikos Askitas

The IDSC works hand in hand with several renowned national and international institutes. These partners include the Institute for Employment Research (IAB Nürnberg), the Dutch Research Centre for Education and the Labor Market (ROA), the Institute for Quality Development in Education (IQB) at Humboldt University Berlin, the German Social Science Infrastructure Services (GESIS), and DANS – Data Archiving and Networked Services, the Dutch data archive for social and economic data. Collaboration takes place in all areas in which the IDSC is active: documentation standards, solutions to technological challenges, data management, translation and distribution. Partners of the International Data Service Center may also take advantage of the JoSuA tool developed at IZA.

protection interests of data producers and the research community's interest to work with the data.

### Unique tool for remote data processing: JoSuA

To guarantee both data security and data access through widely used software for data ana-

### Expansion of available datasets

The International Data Service Center of IZA is determined to continuously expand the range of available datasets. At present, IDSC manages micro data from official statistics (such as the German Microcensus).



Georgios Tassoukis

Recent additions include data from the IQB, such as the PISA studies. Please visit the center's website for a list of available datasets.

*Nikos Askitas* (Head of IDSC) and *Georgios Tassoukis* (Database Manager), who manage the IDSC, also welcome any suggestions for further datasets to add to the inventory. They can be contacted at: [idsc@iza.org](mailto:idsc@iza.org)

#### New website and seminar series

To accommodate its growing range of services, and to cater to the specific needs of data users, the IDSC redesigned its homepage in April 2009. The website provides an overview of the center's tasks, activities and cooperations, as well as easy access to datasets. Apart from its "virtual" activities, the IDSC also promotes the professional

exchange on recent developments in data services and infrastructure through a new seminar series: The "Red Cube Seminar" at IZA provides a forum for high-quality technology presentations related to the center's research context.

► <http://idsc.iza.org/>

## Open Data Foundation (ODaF) Meeting at IZA

On April 2 and 3, 2009, the IDSC of IZA hosted the second European Open Data Foundation meeting. Founded in 2006, ODaF is an advocacy group for the promotion of open standards in the field of scientific data and metadata management. Its first European event was hosted by the UK Data Archive, and the IDSC accepted the offer to host it in 2009 as part of its efforts to contribute to the communities of data workers it actively participates in. Experts from the U.S., Germany, Denmark, Norway, and the Netherlands from organizations such as the European Central Bank, Tilburg University, CentERdata, DANS, GESIS, CESSDA, the universities of Bielefeld, Bamberg, Goettingen, and others convened at the IDSC for two days.

The first day of the ODaF meeting offered highly interesting talks on standards and web tools developed at the participating institutions, which facilitate research with data or enhance the treatment of primary and secondary data and its associated metadata in the lifecycle of research data. Metadata, which is a term essentially referring to "data about data," is necessary to document, describe and more generally make data usable by the research community. It is therefore a vital element for the promotion of data-supported research. During the second day, the participants discussed future strategies and developed a roadmap for further action.

The meeting is part of a broader event portfolio of the IDSC, which aims at bringing together the various communities of data workers and help advance data documentation, usage and access. Besides hosting and organizing international events, some of the other ways the IDSC contributes to the cause of enabling research with data are: the development of remote access tools, the documentation of data that are relevant to its research communities and beyond, launching cooperations with German and international partners, as well as participating and contributing to the international organization of knowledge exchange.

## Successful Fifth Annual Migration Meeting (AM<sup>2</sup>) and Second Topic Week in Migration

Six years ago, IZA Director, *Klaus F. Zimmermann*, and Deputy Program Director for Migration, *Amelie F. Constant*, developed a forum for the exchange of knowledge among migration scholars. Thus the Annual Migration Meeting or AM<sup>2</sup> was born and has been a consistent success since its 2004 inception. In May 2008, Constant hosted the fifth AM<sup>2</sup> at IZA in Bonn, co-organized with Program Director *Barry R. Chiswick*.

