



IZA Prize in Labor Economics Awarded to Daniel Hamermesh in Washington

During a two-day event that took place in Washington, D.C., in November, IZA Director Klaus F. Zimmermann presented the 2013 IZA Prize in Labor Economics to U.S. economist Daniel S. Hamermesh. Worth 50,000 euros and awarded annually since 2002, the IZA Prize is considered the most prestigious international science award in the field.

Hamermesh was among the very first scholars who joined the IZA network in July 1998. He later served as IZA Program Director for the institute’s research program “The Future of Labor” (2001-2008) and Director of Research (2008-2009). He has been teaching at the University of Texas at Austin for many years and recently joined the economics faculty of Royal Holloway College at the University of London as well. Some of Hamermesh’s most influential studies will be combined in the forthcoming volume “Demand for Labor: The Neglected Side of the Market,” which will be edited by Zimmermann and IZA Research Director Corrado Giulietti to be published as part of the IZA Prize Book Series in 2014.

Hamermesh also contributed an article on labor demand to the “IZA World of Labor” project, which was presented at the IMF in Washington before the IZA Prize Ceremony

(see page 3). He has done cutting-edge research on a variety of other topics as well. As George J. Borjas (Harvard University; 2011 IZA Prize Laureate) put it in his appreciation speech: “Not only has Dan published a ton of papers, but the work shows an impressive depth and breadth. He has worked on: labor demand, time use, unemployment insurance, beauty, food stamps, the economics of sleeping, search theory, life expectancy, suicide, retirement, compensating differentials, academic labor markets, discrimination, the Phillips curve, unions, and much, much more. It is hard to think of any other labor economist who has tackled so many different topics so successfully.”

A broad range of topics was also discussed at the workshop “Frontiers in Labor Economics” held in honor of Hamermesh the next day. Among the presenters was Janet Currie (Princeton University and IZA) who analyzed the impact of diagnostic and surgical skills on the rate of C-sections performed in the United States.

In a study quite fitting for the occasion, George Borjas asked how winning a prestigious prize affects future output. He compared the productivity of Fields medalists (winners of the top

>> In This Issue

HELLENIC INNOVATION FORUM
Experts, politicians and entrepreneurs from Greece and abroad met in Athens to exchange views on how to improve the Greek innovation system. [page 4](#)

REFORMS IN THE RECESSION
An IZA workshop in Brussels discussed challenges and opportunities of labor market reforms during the Great Recession. [page 6](#)

FIELD EXPERIMENTS
Experiments in behavioral and organizational economics offer new ways for firms and policymakers to understand behavior in the workplace and beyond. [page 7](#)

ENVIRONMENTAL POLICIES
The first workshop of IZA’s Environment and Employment program looked at the labor market effects of environmental policies. [page 9](#)

POLICY EVALUATION
An IZA conference hosted by the Institute for Fiscal Studies in London debated creative techniques of quantitative policy evaluation. [page 10](#)

POLITICAL ECONOMY OF REFORMS
At the IZA/World Bank Conference in Bonn, international experts and policymakers analyzes reform processes in developing countries. [page 13](#)

OPINION: MINIMUM WAGE
IZA Director Klaus F. Zimmermann explains why the minimum wage planned by the new German government is an inappropriate tool for redistribution. [page 16](#)



mathematics prize) to that of similarly brilliant contenders. The two groups have similar publication rates until the award year, after which the winners' productivity declines. The medalists begin to "play the field," studying unfamiliar topics at the expense of writing papers. Borjas concludes that tournaments can have large post-prize effects on the effort allocation of knowledge producers.

Joseph Altonji (Yale University and IZA) looked at the labor market outcomes of college graduates who entered the labor mar-

ket during a recession. His empirical analysis shows that for the average major, a large recession at the time of graduation reduces earnings and wages by roughly 11% and 3%, respectively, in the first year. While the effects on earnings and full-time employment fade after seven years, the wage effects persist. High-earning majors are somewhat sheltered when graduating into a recession relative to the average major.

