



# IZA COMPACT

Shaping the Future of Labor

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## Environment and Employment New IZA Program Area Established

Environmental destruction, climate change, and natural disasters do not only cause severe ecological damage, they also harm the global economy and the national labor markets. The Fukushima disaster, for instance, will have vast economic and employment consequences far beyond Japan. International responses in terms of nuclear energy strategy, particularly in Germany, have a strong economic component.

Although a new environmental thinking is evolving in many industrialized countries, the dynamic growth of developing and emerging economies results in a net increase in environmental problems. While the western countries, despite all efforts to reduce emissions, will still be responsible for more than half of the greenhouse gases to be emitted during the next decade, the developing countries will be most vulnerable to the consequences.

Melting glaciers in the Arctic, rising sea levels and water warming threaten the ecosystem of the oceans and the existence of entire regions of the world. Powerful storms devastate places that used to be safe. Extended droughts, growing water shortages and other changes in environmental conditions lead to new migration movements. Meanwhile, international climate initiatives are still hampered by conflicts of interest between the nations that should share the common interest to save the planet.

In economic science, studies that analyze these interdependencies and their consequences are also still scarce. Little is known about the actual employment opportunities resulting from new environmental technologies. There is

no doubt that this sector will flourish as new products and production methods are needed to exploit natural resources more responsibly. Repairing the environmental damage already done can also offer new employment opportunities. New occupations and fields of study will evolve. Yet it is still unclear how these "green jobs" will develop and spread internationally.

With the support of its large global research network, IZA will look at these questions more closely within a newly established program area on "Environment and Employment." The IZA Discussion Paper Series has already published a number of studies related to this topic.

### Fukushima and the consequences for the energy sector

A recent paper (IZA DP No. 5896) analyzes how policy changes affect shareholder wealth in the context of environmental regulation. The study exploits the unique and unexpected German reaction to the Fukushima Daiichi nuclear disaster, which involved the immediate shutdown of almost half of Germany's nuclear reactors while safety checks were carried out, and a three-month moratorium on extending the lives of others. Using the event study methodology, the findings



Klaus Töpfer at IZA Policy Fellow Meeting in Berlin

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#### IZA/WORLD BANK COOPERATION

In a memorandum of understanding, IZA and the World Bank have decided to continue and extend their successful collaboration into a number of new areas. [Page 3](#)

#### NEWS FROM THE IDSC

Major data providers now use the innovative JoSuA software developed by the International Data Service Center (IDSC) of IZA. The IDSC has also developed a new indicator of economic activity based on road toll data for trucks. [Page 4](#)

#### RECENT IZA EVENTS

This year's IZA/OECD employment seminar brought together a number of prominent policy experts to discuss job creation in hard times. Workshops held at IZA analyzed the sources of welfare and well-being, and discrimination and ethnicity. [Page 5-7](#)

#### NEW IZA PROGRAM DIRECTOR

The renowned development economist David Lam (University of Michigan) will coordinate the new GLM|LIC Program of IZA and DFID. The first call for proposals was published. [Page 8](#)



#### IZA HOSTS EALE 2012

From September 20-22, 2012, IZA will host the Annual Conference of the European Association of Labour Economists (EALE) in Bonn. The event will also feature the presentation of the 2012 IZA Prize in Labor Economics.



indicate a wealth transfer from nuclear to renewable energy companies in Germany. The authors also find that the joint market capitalization of these firms has decreased, but the amount of this combined decrease is small. Substantial heterogeneity in the shareholder wealth effects across European countries can be linked to different nuclear energy policies. The shareholder wealth of nuclear and conventional energy companies in the United States has been unaffected.

Other studies have explored the effects of hurricanes on local labor markets. One paper (IZA DP No. 2976), published in

conflicts with local populations by putting pressure on employment and local wages, trade and natural resources such as water, especially if those regions are already poor.

Beyond confirming previous findings that natural disasters are positively associated with emigration rates, the study shows that natural disasters due to climate change involve the migration of only the highly skilled people. This raises equity issues for developing countries: on the one hand, they must reallocate their resources to deal with the consequences of climate change instead of investing in human capital; on the other hand, they must cope with the

text of climate change and environmental legislations.

The need for additional research activity in environmental labor economics extends to a number of research areas, such as migration, institutions, development and behavioral economics. *Karine Nyborg* (University of Oslo and IZA) stressed the impact of environmental performance on the firm level. Her research indicates a relationship between the firms' corporate social identity and worker motivation in the sense that if more productive workers self-select into green firms, this may provide a productivity advantage for this group of companies.



IZA Workshop on Environment and Labor

the American Economic Review, finds that earnings of the average worker in a Florida county rose over 4% within the first quarter of being hit by a major hurricane relative to counties not hit, and rose about 1.25% for workers in Florida counties hit by less severe hurricanes. Concomitantly, employment fell between 1.5 and 5% depending on hurricane strength. On the other hand, the effects of hurricanes on neighboring counties had the opposite effects, moving earnings down between 3 and 4% in the quarter the hurricane struck.