An integral part of the activities pursued by IZA is the open exchange of knowledge among scientists that stimulates further research. In that spirit, the fifth AM<sup>2</sup> brought together more than 50 international experts on migration and integration research from 12 different countries to present and discuss their most recent findings. Participants hailed from fields as diverse as economics, sociology and social psychology. For the fifth consecutive meeting,

demand to participate in the AM<sup>2</sup> was high; out of more than 100 submissions 21 papers were selected. The Julian Simon Keynote Lecture, the highlight of the meeting in honor of the great pioneer of migration research, was delivered by *Sara de la Rica* (University of the Basque Country), who talked about "Immigration in Spain: Facts, Economic Outcomes and Lessons."

The high-quality research presented at AM<sup>2</sup> by junior and more seasoned scholars enriches our understanding of the broad array of issues related to migration. In addition, the meeting also hosted IZA's biennial second Topic Week in Migration, which offers tremendous opportunities for group discussions and close interac-

tion between IZA staff members, visiting researchers, and AM<sup>2</sup> participants.

#### Migration intentions and networks

Amelie F. Constant opened the meeting and chaired the first session on "Why People Move – Intentions and Networks." *Alexander Danzer* (DIW Berlin and Humboldt University) presented a paper on "Economic Migration, Networks and Human Capital Transferability from the New European Borderland: A Comparison of Five Eastern European Countries." The session also included the paper "EU Enlargement: Migration Flows from Central and Eastern Europe into the Nordic Countries – Exploiting a Natural Experiment." *Johanna Avato* (World Bank) presented her paper on skilled labor migrants and the propensity to migrate.

In the session entitled "Immigrant Impact on Housing, Wages, and Human



Capital Investment," *Douglas Krupka* (IZA) analyzed "Wages, Rents and Heterogeneous Moving Costs," followed by *Chad Sparber* (Colgate University) with a paper on "Task Specialization, Comparative Advantages, and the Effects of Immigration on Wages." *Mark Regets* (National Science Foundation) closed the session with his research on "Effects of Highly-Skilled Migrants on Native Human Capital Investment." The "Immigrant Performance" session chaired by IZA Director *Klaus F. Zimmermann* featured *Thomas Bauer* (RWI Essen) with an analysis of the labor market activity of immigrant families in Germany, *Romain Aeberhardt* (CREST-INSEE) with work on the wages and employment of French workers with African origin, and *Paul W. Miller* (University of Western Australia), who talked about the negative assimilation of immigrants as a special case.

Congenital selection issues and why immigrants return home were the themes of the fourth session. *Jesús Fernández-Huertas Moraga* (IAE-CSIC) presented his research on what determines emigrant selection, looking at wealth constraints, skill prices, and networks. *Martin Junge* (Copenhagen Business School), studying emigration and return migration of families with children, asked whether the return home is to go to school. The risk behavior and proclivity session included the presentation of *Madeline Zavodny* (Agnes Scott College) on whether immigrants work in riskier jobs. Amelie F. Constant presented work on the role of ethnic persistence and assimilation on the risk proclivity of immigrants in comparison to native Germans. In the networks and occupations session, *Francis*

*Vella* (Georgetown University) presented his latest work on the role of immigrant networks and their implications for the occupational choice of immigrants in the host country and their wages.

*Meryam Schouler-Ocak* (University Hospital Berlin, Charité) gave a distinguished lecture on the mental health of immigrants, based on her research at the Berlin hospital. Schouler-Ocak, a psychiatrist, captivated the audience with her fascinating insights into the importance of the health of immigrants, the detrimental effects of misdiagnoses of mental problems, and the correlation with their culture and language proficiency.