Former IZA Research Director *Gerard Pfann* (Maastricht University) presented findings

on different procedures to dissolve permanent worker contracts in the Netherlands. A unique procedure allows firms in demise to request dismissal approval for tenured workers from a public employment service. Approval comes with severance pay exemption for the workers concerned. Pfann's model, which is confirmed by recent data, evaluates the dual Dutch system, with and without the severance pay exemption, to have positive employment effects, especially during recessions.

2013 IZA Prize in Labor Economics

Award Statement

The 2013 IZA Prize in Labor Economics is awarded to Daniel S. Hamermesh (University of Texas at Austin; Royal Holloway, University of London) for his fundamental contributions to the analysis of labor demand. In his work, Hamermesh has demonstrated that many important topics in labor economics, such as the unemployment implications of minimum wages or job security programs, can only be understood within a framework that allows a thorough analysis of demand-side reactions in labor markets. Hamermesh's research is characterized by a focus on thought-provoking questions, a high level of creativity, and careful combination of theoretical and empirical methods. He has shaped the way other scholars, as well as policy makers, think about some of the key issues in labor economics.



Daniel S. Hamermesh

The question how firms adjust employment in response to fluctuations in product demand and other exogenous shocks is of fundamental importance for assessing unemployment and labor market dynamics. Hamermesh was among the first scholars to point out the importance of detailed micro-level estimates of adjustment costs for understanding firms' demand for labor. In his article "Labor Demand and the Structure of Adjustment Costs" (*American Economic Review*, 1989), he used plant-level data to demonstrate that adjustment processes in individual firms occur in discrete jumps rather than continuously. A key reason for this effect is that firms face important fixed costs when adjusting their labor inputs. For instance, the costs of advertising vacancies and interviewing candidates do not depend – at least within certain ranges – on the number of workers that a firm seeks to hire. The presence of such fixed costs generates non-convex adjustment cost functions for firms, resulting in incentives to adjust their workforce in a "lumpy", non-continuous way. In contrast, most of the earlier labor demand models had neglected fixed costs in hiring and laying off workers, and instead assumed a convex variable cost structure, leading to smooth adjustments of factor inputs. Hamermesh's analysis also demonstrated that detailed establishment-level data is necessary to gain deeper empirical insights into the dynamic aspects of labor demand, and that the use of more aggregated data can be misleading. Hamermesh's findings led to a re-examination of the traditional labor demand model, and they have spurred the interest of many scholars in analyzing labor adjustments and their costs on a more fine-grained level.

Hamermesh also dealt with a variety of other fundamental issues in labor demand. For instance, he analyzed substitution patterns among workers of different demographic backgrounds;

he studied the determinants of labor-demand adjustments at the extensive vs. intensive margin; and he contributed to a better understanding of how labor market institutions such as minimum wage laws affect labor demand. The increasing interest in labor-demand analysis spurred by his pioneering contributions, as well as subsequent work by others in the field, culminated in Hamermesh's book *Labor Demand* (1993). This book provides the most comprehensive overview on the theoretical contributions and key empirical findings on the topic to date.

Besides his long-standing interest in labor demand, Hamermesh pioneered the economic analysis of time-use data and contributed to a broad set of other topics in economics. He has a unique talent to use traditional economic rationales in novel and often surprising applications. Along the lines of his semi-popular book *Economics Is Everywhere* (2009), Hamermesh has analyzed, for instance, the economic determinants of suicide, the impact of beauty on individuals' labor market outcomes, and the question how umpires' ethnic preferences are expressed in their evaluation of Major League Baseball pitchers. In addition to his scientific achievements, Hamermesh is widely recognized as a mentor to many junior scholars. As the author of his own blog and a regular guest contributor to the popular *Freakonomics* blog, he has also helped communicate economic thinking to a wider audience.