**New migration movements due to climate change**

Another IZA Discussion Paper (No. 5927) analyzes the relationship between climate change, natural disasters and migration, which is crucial both for rich and poor countries. It finds that indeed migration is one of the solutions to confront the issue of natural disasters caused by environmental decline. According to the International Organization for Migration (IOM), by the half century, 200 million people – equal to the current estimate of international migrants – could be permanent or temporary environmental migrants within their countries or overseas. Environmental migration is often at the origin of population displacement which can affect the stability of the hosting areas in many ways. It can induce

brain drain effect when they are at their most vulnerable. The study calls on the developed countries to provide more support and increase their political will to combat climate change and its damaging consequences above all in the poorest countries, which contribute the least towards climate change and yet suffer the greatest consequences.

**IZA Workshop on Environment and Labor**

The above-mentioned study co-authored by *Linguère Mously Mbaye* (University of Auvergne and IZA) was one of the papers presented at the first workshop within the new IZA program area, which was held in Bonn in December 2011, organized by IZA Director *Klaus F. Zimmermann* and *Andreas Peichl* (IZA).

The workshop was kicked off by a roundtable discussion which illustrated the importance and the manifold challenges for research on the economic impact of environmental changes. Despite the socio-ecological transition representing a major challenge to policymakers in developed as well as in emerging and transition economies, not much is known about the potential consequences for the respective labor markets. The panelists agreed that empirical evidence is essential to assess employment destruction and creation in the con-

*Olivier Deschenes* (University of California, Santa Barbara and IZA) examined employment effects of domestic environmental regulations on U.S. industries and presented estimates of the cross elasticity of full-time employment with respect to electricity prices. Based on historical data for 1976-2007, his main results indicate that employment rates are only weakly related to electricity prices in the short run with cross-price elasticities of employment with respect to electricity prices of around -0.15%. Looking at recent changes in environmental regulations, a predicted price increase of 4% would lead to a reduction of about 0.6% in full-time equivalent employment. Hence, environmental friendly policies come at a price but the price seems rather small when compared to employment losses during recessions.

The presentation by *Ferdinand Dudenhöffer* (University of Duisburg-Essen) depicted a future shift of passenger car demand from the almost saturated markets in Europe, the U.S. and Japan to emerging markets such as China, Russia or India. Given positive growth rates in these countries and the relatively low density of car ownership among inhabitants, Dudenhöffer expects total car sales to increase by around 50% until 2025. While the focus in emerging countries is likely to be on low-cost cars, Dudenhöffer illustrated a trend towards modern safety

features and low CO2 emission in developed countries. He viewed electronic cars as likely to represent one possible solution to the challenge of the combined trends toward rising demand for cars on the one hand and increasing environmental consciousness on the other. A consequence would be an employment shift from the mechanical to the chemical sector as well as increasing demand for high-skilled labor within the automotive industry.

Analyzing the consequences of climate change in the Middle East and North Africa (MENA) region, *Quentin Wodon* (World Bank and IZA) provided an insight into the relationship between regional climate conditions and internal migration patterns in Yemen. With low and decreasing per capita availability of water, Yemen is one of the most vulnerable countries to a predicted

increase in temperature. Wodon showed that rainfall and temperature conditions indeed affect migration decisions, but only play a limited role in comparison with socio-economic and cost factors. Based on historical data, it is thus predicted that rising temperature may not have a large impact on future net internal migration. One important coping mechanism for households to deal with higher temperatures or lower levels of rainfall are remittances. Comparing households residing in areas which are more or less affected by unfavorable climate conditions, Wodon found that households in the least favorable areas are not more likely to receive remittances. These households do, however, benefit to a greater extent from remittances in terms of reducing poverty and malnutrition. Households in better areas rather use remittance flows for education investments.

The workshop showcased frontier research on environmental labor economics and underlined the importance of this line of research.

**Klaus Töpfer at IZA Policy Fellow Meeting**

The fall meeting of the IZA Policy Fellow network in Berlin also centered around the economic impact of environmental trends. *Klaus Töpfer*, former executive director of the UN Environment Programme and chairman of the German Ethics Commission to Assess Nuclear Power Phase-out, underscored the need to monitor and evaluate the new policy strategy in the energy sector in order to realize the potential of green jobs. IZA will keep continue to stimulate the political and scientific debate in this area (see also the op-ed by IZA Director Klaus F. Zimmermann on page 8).

*André Betzer*  
*Markus Doumet*  
*Ulf Rinne*

**How Policy Changes Affect Shareholder Wealth: The Case of the Fukushima Daiichi Nuclear Disaster**

IZA Discussion Paper No. 5896  
<http://ftp.iza.org/dp5896.pdf>



*Alassane Drabo*  
*Linguère Mously Mbaye*

**Climate Change, Natural Disasters and Migration: An Empirical Analysis in Developing Countries**

IZA Discussion Paper No. 5927  
<http://ftp.iza.org/dp5927.pdf>



*Ariel R. Belasen*  
*Solomon W. Polachek*

**How Disasters Affect Local Labor Markets: The Effects of Hurricanes in Florida**

IZA Discussion Paper No. 2976  
<http://ftp.iza.org/dp2976.pdf>



## World Bank and IZA Sign Collaboration Contract

### Joint Work on “World Bank Jobs Knowledge Platform” and “IZA World of Labor”

On December 2, 2011, *Arup Banerji*, Director for Social Protection and Labor within the World Bank’s Human Development Network and IZA Research Fellow, signed a collaboration contract with IZA Director *Klaus F. Zimmermann* on the premises of the World Bank in Washington, DC. The memorandum of understanding documents how both institutions have been collaborating intensively over the last years in a series of activities and have decided to continue and extend this collaboration into a number of new areas.