#### Migration and remittances

*Martin Kahanec* (IZA) chaired the migration and remittances session where *Patrick R. Wetherille* (Georgetown University) presented work on immigrant remitters in the U.S. and sex and ethnicity differences. *Ira N. Gang* (Rutgers University) gave a further twist to the remittance topic by looking at migration, remittances and child labor. The important role of language in migration research was presented by *Marie Louise Schultz-Nielsen* (Rockwool Foundation Research Unit and ASB) in the context of the effect of immigrants' language proficiency on employment using recent Danish data. The last paper by *Hartmut Esser* (University of Mannheim) on language acquisition and age at immigration put a special emphasis on the difficult conditions for bilingualism.

Another highlight of the 2008 AM<sup>2</sup> and Topic Week was the panel on contempo-

rary immigration issues around the globe, chaired by Constant. Leading migration experts and pundits on the panel represented Germany, Spain, Denmark, the US, and Australia. While the greatest immigration issues in Germany involve the integration of existing immigrants (most of them Turks), the recruitment of skilled workers as new immigrants, and the aligning of new immigrants to Germany's economic needs, the "permanent" illegal immigrant population of an estimated 12 million is the big issue in the US. Spain, which has enjoyed miraculous economic growth over the last 8 years and up to last summer, is dependent on immigrants and has therefore applied a series of amnesties to legalize many of them. In Australia, one of the prototype immigration countries, the shortage of high skilled immigrants and how to attract them is the big issue. Denmark is also facing an increasingly non-Western immigrant population that is not faring very well.

The memorable social program also centered around migration issues, such as an exhibition about guest workers in Germany and Zimmermann's insightful dinner speech on "My Immigration." The week-long meeting ended with closing remarks by Amelie Constant who thanked everyone for their contributions and the highly stimulating and provocative meeting.

The next Annual Migration Meeting will be held at IZA on May 22-23, 2009.

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



## 2009 IZA Prize in Labor Economics Goes to Richard Easterlin

This year's IZA Prize in Labor Economics will be awarded to *Richard A. Easterlin* (University of Southern California). The prestigious award recognizes Easterlin's outstanding research on subjective well-being and on the relationship between demographic developments and economic outcomes. In both fields, his work broadened the scope of traditional economic analysis and thus contributed to advancing our understanding of behavior in a wide variety of economic settings. The IZA Prize will be presented during an official ceremony in Washington D.C. on October 22, 2009.

In Easterlin's perhaps most famous work, he showed that rising material wealth does not necessarily correspond to improved individual well-being. People in societies with higher material wealth are more satisfied than people in poorer ones, but once basic needs are met, neither individual happiness nor societal well-being continues to increase with economic growth. This apparently contradictory finding, which Easterlin first posited in the 1970s, came to be known as the

"Easterlin Paradox." Well-being is strongly influenced by relative comparisons and changes in consciousness, Easterlin demonstrated. In other words, as income increases, people's aspirations evolve – they tend to raise their demands and expectations.

Easterlin is also the author of several groundbreaking works on cohort size. Among other influential contributions, the "Easterlin Hypothesis" has had significant influence on understandings of the economic impact of fertility and family decisions on long-term swings in labor markets. Easterlin showed that the economic and social fortunes of a cohort tend to vary inversely with its overall size. Each member of a larger birth cohort will receive less parental attention. Since education spending is relatively fixed, students in larger birth cohorts also receive fewer resources per person, lowering the average quality of schooling.

"Richard Easterlin's work of a lifetime is highly impressive. His work is politically important as well, since it shows that individu-

als are not only seeking to maximize their wealth in order to satisfy their well-being and be 'happier.' Quality of life can also be measured in societal fairness, in good infrastructure, in a welfare state that assists the strong and backs the weak, that consists of demanding and enabling incentives," said IZA Director *Klaus F. Zimmermann*. "Against the background of the current economic crisis, Easterlin's findings are today more than ever a hint for social and economic policies worldwide."

As a founder of two important and growing fields of economic inquiry, Easterlin's groundbreaking research continues to inspire economists and other social scientists to systematically analyze the relationship between subjective well-being and socio-demographic characteristics.