Daniel S. Hamermesh is Sue Killam Professor in the Foundation of Economics at the University of Texas at Austin and Professor of Economics at Royal Holloway University of London. He earned his A.B. from the University of Chicago (1965) and his Ph.D. from Yale (1969). Before moving to Texas in 1993, he taught at Princeton and Michigan State. Hamermesh is a Research Fellow of the Institute for the Study of Labor (IZA), a Fellow of the Econometric Society and the Society of Labor Economists (SOLE), a Research Associate of the National Bureau of Economic Research (NBER), and Past President of SOLE and of the Midwest Economics Association. He received the Humboldt Foundation Research Prize in 2011 and the Mincer Award from the Society of Labor Economists in 2013.

July 2013

George A. Akerlof
Corrado Giulietti
Richard Portes

Jan Svejnar
Klaus F. Zimmermann

IZA World of Labor: Evidence-Based Policy Making

In partnership with Bloomsbury Publishing Plc. and supported by the World Bank, IZA is currently developing a highly innovative product – IZA World of Labor. The cutting-edge project will provide a comprehensive, reliable and up-to-date information resource aimed at decision-makers interested in labor economics worldwide. It is led by IZA Director *Klaus F. Zimmermann* as Editor-in-Chief and *Alexander Kritikos* (University of Potsdam, DIW Berlin and IZA) as Managing Editor.

The key objective of IZA World of Labor is to make evidence based scholarly information available to a global audience, which is central to the IZA’s mission. In-depth expertise in labor economics will be published in an innovative structure and style, in order to make a wealth of freely accessible and reliable labor market information available.

Written by the best and brightest labor economists around the world, the findings in each contribution will be presented in a compact and highly readable format, as a distillation of the existing comprehensive evidence-based research. The novelty of IZA World of Labor thus lies not in the generation of new findings, but in its presentation of research in an absolutely unique and highly topical style, and its provision to the key labor market stakeholders around the world.

The IZA World of Labor will include a global, freely accessible online platform as well as book publications (in print and as e-books) with approximately 500 English-language contributions. All contributions will be single-authored to give great credibility to each contribution and to enhance the trustworthiness of the results. All contributions will be peer reviewed and carefully edited by a team of experienced writers to guarantee high research standards and quality.

IZA World of Labor addresses decision-makers interested in labor economics world-

wide, in particular: Ministers and Secretaries of State; members of Parliament and their scientific officers; senior legal secretaries and their officers; representatives of employers, companies, and unions; members of such organizations as ILO, OECD, World Bank; NGOs and their staff members; CEOs and senior managers; churches; economics journalists.

Launch event in Washington

Hosted by the International Monetary Fund and co-organized with the World Bank, the first presentation of the IZA World of Labor project to a larger expert audience took place in Washington in November. In her welcome address, IMF Deputy Managing Director *Nemat Shafik* lauded the project as an effective means to strengthen labor market policies in all regions of the world. IZA Research Fellow *Kaushik Basu*, Vice President and Chief Economist of the World Bank, underscored that there is an urgent need for better policymaking to fight poverty, particularly among children. In his opening speech, IZA Director Zimmermann explained why evidence-based policymaking is key to solving the labor market problems of our time.

Some of the most important challenges were addressed in the subsequent panel discussion moderated by *Augusto de la Torre* (World Bank). *Kalpana Kochhar* (IMF) stressed the need for emerging economies hit by the crisis to find new ways to return to their growth paths. Basu was especially concerned about declining labor income as a share of total income. He also emphasized the importance of finding the right balance between labor market regulation and flexibility. With regard to Latin America, *Santiago Levy Algazi* (Inter-American Development Bank and IZA) warned that job creation should focus on “good” jobs and less informal employment. *John C. Haltiwanger* (University of Maryland and IZA) pointed out that



Nemat Shafik



Kaushik Basu

many industrialized nations lack dynamism after the crisis and should focus on supporting high-productivity industries with a strong growth potential.