Important knowledge gaps and weak capacity have limited the identification and implementation of effective labor market policy reforms in developing and transitions countries. Against this background, the World Bank and IZA had launched a joint research

area on “Employment and Development” in 2006. At the heart of this partnership is the development of operationally-oriented research and policy advice on labor market issues. The World Bank and IZA



share a common mission in promoting rigorous research and evidence-based policy analysis to support countries with the de-

sign and implementation of labor policies to create and provide access to jobs.

Therefore, the core of the collaboration in the near future will be the joint development of the “World Bank Jobs Knowledge Platform” and the “IZA World of Labor” project. At the same time, IZA and the World Bank will continue its many successful joint conferences and workshops and its research activities dealing with the pressing issues of developing, emerging and transitional countries. The next joint IZA/World Bank “Employment and Development” conference is scheduled to take place in Delhi, India, in November 2012. IZA research teams also support the forthcoming World Development Report on Jobs.

## Innovative IZA Technology: JoSuA Software Facilitates Data Access for Empirical Research

An innovative software solution named JoSuA (an acronym for Job Submission Application), which was developed at IZA, enables social scientists from all over the world to work with highly protected datasets without leaving their office.

So far researchers who wanted to analyze sensitive datasets, such as official statistics, usually had to visit the data provider in order to access the data. This often involved extended – and expensive – research stays at statistical offices and similar institutions. With the help of JoSuA, such data can now be accessed by remote computing from anywhere in the world without breaching data protection rules. This is a milestone especially in empirical labor market research. Since the new tech-

nology taps into underused resources, its wider dissemination is also desirable from a research policy perspective.

The Institute for Educational Quality Improvement (IQB), which is responsible for the PISA data, has already successfully employed JoSuA for quite some time. The software was recently also installed at the Institute for Employment Research (IAB) of the Federal Labor Agency, the first major German data provider to offer this new service.

JoSuA was developed by the International Data Service Center (IDSC), which was established at IZA with support from the Federal Ministry of Education and Science eight years ago. The idea to develop

such a solution arose from the global IZA network, which now has more than 1,000 members, 90 percent of which work abroad. Originally designed to cater to the needs of the IZA fellows and affiliates, JoSuA can be configured to the requirements of any data producer who wants to make their data available for scientific research. *Nikos Askitas*, Head of the IDSC and inventor of JoSuA, is therefore in touch with a number of potential partners abroad.

► <http://idsc.iza.org>



## Nowcasting the Business Cycle: IZA Presents the Toll Index

In a recent paper forthcoming in the *Journal of Forecasting*, *Nikos Askitas*, Head of IZA's International Data Service Center (IDSC), and IZA Director *Klaus F. Zimmermann* have introduced the Toll Index as an early indicator for the German business cycle. It uses freight traffic data to deliver a quick and reliable account of current economic activity.

Due to the large share of just-in-time production, road goods transport serves as an excellent proxy for domestic production. Since trucks over twelve metric tons gross weight are subject to a distance-based toll on German highways, IZA derives its Toll Index from the number of trips, the mileage and the number of incoming and outgoing vehicles at German borders. The data from the TollCollect MAUT system are provided by the German Federal Office for Goods Transport.

As the figure shows, the Toll Index is mostly in line with the Production In-

dex for Manufacturing, Germany's most commonly used indicator. Significant deviations were only observed in January, which may be due to the weather-

it uses real data and is thus not prone to subsequent corrections due to the use of estimates. Second, it is available twice as fast as the Production Index, which takes

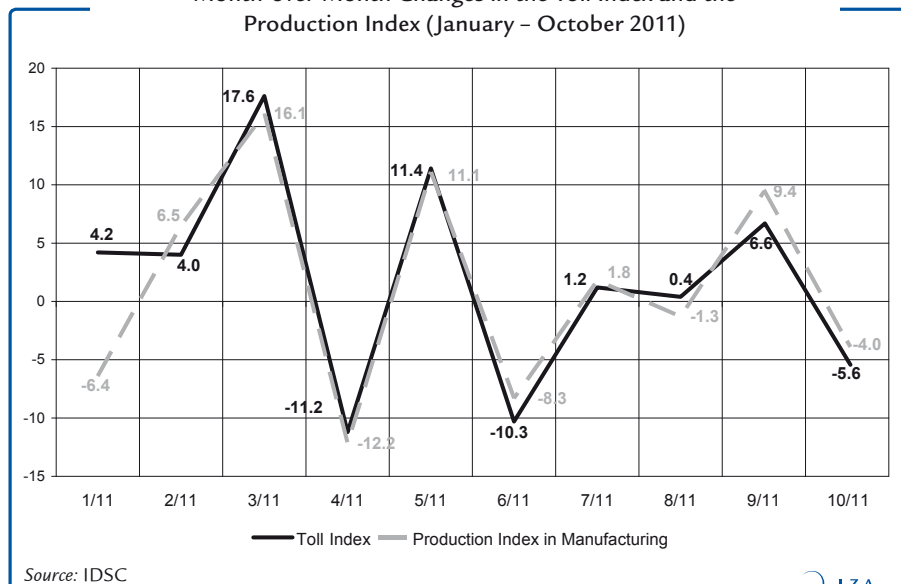
more than a month to be released. Since the data for the Toll Index could technically be delivered in real time, the time lag is likely to be reduced even further in the future, depending on the data provision.