**Richard A. Easterlin**

## IZA Launches New Policy Paper Series

In order to meet the growing demand for scientifically founded policy advice, IZA has established a new "Policy Paper" series to complement the highly successful IZA Discussion Paper Series. Contributions to this series are primarily non-technical in nature. They deal with the policy implications of current labor market issues and contain concise conclusions and recommendations. German-language contributions are published as "IZA Standpunkte" in a parallel series.

The IZA Policy Papers are downloadable at no cost from the IZA website and through other major online publication databases. Selected contributions by IZA staff and network members will be actively distributed to policymakers and the media. All IZA network members are invited to submit suitable studies to these series.

More information is available at:  
 ► [www.iza.org](http://www.iza.org)



## "Future Commission" Presents Report on North-Rhine Westphalia 2025 Zimmermann: Invest in Education to Fight Economic Crisis

On April 20, 2009, the Commission on the Future of North-Rhine Westphalia, installed by state premier *Jürgen Rüttgers*, presented its final report including a wide range of policy recommendations. The report is based largely on a paper prepared by the working group on economic and labor market policy, chaired by IZA Director *Klaus F. Zimmermann*. The paper recommends a stronger focus on education and training, and a systematic expansion of the region's potential in higher education and energy innovation. In addition, the improvement of family-related services is considered to be of strategic importance. The recommendations of the working group and the commission are particularly relevant in light of the current economic crisis.

"Many of our proposals are also valid for larger reform efforts on the federal level," explained Zimmermann. "Sustainable structural reforms and investment in education and training are better suited to fight this crisis than gigantic economic stimulus packages."

The study of the working group is downloadable in German from the IZA website as a contribution to the "IZA Standpunkte" series. The complete report of the "Future



Commission" has been published on the NRW homepage:  
 ► [www.nrw.de](http://www.nrw.de)

## IZA Young Labor Economist Award Presented in San Francisco

On January 4, 2009, IZA Director *Klaus F. Zimmermann* presented the third IZA Young Labor Economist Award to *Fabian Lange* (Yale University) during an IZA reception held at the Annual Meetings of the Allied Social Science Associations (ASSA) in San Francisco. The award honors an outstanding paper published by young labor economists under the age of 40. The selection committee – consisting of *Zimmermann* and the IZA Program Directors – chose Lange's contribution on "The Speed of Employer Learning" (*Journal of Labor Economics*, 2007) from a large number of nominations submitted by IZA Research Fellows and Affiliates.

During the award ceremony, *Zimmermann* said the selected paper "demonstrates impressively how the combination of careful theoretical analysis and rigorous empirical work can provide new insights into important labor market questions." The paper proposes a model to estimate

the speed at which employers learn about the actual productivity of workers hired on the basis of job signals such as schooling. The empirical analysis suggests that employers learn fast, with initial expectation errors declining by 26% in the first year and about 50% within three years. Lange also shows that signaling accounts for less than 15% of the overall gains from an additional year of schooling.

In his acceptance speech, Fabian Lange thanked his advisors and fellow students at the University of Chicago and his colleagues at Yale who

have inspired his award-winning work. As a German scholar living and working in the United States, he also acknowledged IZA's role as a "bridge between the European and American research communities."



Fabian Lange, Klaus F. Zimmermann

## Marco Caliendo New IZA Director of Research

In February 2009, *Marco Caliendo* became Director of Research at IZA. In close cooperation with IZA Director *Klaus F. Zimmermann*, he will now coordinate all research activities of the institute. Caliendo succeeds *Daniel S. Hamermesh* (University of Texas at Austin), who held this post until the end of 2008.

Caliendo, born 1974, joined IZA in August 2007 and has worked closely with IZA Program Director *Gerard J. van den Berg* (VU University Amsterdam) in advancing the methodology and research activities in the area of program evaluation. After receiving his Ph.D. from Goethe University Frankfurt in 2005, he spent two years at the German Institute for Economic

Research (DIW Berlin). His research interests include the evaluation of labor market programs, self-employment/entrepreneurship, the influence of personality traits on economic outcomes, and applied microeconomics. His work has been published in various major journals in the field.