Following an introduction to the IZA World of Labor website by *Nigel Newton* (founder and Chief Executive of Bloomsbury Publishing) and Alexander Kritikos, several contributors discussed their experiences writing articles in the spirit of the project and presented some of the key messages on their topic. IZA Prize laureate *Daniel Hamermesh* (see previous article) stated that higher labor costs, e.g. as a result of minimum wages or overtime pay, reduce employment and/or the hours worked by individual employees. *Robert A. Moffitt* (Johns Hopkins University and IZA) explored the pros and cons of different unemployment insurance systems around the world, while *Solomon Polachek* (Binghamton University and IZA) explained that measures to improve women’s lifetime labor income, e.g. through better childcare, are more promising than equal pay legislation. *Gary S. Fields* (Cornell University and IZA) looked into the relationship between self-employment and poverty in developing countries. The conditions under which training programs improve the outcomes for vulnerable youth were analyzed by *Jochen Kluge* (Humboldt University Berlin and IZA). *Martin Rama* (World Bank and IZA) elaborated on the jobs approach in development economics.

The official launch of IZA World of Labor is planned for 2014.



Gary Fields, Martin Rama, Jochen Kluge, Klaus F. Zimmermann

Hellenic Innovation Forum: Greece Needs a Coherent Innovation Policy

"Greece needs more than austerity measures and institutional reforms; Greece needs a coherent innovation policy if the country aims to enter a path toward long-term economic growth," was the leading proposal of the 1st Hellenic Innovation Forum conducted at the Eugenides Foundation in Athens on October 7-8, 2013. Around 50 experts, politicians and entrepreneurs from Greece, the Greek Diaspora, from Europe and the U.S. exchanged views and experiences and discussed with around 350 participants how paths could be developed to improve the Greek innovation system, among them the Greek minister of Administrative Reform and e-Governance, *Kyriakos Mitsotakis*, Germany's State Secretary to the Minister of Research, *Thomas Rachel*, and the head of the EU's Task Force for Greece, *Horst Reichenbach*. The forum was initiated by IZA Fellow *Alexander Kritikos* (University of Potsdam and DIW Berlin). It was co-organized by IZA, the EU Task Force for Greece (represented by Senior Advisor *Georges Siotis*) and the Eugenides Foundation, with the support of the German Embassy in Athens, the Bodossaki Foundation and Eurobank.

Kritikos said in his initial statement that "Greece is part of the Euro-currency, a group of countries driven by innovation. Greece of today is, therefore, at a crossroads. Greeks can either decide to do 'more of the same' in terms of economic activities, or they have to tackle the central problem of moving up on the value-added scale and turn inventions which are already now produced in Greece into innovation. The key to such a transformation is developing a well-functioning innovation system and continuing at a relentless pace the necessary reforms in this area if they want to make the most of the Greek people's entrepreneurial potential."

Minister Mitsotakis, in his remarks, confirmed this view and said that "the future of Greece depends on the country's ability to follow a track toward sustainable development and the creation of jobs. The crisis of recent years has made the promotion of a new business model in Greece imperative. Businesses that will be able to distinguish themselves in this new environment will be those with innovative activities and high added value." The Minister also noted, "In Greece, conditions are not being created for an ecosystem of innovation with extro-

verted enterprises. It is the State's duty to decisively address the obstacles that constrain Greek businesses, and particularly bureaucracy. A tremendous effort is needed to uproot old-fashioned mentalities and perceptions."

Similarly, Rachel said in his remarks that "a decisive prerequisite for the strengthening of productivity and competitiveness in Greece and Europe is investment in research and education. The new challenges that grew out of globalization demand that Europe, and particularly Greece, enhance their appeal for new research and innovative activities to ensure success in international competition with Asia and America. The strategy for innovation is oriented to the needs of the society for clean energy, sufficient healthcare, sustainability mobility, and safe communication."

Reichenbach stressed that "Greece has a tremendous untapped economic potential, and innovation is a factor in realizing that potential, creating new jobs and for achieving growth. The current unfavorable economic conditions should not force

out that "the Greek Diaspora, although very strong, is not treated as an asset. Most measures aiming to build an ecosystem for innovation can be supported with a target-oriented Diaspora policy. For instance, dual appointments can turn brain drain into brain circulation. Other countries, such as Korea, have shown that an active outreach to one's diaspora can yield positive economic benefits for the home country."