Major international media, including CNN Marketplace Europe, the Financial Times and Germany's leading business weekly *Wirtschaftswoche*, have already reported in detail about the enormous potential of the Toll Index.

For more information and the most recent data, please visit the IDSC homepage:

► <http://idsc.iza.org>

Month-over-Month Changes in the Toll Index and the Production Index (January – October 2011)



related road closures for truck traffic. Other potential error sources include transit traffic, which has no direct effect on the German economy, or the freight shift from road to rail. The IDSC constantly refines the Toll Index to reflect these peculiarities.

Compared to the Production Index, the Toll Index has two main advantages: First,

## IZA Contributes to Major International Journals

IZA researchers and network members regularly publish in the international scientific journals. In addition, IZA experts serve as co-editors and guest editors of single vol-

umes or special issues. The most recent examples include a special issue of the International Journal of Manpower introducing the IZA Evaluation Dataset, a new volume of the

Research in Labor Economics series focusing on worker well-being, and a special issue of the Journal of Economic Psychology dedicated to entrepreneurial personality.

### International Journal of Manpower Features IZA Evaluation Dataset

A special issue of the International Journal of Manpower contains a number of innovative studies based on the IZA Evaluation Dataset, a newly created data source for the evaluation of active labor market policies in Germany. IZA Deputy Director of Research *Corrado Giuliatti* served as guest editor for the issue. Among the IZA authors are *Klaus F. Zimmermann* (IZA and

University of Bonn), *Marco Caliendo* (University of Potsdam and IZA), *Hilmar Schneider* (IZA), *Armin Falk* (University of Bonn and IZA), *Gerard van den Berg* (University of Mannheim and IZA) and *Amelie Constant* (George Washington University, DIW DC and IZA). The studies analyze job search behavior and labor market reintegration of the unemployed, with a focus on ethnic

differences, the role of social networks, and the threat effect of program participation.



### Research in Labor Economics: New Volume and Advisory Board

The most recent volume of Research in Labor Economics (RLE) contains ten original innovative chapters on worker well-being. The articles cover such topics as time allocated to work and human capital acquisition, aspects of risk in the earnings process, migration, and the impact of public policies and institutions on employment and earnings. The RLE series, which is co-edited by

IZA, now benefits from a newly established Editorial Advisory Board including, among other prominent scholars, Nobel laureates *James Heckman* (University of Chicago and IZA) and *Christopher Pissarides* (London School of Economics and IZA). As another milestone in the success story of RLE, the series has now been included in the newly launched Thomson Reuters Book Citation

Index, which will enable a wider dissemination of each article and a better analysis of citations.

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

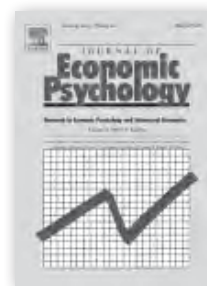


### Special Issue of Journal of Economic Psychology on Entrepreneurial Personality

Guest-edited by *Marco Caliendo* and *Alexander Kritikos* (both University of Potsdam and IZA), a forthcoming issue of the Journal of Economic Psychology centers around the topic of entrepreneurial personality. IZA pursues a number of projects in entrepreneurship

research, including a series of workshops at which the papers in this issue were presented. The next IZA Workshop on entrepreneurship research will be held at the University of Potsdam in June 2012. The call for papers is now available from the IZA homepage.

► [www.iza.org/conference\\_files/EntreRes2012](http://www.iza.org/conference_files/EntreRes2012)



## High-Profile IZA/OECD Employment Seminar: Job Creation in Hard Times

In November 2011, the third IZA Employment Seminar was held in cooperation with the Employment Directorate of the OECD in Paris. Following up on earlier meetings in 2008 and 2009, the latest event brought together about 80 high-ranking academic and policy experts to discuss the impact of the global economic crisis on labor markets in Europe and the US. The seminar, entitled "Job Creation in Hard Times: Learning from the Past and New Policy Directions", was organized by *Werner Eichhorst* (IZA), *Stefano Scarpetta* (OECD; IZA Program Director) and *Klaus*

*F. Zimmermann* (IZA Director; University of Bonn).