"Our new Research Director certainly has all it takes to succeed in this position: broad expert knowledge, a dynamic research attitude, and a clear grasp of policy-relevant issues," said IZA Director *Zimmermann* during the announcement of Caliendo's appointment, which underscores IZA's strong ambition to play a leading role in policy-oriented labor market research.

At the same time, *Zimmermann* announced that several highly renowned international labor economists will stay at IZA for an extended period of time as Visiting Research Fellows, among them *Peter J. Kuhn* (University of California, Santa Barbara), *David G. Blanchflower* (Dartmouth College) and *Daniel S. Hamermesh*. This close collaboration with senior researchers from abroad is part of IZA's strategy to further enhance its global network in research and policy advice.



Marco Caliendo

## David G. Blanchflower Becomes IZA Program Director "The Future of Labor"

In January 2009, *David G. Blanchflower* became IZA Program Director for the "Future of Labor" research program. Blanchflower succeeds *Daniel S. Hamermesh*, who coordinated the research activities in this area from 2001 to 2008 before becoming IZA Director of Research. "We are very happy to fill this position with one of Europe's most renowned economists. While continuing Dan Hamermesh's excellent work, he will also contribute his own ideas. Particularly in view of the current financial crisis, the 'Future of Labor' is certainly one of the most topical research fields in which IZA is active", said

IZA Director *Klaus F. Zimmermann* during the announcement of Blanchflower's appointment.

Blanchflower received his Ph.D. from the University of London and has been a Professor of Economics at Dartmouth College since 1993. In 1999 he joined the IZA network as a Research Fellow. Holding a dual British-American citizenship, Blanchflower is not only active in academia but also in policy advice. Since 2006 he has been on the Monetary Policy Committee of the Bank of England.

Blanchflower has published in various international journals and edited a number of books on labor market issues. His current research interests are related to trade unions, entrepreneurship, wage determination and youth unemployment.



David G. Blanchflower

## IZA Fellow Alan B. Krueger Becomes Assistant Treasury Secretary

IZA Prize Laureate *Alan B. Krueger* (Princeton University) has been confirmed by the senate as assistant treasury secretary for economic policy. He is now in a key position to shape the Obama administration's policy in response to the financial and economic crisis.

Krueger has held a joint appointment in the Economics Department and Woodrow Wilson School at Princeton University

since 1987. He has published widely on the economics of education, terrorism, labor demand, income distribution, social insurance, labor market regulation and environmental economics. An IZA Research Fellow since 2000, he was awarded the 2006 IZA Prize in Labor Economics together with *David Card* (University of California, Berkeley) for his outstanding contributions to policy-relevant empirical labor market research. IZA Director *Klaus F. Zimmermann* welcomed

Krueger's appointment: "Alan is one of America's most brilliant economists. He is certainly an excellent choice for this challenging political post in a time of great crisis."



**Alan B. Krueger**

## IZA Program Director Gerard J. van den Berg Receives Humboldt Professorship

*Gerard J. van den Berg*, IZA Program Director for "Evaluation of Labor Market Programs", has been awarded an Alexander von Humboldt Professorship. The Alexander von Humboldt Foundation announced this decision in Bonn on February 27, 2009. Van den Berg is the first economist to receive this honor.

The Humboldt Professorship, supported by the Federal Ministry of Education and Research, honors researchers of all disciplines from abroad who are internationally

recognized as leaders in their field. Gerard van den Berg, currently a Professor at VU University Amsterdam and affiliated with various international networks, will receive 3.5 million euros in order to pursue his ground-breaking research at the University of Mannheim to "help turn one of Germany's top economic research universities into an internationally leading institution," according to the Humboldt Foundation.