The two-day Forum also highlighted Greece's hidden assets: The first asset is a small number of mostly basic research centers of excellence, such as the Demokritos Center in Athens, FORTH and the Mediterranean Agronomic Institute in Crete and CERTH in Thessaloniki, to name only a few based on the Rand Corporation's briefing series on Greece. And the presidents of these institutes presented their research approaches at the conference. These research centers also received a considerable number of European Research Council (ERC) grants, the most competitive funding scheme in Europe.

A second hidden asset is the huge number of top Greek researchers working in the Diaspora. Taking again ERC grants as a proxy, one observes more researchers with Greek origins having received such a grant abroad than Greek researchers within the country.

In total, averaging Greek researchers (in Greece and in Europe) with research grants over the Greek population shows that the ratio of grants to the population is similar to innovation economies like France, Germany or Great Britain, however with the only difference that most Greek scientists do their research to the benefit of others. This holds even more so, as many top Greek scientists work at the natural sciences departments of the best research institutes of the U.S. (such as MIT, Harvard, Cornell, CalTech, or Stanford, just to name a few). Greece is found to be the only Eurozone economy "exporting" more scientists to other European countries and the U.S. than it is able to keep at home.

Third, there are a considerable number of small, but innovative companies all over Greece that have developed new ideas. These firms have remained in Greece despite the adverse innovation environment. Last but not least, the final "hidden asset"



Kyriakos Mitsotakis

Horst Reichenbach

businesses to ignore the future. To ensure success, private investments must be maintained in research and development so as to build a strong foundation for growth in the future. It is also imperative that the government will proceed with critical structural reforms that allow businesses to thrive and create new jobs."

According to the General Secretary of Research and Technology *Christos Vassilakos*, "there is no doubt what we need: reforms for more effective systems of research and technology, ongoing investment in knowledge and structural changes for an economy that is based on knowledge." IZA Director *Klaus F. Zimmermann* pointed

of Greece is its attractiveness in terms of climate and quality of life. In an increasingly global race for the best talents, life quality outside the lab turns into a crucial success factor. If the same assets that attract tourists are used to attract talented individuals with unique skills from over the world, Greece could become Europe's global attractor for talents.

Given Greece's strengths and weaknesses, there is a strong need – as was emphasized by various speakers at the Forum – that the actors in the political arena create a vision for the country. It should embrace the target of moving Greece up in the innovation ladder to the other core members of the Euro-zone.

There was consensus between the speakers of the forum that such a vision needs two ingredients: a specific road map on the one hand; and awareness, acceptance and broad support for the specific targets in the Greek society on the other. Concluding from the presentations of all speakers, it became clear that a coherent innovation policy, designed to unlock Greece's hidden assets, will require action in five completely different kinds of areas. They all focus on closing the gap of the innovation chain, which currently exists in Greece between basic research institutes and innovative businesses:

- (1) Continuation of the reforms of the regulatory environment to ease the doing of business.
- (2) Investments into applied research centers of excellence (along the lines of Oxford, EPFL or Fraunhofer) and re-organization of research institutes and universities into clusters.
- (3) Development of networks and exchange between research and business, and reduction of the mental barriers in the Greek society against the cooperation between all actors in the innovation chain.
- (4) Acceleration of the network approach by a target-oriented Diaspora policy.
- (5) Development of politically independent research organizations providing research grants based only on merit and research quality.

More specifically, the following policy measures were discussed:

“Administrative efforts for start-up activities need to be substantially reduced,” as Silicon Valley Entrepreneur *Jack Harding*

clarified. What is needed, though, is far more than a continuation of incremental improvements on such indicators as the World Bank's “Ease of doing business” indicator. For instance, Greece should aim to realize permanent business registration within one day. Greece must focus on becoming one of the top 25 economies in this World Bank indicator if its government wants to foster business and entrepreneurship.