After the introductory presentation by *Stefano Scarpetta*, *Karl Pichelmann* (European Commission) gave an overview of the diversity of labor market responses during and after the crisis across OECD member states. He pointed at the risk of persistently higher unemployment in a number of countries. Recent work by the OECD shows that in particular young people face major obstacles to labor market entry. At the same time, rising long-term unemploy-

ment requires consistent policy action. In his subsequent keynote address, *Richard Layard* (LSE; 2008 IZA Prize Laureate) stressed the need to broaden policies to counter inactivity stemming from disability, particularly mental health issues. The panel discussion moderated by *John Martin* (OECD and IZA), *Lisa Lynch* (Brandeis University and IZA) and *Georg Fischer* (European Commission and IZA) reflected on the current and future employment policy priorities in the US and the EU.



On the second day, two panels moderated by Werner Eichhorst provided up-to-date assessments of the labor market situation in the UK and Ireland (*David Bell*, University of Stirling and IZA), Spain (*Juan Jimeno*, Bank of Spain and IZA), Portugal (*Pedro Portugal*, Bank of Portugal and IZA), the Baltic countries (*Raul Eamets*, University of Tartu and IZA), Germany (*Klaus F. Zimmermann*), the Netherlands (*Jules Theeuwes*, SEO Economic Research and IZA) and Denmark (*Torben Andersen*, University of Aarhus and IZA). The striking diversity of labor market responses between countries was attributed to the varying use of different elements of flexibility such as redundancies, flexible working time and wage adjustments. Furthermore, the speakers pointed at the unequal distribution of unemployment to the detriment of young people and workers on fixed-term contracts in many European countries, in particular those with a stark

contrast in regulation between permanent and flexible labor contracts.

Two policy panels addressed, first, options to reform employment protection in order to close the gap in regulation between permanent and temporary contracts based on assessments provided by *Juan Dolado* (University of Madrid and IZA) and *Pierre Cahuc* (Ecole Polytechnique; IZA Program Director) and discussed by *Sandrine Cazes* (ILO and IZA). Second, the recalibration of unemployment benefits in terms of conditions for benefit receipt and benefit generosity was discussed by *Paolo Sestito* (Bank of Italy and IZA), *Antoine Magnier* (DARES) and *Lisa Lynch*. The seminar was summarized in a concluding statement by *Robert Bednarzik* (Georgetown University and IZA). One of the core lessons of the seminar, as stressed by many speakers, is the need for a reassessment of the different elements of flex-

ibility, in particular to stimulate internal flexibility within firms if certain conditions are met. This also implies an active involvement of the social partners. Furthermore, smoother transitions into stable employment for young people is a major challenge which implies reconsidering dismissal protection on the one hand and the regulation of fixed-term contracts and agency work on the other. Finally, while unemployment benefits should be adjusted to provide appropriate protection in case of job losses also for workers on flexible contracts, policy makers should also counter any risks of emerging long-term unemployment. To achieve this, many participants emphasized the need for well-targeted and consistently implemented activation and training programs to speed up reemployment even in hard times.

► [www.iza.org/link/OECD2011](http://www.iza.org/link/OECD2011)

## Interdisciplinary IZA Workshop on Discrimination and Ethnicity

What is the extent of discrimination based on ethnic identity? What are the roles of stereotypes as opposed to prejudice in observed discrimination? What are effective policies to counteract stereotypes, prejudice and biases against particular ethnic groups? These are some of the research questions addressed by the participants of the IZA Workshop on Discrimination and Ethnicity, held at IZA in Bonn in October/November 2011. Funded by the Thyssen Foundation, the workshop featured speakers from across the disciplines of economics and psychology to present and discuss methods used in measurement of discrimination in a variety of contexts. The event was organized by IZA Senior Research Associate *Zahra Siddique* and IZA Director *Klaus F. Zimmermann*.

Within economics, discrimination is generally modeled as arising due to preferences against certain ethnic groups or due to stereotypes regarding these groups. Empirical literature has focused on identifying the extent of discrimination, as well as the mechanisms underlying observed discrimination. Identifying mechanisms has an impact on the kind of policies that may be devised to combat discrimination. Within the psychology literature, the focus has been on explicit and implicit forms of discrimination. The literature in psychology mostly relies on data from highly controlled laboratory ex-

periments to understand the different forms of bias against different ethnic groups. The workshop brought together researchers in both fields to present, extend and complement methods which may be used to combat discrimination.



In his keynote speech, *David Neumark* (University of California, Irvine and IZA), a pioneer in the use of field experiments to measure discrimination in economics, described the history of such experiments (audits and correspondence studies). A criticism of the use of these field experiments has been that group differences in the variance of unobservable productivity can generate spurious evidence of discrimination. During his presentation, David described an unbiased estimate of dis-



crimination which uses data from such a field experiment and which exploits variation in applicant characteristics that affect hiring.

Two studies examined discrimination by using data from naturally occurring experiments: *Joseph Price* (Brigham Young University and IZA) demonstrated that simply raising awareness of racial bias can have a dramatic impact on decision-making by exploiting widespread media coverage of racial bias among NBA referees. *Brian Rubineau* (Cornell University) used data from repeated quasi-audit studies of medical students to disconfirm the role of stereotypes in racial disparities in medical care.