IZA Director *Klaus F. Zimmermann* welcomed the selection of Gerard van den Berg: "He

is one of the most eminent experts in his field and has been active in Germany for a long time through his affiliation with IZA. He will bring additional dynamism to the German research community. The Alexander von Humboldt Foundation has made an excellent choice."



**Gerard J. van den Berg**

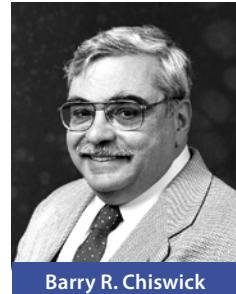
## Barry R. Chiswick Becomes Honorary Doctor of Economics at Lund University

IZA Program Director *Barry R. Chiswick* will be honored for his academic merits and contributions to the Lund University School of Economics by an Honorary Doctor Degree of Economics. The renowned Swedish university's Faculty of Economics and Management recognizes Chiswick's scientific work in the field of immigration research that belongs to his core activities at IZA as well. The formal ceremony will

take place on May 29, 2009, at Lund University.

Barry Chiswick is UIC Distinguished Professor (since 2002) and Research Professor (since 1978) of the Department of Economics, University of Illinois at Chicago. In addition, he is Research Professor in the Department of Sociology and in the Survey Research Laboratory at UIC and Founding

Director of the UIC Center for Economic Education. Since 2004, he has been Program Director for Migration Studies at IZA.



**Barry R. Chiswick**

## IZA Fellow Justin Wolfers Appointed as New Editor of Brookings Papers

The Brookings Institution has named IZA Research Fellow *Justin Wolfers* (University of Pennsylvania) as editor of the Brookings Papers on Economic Activity (BPEA). He will co-edit the flagship economic journal of the institution with *David Romer* (Berkeley and IMF). The new co-editors, whose first volume will appear in mid-2009, will also both become Brookings nonresident senior fellows.

Founded in 1970, the BPEA journal contains research papers presented at twice-yearly conferences organized at the Brookings Institution. The authors and discussants of the articles are distinguished economists from leading universities and institutions. Previous editors include *Douglas W.*

*Elmendorf*, who became the director of the Congressional Budget Office, *N. Gregory Mankiw*, former chairman of the U.S. Council of Economic Advisers, and *Lawrence H. Summers*, former Treasury Secretary, who is now President Obama's Director of the National Economic Council.

Justin Wolfers is associate professor in the Business and Public Policy Department at the Wharton School of the University of Pennsylvania. He has been an extraordinarily active IZA Research Fellow since 2004, having co-authored more than a dozen IZA Discussion Papers to date. In addition, he is an NBER faculty research fellow, a CEPR research affiliate, and a visiting scholar with the San Francisco Federal Reserve

Bank. In 2002 he was awarded the Milken Institute prize for distinguished economic research.

Among his current research fields are labor economics, macroeconomics, political economy, public economics, and behavioral economics.

He is also a frequent contributor to the public debate and was named one of the 13 top young economists to watch by the New York Times.



**Justin Wolfers**

## Book Contribution: Skilled Immigration Promotes Economic Equality

While international migration of people most probably contributes to the allocative efficiency of the world's economies, the induced changes in equality in the sending and receiving countries may be considerable. In the recently released Oxford Handbook of Economic Inequality, a chapter on "International Migration, Ethnicity and Economic Inequality" by Martin Kahanec (IZA Deputy Director of Research) and IZA Director Klaus F. Zimmermann discusses these issues under the paradigm of skilled and unskilled immigration, suggesting that at least skilled immigration promotes economic equality in the host country under standard conditions. The context is em-

pirically documented and theoretically explained in a core model. The consequential aspects of immigrant absorption, selection and ethnicity are carefully evaluated in the context. The chapter is based on a revised version of IZA Discussion Paper No. 3450.