Secondly, as *Charles Wessner* from the U.S. National Academy of Sciences emphasized, “Greece needs a coherent innovation policy”. More specifically, it needs to restructure and promote its research and development policy if the country wants to unleash its potential. Primarily, as *David Audretsch* (Indiana University) said, “the links and knowledge transfer between the three main



Alexander Kritikos

players, universities, research institutions and private companies need to be strengthened,” and *Nikos Kanellopoulos*, president of the Demokritos research center, presented a model how a restructuring could look like for instance in the Attica region.

How can such heavy investments be financed? “Innovation is at the heart of the next EU programming period,” as was highlighted by *Odysseas Cartalos* from Logotech. A number of new measures are included in Horizon 2020, the upcoming program to strengthen European and national research systems. Of particular importance for Greece are programs that offer substantial funding on a competitive basis for projects aiming to develop cutting-edge research centers. The key objective of such EU programs is allowing countries like Greece to align high-quality science with technology-based entrepreneurship. Such objectives can only be reached with the involvement of top research performers and “it is exactly them who should be attracted by establishing such new research centers,” as *Peter Chen* (ETH Zurich) argued. Taking

the Swiss and the American examples, he and later on *Emmanuel Giannelis* (Cornell University) explained that top scientists are most likely to make breakthrough discoveries and inventions, which can trigger new areas of science, technology and industrial activities. Moreover, top research performers will be able to elicit private R&D activities and venture capital around them. ICT industries around Stanford, Bio Tech around Harvard and MIT, or Berlin-Adlershof, research labs of private companies in Zurich, close to ETH, are examples of costly private investment to get access to the “best brains”.

Once it should become possible to attract such institutes, this also means that the existing basic and the potential future applied research institutes and universities should be geographically collocated for three reasons: to realize knowledge spillovers, to achieve a critical mass, and to benefit from shared infrastructure. This needs to be done in those sectors “where Greece shows a tendency for specialization”, as *Leonidas Demetriades-Eugenides*, president of the Eugenides Foundation, emphasized. This applies for instance to the areas (i) Quality of Life, (ii) Information Society, (iii) Competitive and Sustainable Growth and Energy,

Building scientifically competitive research campuses will help close the gaps in the innovation chain and attract talent, both of Greek and non-Greek origin. However, as was also stressed by Touring award winner *Joseph Sifakis* (EPFL Lausanne), “this approach will only work if universities and research institutes become independent from any political influence, meaning that they are able to decide autonomously on their budgets and get financial support from independent national research organizations.”

Given the vested interests at all levels, it will not be easy to implement such a policy plan in Greece. Ultimately, what is required is that Greeks need to change how they view themselves. If Greek authorities commit to the long-term goal of turning Greece into an innovation hub, while communicating to the citizens its long-term benefits, reforms will find political support.

In conclusion, Greece has some hidden assets but at the same time, it has substantial gaps in its innovation chain. In particular, many “walls” and “mental barriers” in the Greek society need to be removed which put substantial obstacles in the path of making the country more innovative.

Whether or not the vision of Greece being transformed into a real innovation hub be-

comes reality will be determined not only by investments into R&D and into research centers. What is also crucial for the Greek society is to start accepting and supporting the necessary regulatory reforms. That requires a new openness, not just regarding the independence of research activities but also regarding a constant exchange between the worlds of research and entrepreneurship in all kinds of directions.

In that sense, the Greek innovation task is paradigmatic for the country's biggest challenge: using this profound crisis to reinvent itself and to cast the unproductive practices of the past overboard. Along these lines, Christos Vassilakos concluded that "an effective policy for innovation requires a combination of three critical aspects: Greece must reform, invest and transform itself."