A set of studies used data from field experiments on discrimination: *Liang Choon Wang* (Monash University) collected and used data from an experiment using Craigslist to find evidence of racial discrimination in the U.S. apartment rental market. *Dan-Olof Roth* (Linnaeus University and IZA) combined data from a field experiment measuring whether recruiters exhibit discrimination in hiring with recruiter performance on implicit associations using the Implicit Association Test (widely used in social psychology) to show that automatic processes may exert a significant impact

on recruiters hiring decisions. *Ulf Rinne* (IZA) evaluated the impact of anonymous job applications in the hiring of fresh PhD economists on the academic job market, finding that female applicants face a disadvantage with anonymous job applications, and that certain professional signals are weighted differently with and without anonymization. *Ruth Ditzmann* (Yale University) investigated discrimination against Latino customers in retail stores in the United States as well as the effectiveness of municipal identification cards as a potential buffer against this discrimination.

Another set of papers used data from laboratory experiments to understand the mechanisms driving discrimination: *Marie-Anne Valfort* (University of Paris 1 Panthéon-Sorbonne) used a formal model

and data from experimental games to predict that the growing numbers of Muslims would lead to significant reductions in generosity of the rooted French towards Muslims and that this would be driven by the activation of rooted French prejudice against Muslims. *Basit Zafar* (Federal Reserve Bank of New York) used data collected from the trust and dictator games in urban Pakistan to examine biases and stereotypes across gender and social status. *Michele Belot* (Nuffield College and IZA) examined whether limitations in the ability to remember people from other races can explain differences in trust decisions within and across race. *Hilary Bergsieker* (Princeton University) presented evidence that high status groups come to interethnic interactions with the goal of being liked (to disconfirm the stereotype of being bigoted) while low status groups

come to interethnic interaction with the goal of being respected (to disconfirm the stereotype of being low-skill or lazy). This divergence in goals then leads to frustrating encounters, even in the absence of any kind of discrimination. Hilary also presented her finding that members of low status groups are less likely to trust out-group members following interpersonal trust betrayal, and that this is particularly true if subjective closeness to out-group members is low.

The papers presented during the workshop are downloadable from the IZA website:

► [www.iza.org/conference\\_files/ETHN2011/](http://www.iza.org/conference_files/ETHN2011/)

## IZA Workshop on the Sources of Welfare and Well-Being

In recent years, it has been argued, among others by the Stiglitz Commission on the Measurement of Economic Performance and Social Progress, that alternative welfare indicators should complement the GDP and other standard measures in order to provide a more accurate assessment of a nation's well-being. Against this background, an IZA workshop attracted some of the world's most renowned happiness researchers to present new approaches to achieving this goal. The workshop was co-organized by IZA Program Director *David G. Blanchflower* (Dartmouth College), Deputy Program Director *Andreas Peichl* (IZA) and Acting IZA Research Director *Andrew J. Oswald* (University of Warwick).

In the first paper presentation, *Bert Van Lan-deghem* (K.U. Leuven) identified trends in well-being over time for Germany, Britain and Switzerland. While well-being slightly decreased in these countries, a remarkable exception is East Germany, where life satisfaction increased overall and has considerably caught up with West Germany. *Arthur van Soest* (Tilburg University and IZA) analyzed life satisfaction among older Europeans. The study showed, among other things, that controlling for differences in response scales has a substantial effect on the comparison of the distribution of life satisfaction among European countries. *Eugenio Proto* (University of Warwick) examined the hump-shaped relation be-

tween income and life satisfaction. He argued that neuroticism is responsible for the decline of happiness with high income and its increase for lower incomes, suggesting that the effect is due to the psychological cost of the gap between aspiration and realized income.

*Andrew Steptoe* (University College London) provided an epidemiological perspective on well-being and health. In a similar approach, *Blanchflower* and *Oswald* evaluated the "pulse of the nation" and illustrated that events like the 7/7 London

*Thomas Deckers* (University of Bonn and IZA) studied the effect of real versus nominal income on life satisfaction. The analysis suggests that people do not perceive money as neutral: the loss in life satisfaction caused by a higher price level is much larger than the gain in life satisfaction induced by a corresponding increase in nominal income. *Anne C. Gielen* (IZA) found that there is no direct link between unhappiness and job finding, which helps explain why activation policies are often needed to bring unemployed back to work more quickly. *Claudia Senik* (Paris School of

Economics and IZA) shed light on the important differences in self-declared happiness across countries of equivalent affluence. Her study showed that some of the international heterogeneity in happiness is due to psycho-



logical and cultural rather than economic factors. *Olga Popova* (CERGE-EI) examined life(dis) satisfaction and migration decisions among people from Central and Eastern Europe, while *Olivier Bargain* (University of Aix-Marseille II and IZA) estimated collective models using traditional versus subjective data. *Ori Heffetz* (Cornell University) looked "beyond happiness and satisfaction" to develop a national well-being index based on stated preference. *Lex Borghans* (Maastricht University and IZA) analyzed heterogeneous preferences, female labor participation and life satisfaction. *Erik*

bombings and the financial crisis had a measurable impact on the heart rate of Londoners. *Emilia Simeonova* (Tufts University) presented the first research to show that unconditional cash transfers can have lasting long-term impacts on both labor market and non-labor market outcomes for the children of the affected families. *Richard P. Dorsett* (NIESR) reported on the results of a field experiment on well-being and in-work benefits. *Simon Jäger* (Harvard University and IZA) found a positive effect of stock market returns on stock owner well-being relative to the effect in the overall population.