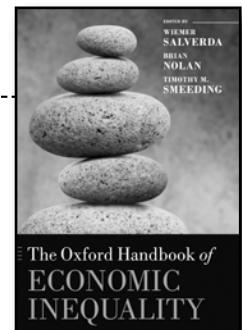
The Oxford Handbook of Economic Inequality (edited by Wiemer Salverda, Brian Nolan, and Timothy M. Smeeding) presents a new and challenging analysis of economic inequality, focusing primarily on economic inequality in highly developed countries. This volume offers an overview

of the latest, cutting-edge research on economic inequality. It contains a broad array of original research on topics ranging from gender to happiness, from poverty to top incomes, and from employers to the welfare state.

Wiemer Salverda/Brian  
Nolan/Timothy M. Smeeding  
(Eds.)

**The Oxford Handbook  
of Economic Inequality**

Oxford University Press, 2009  
ISBN 978-0-19-923137-9



## New Book: Race and Entrepreneurial Success

Authored by IZA Research Fellow Robert W. Fairlie and Alicia M. Robb (both University of California, Santa Cruz), a new volume on "Race and Entrepreneurial Success" (MIT Press) examines racial disparities in business performance in the United States. Rates of business ownership among African Americans are much lower, their businesses tend to have lower sales, fewer employees, lower profits and higher closure rates.

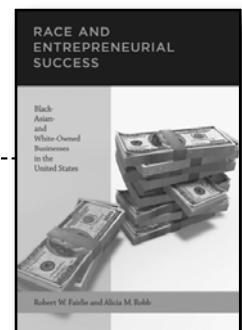
In contrast, Asian American-owned businesses appear to be more successful. But

why is this? The new book provides comprehensive estimates of recent trends in minority business ownership and performance. It examines the importance of human capital and family background as well as the crucial relevance of startup money. Minority entrepreneurship experts Fairlie and Robb contribute a long-needed analysis that is strongly recommended to policy makers not only in the US. The volume and its authors are closely connected to ongoing IZA research

in the field which has received support by Volkswagen Foundation and other renowned partners.

Robert W. Fairlie/Alicia M. Robb  
**Race and Entrepreneurial  
Success**

MIT Press, Cambridge, MA, 2008  
ISBN 978-0-262-06281-7



## New Book: The Economics of Citizenship

The question how citizenship influences the economic success of immigrants is of great interest for a sustainable migration and integration policy. While generous immigration rules would suggest a stricter naturalization strategy, early offers to acquire citizenship make sense if immigrants are actively selected. IZA devotes extensive research to this topic, some of which is carried out as part of the project "The Economics and Persistence of Migrant Ethnicity", which receives substantial funding from the Volkswagen Foundation (cf. IZA Compact, July 2008). IZA Director Klaus F. Zimmermann and IZA Program Director Amelie F. Constant (George Washington University, DIW DC and IZA) coordinate this project, which puts much emphasis on the analysis of the economic effects of naturalization policies.

The recently released volume "The Economics of Citizenship" is based on pivotal research results. This book, edited by the renowned migration experts and IZA Research Fellows Pieter Bevelander (Malmö University) and Don J. DeVoretz (Simon Fraser University), is a collection of current analyses of the

experiences in Canada, Norway, Sweden, the Netherlands and the U.S. It provides a convincing call for a political concept that makes use of the positive economic effects of immigrant selection and naturalization.

The book attempts to provide an economic model to predict immigrant ascension to citizenship and its impact on the labor market and the public finance spheres. The results indicate that a country's immigrant selection process and the actions of the immigrants themselves as they await citizenship affect the size of the economic premium derived from citizenship acquisition. This premium takes the form of increased earnings, greater tax payments, and less use of publicly funded services. For example, the lifetime net contribution to the Canadian treasury per Canadian immigrant household rises from \$35,000 to \$68,000 after citizenship acquisition. In addition, naturalized Canadians earn 15 to 30% more over their lifetimes than non-citizens. Other countries reviewed in the

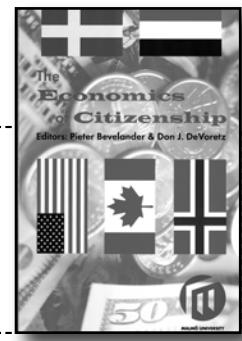
book also produce substantial citizenship premiums. Thus, the authors conclude that rigorous immigrant selection procedures, coupled with a generous citizenship policy, yield substantial economic premiums.

In sum, the evidence in the book strongly suggests that it is a process of "triple selection" which ultimately yields large citizenship premiums. First, strong economic immigrants should be attracted by the official immigration policy, then a points system is to reinforce this positive selection, and finally those immigrants who choose to naturalize equip themselves with human capital to garner the citizenship premium.

Bevelander, Pieter/  
DeVoretz, Don J.  
(Eds.)

**The Economics of Citizenship**

Malmö University (MIM), 2008  
ISBN 978-91-7104-079-4





## Access Denied!?

### The Failed Policy of Restricting Labor Mobility

Just in time for the 5th anniversary of EU Eastern Enlargement on May 1, 2009, the governments of Germany and Austria announced they would continue to restrict the inflow of labor migrants from eight accession countries (Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia and Slovenia) until 2011. With this “closed door” policy, both countries follow a course of isolation while other EU members have long turned the idea of a common European labor market into reality. Even Belgium and Denmark lifted their remaining restrictions for EU citizens on May 1. On the surface, the German and Austrian decision is an act of national selfishness. The bigger problem is that it will eventually backfire.

The “closed door” policy has rightfully caused some unrest among the other EU members. Vladimir Spidla, EU Commissioner for Employment, Social Affairs and Equal Opportunities, has recently advocated the complete opening of all EU labor markets. The Czech EU Presidency has also criticized Germany and Austria for their restrictive labor market policies. As these protests show, the argument that open labor markets would lead to a brain drain in the sending countries is completely unfounded. Also, the experience in other western countries proves that open labor markets, contrary to widespread fears, have not triggered any large-scale migration flows of unskilled workers or welfare recipients. It is much rather the “closed door” policy that really hurts the receiving country: Germany’s restrictions did not prevent an inflow of economically active migrants over the past years, but the country has received fewer of the urgently needed skilled workers than before accession. As a consequence, the average qualification level of new migrants has dropped significantly.

This is also due to a failed communication strategy: While the past reduction of bureaucratic barriers for the immigration of foreign university graduates has gone largely unnoticed, the decision to keep barring new EU citizens from accessing Germany’s labor market has received much international attention.

The protectionist decision to continue the “closed door” policy is – not just under normal economic conditions – a slap in the face of a common European market strategy. It is all the more dangerous during the current economic crisis. Instead, the German and Austrian governments should regard the crisis as an opportunity to correct their failed migration strategies. The reason is that internationally mobile skilled workers from the accession countries are currently repositioning themselves – with long-term consequences for the EU labor markets. So far, most skilled workers from Eastern Europe went to Ireland and the United Kingdom. Both countries have been hit particularly hard by the crisis. The economy in the sending countries is also worsening. In this situation, open borders would provide German and Austrian firms with welcome opportunities to attract highly qualified personnel.

In sum, there is nothing that would justify extended labor mobility restrictions in Germany and Austria. The European Commission is right – open labor markets hurt no one, but benefit many. Instead of sending a message that alienates high-skilled immigrants, we should actively compete for the best and brightest from Eastern Europe.



Klaus F. Zimmermann



Institute for the Study of Labor



Editor: Prof. Dr. Klaus F. Zimmermann  
Managing Editors: Mark Fallak, Holger Hinte  
Address: IZA, P.O. Box 7240, 53072 Bonn, Germany  
Phone: +49 (0) 228 - 38 94 223  
Fax: +49 (0) 228 - 38 94 180  
E-Mail: compact@iza.org  
Web: www.iza.org  
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