*Erik*

*Schokkaert* (K.U. Leuven) demonstrated the importance of individual preferences for welfare state provisions and their perceived fairness. This theoretical finding was supported by an empirical study pre-

sented by *Dirk Neumann* (IZA). Likewise, *Koen Decancq* (University of Antwerp) argued that preferences should be taken into account when measuring multidimensional poverty.

The presented studies are downloadable at:

► [www.iza.org/link/wellbeing2011](http://www.iza.org/link/wellbeing2011)

## IZA/DFID Program “Growth and Labor Markets in Low Income Countries” David Lam Appointed Program Director – Call for Proposals Published

*David Lam* (University of Michigan) has been appointed as Program Director for the new research program on Growth and Labor Markets in Low Income Countries, a collaboration between the United Kingdom Department for International Development (DFID) and IZA (see last issue of IZA Compact).

The objective of the new program is to improve knowledge on labor market issues in low-income countries through the funding of scientific research and capacity building activities. A major goal is to provide evidence that will improve labor market policies. The program will allocate over 10 million euros to fund peer-reviewed research projects based in institutions around the globe.

David Lam is a renowned researcher in the field of economic demography and development, with publications in top journals such as the *American Economic Review* and the *Journal of Development Economics*. He is Professor in the Department of Economics and Research Professor in

the Population Studies Center, University of Michigan. He was elected as the 2011 President of the Population Association of America. He has previously worked as independent expert in a number of capacities, including as consultant and organizer for the World Bank, the United Nations Population Division, the Inter-American Development Bank, and the South Africa Office of the Presidency.

As IZA Program Director, Lam will provide the intellectual leadership of the program. This includes the identification of research gaps and specification of research areas for the calls for proposals. He will also lead the monitoring and evaluation of funded research projects, and the synthesizing of results of the program.

“This program is an ambitious investment in improving our understanding of how labor markets work in the world’s poorest countries. The program will engage top economists in the world to study labor market imperfections, obstacles to productive employment, and gender gaps

in employment opportunities. The results will lead to better policies that will improve the prospects for economic growth and poverty alleviation in these countries,” said Lam.



The Department for International Development (DFID) is a United Kingdom Government’s Department, which was established in 1997. DFID’s goal is to promote sustainable development and eliminate world poverty, leading the UK’s fight against world poverty.

The first call for proposals for the GLM | LIC program was published in early December. For further information visit the program website:

► <http://glm-lic.iza.org>

## Comparative Study on Labor Relations in Germany and Brazil

In November 2011, IZA Deputy Director of Labor Policy *Werner Eichhorst*, together with *José Pastore*, professor of Industrial Relations at the University of Sao Paulo, presented a joint study (co-authored with IZA Research Associate *Paul Marx*) at seminars organized by the Chamber of Commerce of the State of Sao Paulo (Fecomércio) and the National Confederation of Brazilian Industry (CNI) in Brasilia as well as before the Labor Committee of the Lower House of Brazilian Parliament.

The study, supported by Bradesco, a major bank in Brazil, compares labor market institutions and dynamics in Germany and Brazil with particular emphasis on the role of dismissal protection, flexible contracts, unemployment benefit systems and collective bargaining. Brazilian discussants, among them leading members of the business community, trade union leaders and representatives of both chambers of the Brazilian Congress, were particularly interested in



Werner Eichhorst (2nd from left) with Brazilian policymakers and business leaders

learning more about the beneficial role of internal flexibility regarding working time and wages at the plant level which helped stabilize employment during the 2008-09 crisis in the German manufacturing sector.

The English version of the study is downloadable as IZA Discussion Paper No. 6137. The paper is also available in Portuguese.

► <http://ftp.iza.org/dp6137.pdf>

## International Study Finds No “Welfare Migration” Within EU

According to a comprehensive study of 19 European countries over a period from 1993 to 2008, national differences in unemployment benefits have no impact on migration flows within the European Union. Contrary to widespread prejudice, benefit generosity overall does not influence the individual decision to migrate. For non-EU immigrants only a small, statistically insignificant effect was found.

IZA Director *Klaus F. Zimmermann* called it “a popular myth that scores of immigrants come to take advantage of the welfare state.” While such cases exist, they are rather due to ill-designed immigration policies than to generous public benefits, said Zimmermann. The results from the study were widely published in German and international media.

*Corado Giulietti  
Martin Guzi  
Martin Kahanec  
Klaus F. Zimmermann*

**Unemployment Benefits and Immigration:  
Evidence from the EU**

IZA Discussion Paper No. 6075  
<http://ftp.iza.org/dp6075.pdf>



## Zimmermann Supports German Initiative to Attract Skilled Workers from Southern Europe

IZA Director *Klaus F. Zimmermann* supports the initiative by Germany’s Economics Minister *Philipp Rösler* to recruit high-skilled workers from southern European countries that are facing high rates of unemployment. Both Europe and Germany could benefit from this plan, Zimmermann told the German business daily *Handelsblatt*.

Since the introduction of the euro took away the instrument of exchange rate flexibility,

it was clear that labor mobility would be needed as a channel of adjustment for regional disparities. “The eurozone states not only failed to meet the deficit targets, they also failed to stimulate mobility between the national labor markets,” said Zimmermann. He had already argued previously that Germany neglected a great opportunity by closing its borders to labor migration from eastern European countries during the first years after EU enlargement.

Zimmermann added: “Mobility is traditionally low in Europe. It should not take government intervention to get jobless skilled workers from southern Europe to come to Germany at least temporarily. The common market and existing ethnic networks should do the trick. But the reluctance even among high-skilled workers to move within the EU shows that much remains to be done in terms of European integration.”

## Start-up Subsidies for the Unemployed: Successful Policy Instrument

A new study by Marco Caliendo (University of Potsdam and IZA), Jens Hogenacker, Steffen Künn (both IZA), and Frank Wießner (IAB) finds that Germany’s start-up subsidies for the unemployed result in high survival rates and low deadweight losses. Contrary to common perception, the money seems well spent: After 19 months (four months after the maximum program duration), the start-up survival rate is 75-84 percent. With an additional 7-12 percent of participants back in regular employment, this results in an overall labor market integration rate of up to 94 percent.

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sults in an overall labor market integration rate of up to 94 percent.

The average net monthly income generated from the start-up is around 2,500 euros for men (well above comparable employees) and 1,670 euros (slightly less than an average employee, but still sufficient to live without additional transfers). Also, deadweight losses are much lower than often assumed. While 47 percent of the previously unemployed – looking back on a successful start-up – claim they would have gone into self-employment anyway, about 70 percent state they would not have made it through the first six months without the subsidy. Accordingly, the study estimates the rate of po-

tentially successful entrepreneurs without government support at about 19 percent. The authors argue that policymakers seem to overestimate the deadweight effect and underestimate the positive impact on entrepreneurial success.

*Marco Caliendo  
Jens Hogenacker  
Steffen Künn  
Frank Wießner*

**Alte Idee, neues Programm:  
Der Gründungszuschuss als  
Nachfolger von Über-  
brückungsgeld und Ich-AG**

IZA Discussion Paper No. 6035  
<http://ftp.iza.org/dp6035.pdf>



## IZA Director Advises Chinese Government

IZA Director *Klaus F. Zimmermann* has been selected as a Member of the Advisory Committee of the China Institute of Income Distribution Studies at Beijing Normal University. The Committee assembles distin-

guished national and international experts in the field of income distribution and poverty studies. Professor *Zhao Renwei*, Honorary Fellow of Chinese Academy of Social Sciences is Chairman of the Committee.

The Institute concentrates on studying labor market issues in China and provides policy recommendations to the Chinese government.

## Green Energy and the Labor Market

After the German government coalition announced its nuclear energy phase-out this spring, green technology has been hailed as the future job engine. According to many pundits, environmental protection could soon become Germany's leading industry – employing more people than automobile and machinery manufacturing combined.

But will the new energy policy really have such a huge impact on the labor market? So far this is wishful thinking based on largely unfounded assumptions. There has been hardly any thorough scientific assessment, much less an employment policy to support these ambitious goals. The federal government has now decided to accompany the redesign of its energy and environmental policies with a scientific evaluation process. This was the right thing to do because rigorous evaluation is the only way to reveal economic and social adjustment problems early enough.

Particularly with regard to the labor market, the optimistic expectations can only be realized if the energy policy goals are aligned with employment policy. In this context, four key questions must be answered: What conditions must be met for the new energy policy to become a job engine? How will employment change – not only in quantitative but also in qualitative terms? What is the scope of skilled labor shortages in these relatively new occupations? How does education and training need to reflect the changing qualification requirements?

A sound assessment of the employment situation should also account for the often-voiced concerns

that giving up nuclear energy might threaten the competitiveness of German industry – especially in energy-intensive sectors – with dramatic consequences for the labor market.

For the “energy turnaround” to become a success story with green jobs booming, German firms need high-skilled specialists – and they need them fast. This is one of the reasons why the official target to increase the share of renewable energies to 35 percent of by 2020 is very ambitious. A shortage of specialists in the solar and wind energy sectors is already apparent today. The same is true for electrical engineering. New technologies also require trained craftsmen who run and maintain them.

**German firms need high-skilled specialists – and they need them fast.**

This poses a great challenge to university education and vocational training. The green markets can only flourish with an abundance of qualified and certified personnel. But even if universities were to establish new specialized fields

of study, it would take years for the first graduates to enter the labor market.

At this point, the labor market is clearly ill-prepared for the new opportunities ahead. If this does not change quickly, the heralded “job miracle” might well turn into a “job disaster”.




Klaus F. Zimmermann



Institute for the Study of Labor



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