For more information on this topic see also the article "Growing out of the crisis: hidden assets to Greece's transition to an innovation economy" published in the IZA Journal of European Labor Studies:

▶ www.izajournals.com/content/2/1/14

IZA Workshop in Brussels: Challenges and Opportunities of Labor Market Reforms during the Great Recession

The ongoing Great Recession has confronted policy makers with new challenges in labor markets around the world. A wide range of policies have been adopted, but their effects remain unclear. The IZA Journal of European Labor Policy and the IZA Journal of Labor Policy and the IZA Journal of European Labor Studies joined forces to tackle this gap at a workshop on "Labor Market Reforms during the Great Recession: Challenges and Opportunities," which took place in Brussels on October 10-11, 2013.

The workshop shed light on policy successes and failures from a national and comparative perspective. The opening keynote address, following an introduction by IZA Director *Klaus F. Zimmermann* was provided by EU Commissioner *Laszlo Andor* (DG Employment, Social Affairs and Inclusion). Keynote lectures were given by *Giuseppe Bertola* (EDHEC Business School) and *Coen Teulings* (University of Amsterdam, Cambridge University and IZA).



Andor provided an insider view into current policy debates at the EU level, explaining how the European Commission views and wants to tackle the key labor challenges the EU is facing. The outlined policy approaches spurred a lively discussion, effectively involving policy makers and academics in a fruitful debate.

From the European perspective, *Michael J. Kendzia* (IWSB and IZA) provided an encompassing perspective on whether young and older workers compete in the labor market based on recent IZA Research Report No. 53 entitled "Combining the Entry of Young People in the Labour Market with the Retention of Older Workers." The key conclusion was that there is little

if any competition between young and older workers in the labor market, and that structural policies are needed to provide for employment of both groups, reinforcing the complementarities between them.

In a similar vein, *Ulf Rinne* (IZA) argued that the success of Germany in employing its young labor force even during the Great Recession, and the failure of France in this respect, is due to fundamental structural differences in labor policy and in the (vocational) education system. The paper "Youth Unemployment in Old Europe: The Polar Cases of France and Germany," recently published in the IZA Journal of Eu-

ropean Labor Studies, further argues for structural reforms not only in France, but also other European countries affected by high youth unemployment.

Kilian Niedermayer (IAB - Institute for Employment Research) scrutinized the possibility that the German success is due to the extensive use of short-time work. The study substantiated the effectiveness of a subsidy on short-time work for employment and argued that such a subsidy also helps to absorb less severe economic recessions.

Martin Kahanec (Central European University, IZA and CELSI) explained the role of labor mobility for absorbing asymmetric

economic shocks to labor markets and for stimulating a more dynamic economic development in the EU. He argued that labor mobility greases the wheels of EU labor markets, and positively affects GDP, GDP per capita as well as the employment rate. As is made evident in the underlying IZA Research Report No. 56 ("Labour Migration from EaP Countries to the EU - Assessment of Costs and Benefits and Proposals for Better Labour Market Matching"), these positive effects result from mobility within the EU, but also immigration from countries outside of the EU.

Elsa Fornero, economics professor at the University of Turin and former Italian minister of labor, social policies and gender equality in the Monti cabinet, provided a unique speech on labor market challenges, combining academic and policy perspectives. The underlying paper "Labor Markets Reforms: Reflections on the Italian Case," forthcoming in the IZA Journal of European Labor Studies, provides

deep insights into how the gap between academic and policy worlds can be effectively bridged.

In the same vein, *Pedro S. Martins* (Queen Mary, University of London and IZA) shed light on the nexus between policy making and research in his contribution on Portugal. He reviewed the labor market reforms in 2011-2013, showing how the Portuguese reforms affected the key labor variables as they were implemented, and how these effects can be linked to the underlying theoretical and empirical analysis.

In his keynote speech, *Coen Teulings* elucidated the link between labor markets and

macroeconomic developments in Europe. He argued that the lagging of the Netherlands vis-à-vis Germany during the Great Recession is a result of the interaction between fiscal policy and the housing market. According to his study, fiscal policy provided insufficient intergenerational insurance, in which the EU framework played an important detrimental role.

Unemployment in the U.S. increased dramatically over the course of the Great Recession, rising from 5% to 10%. Since then, it has come down steadily and now stands at 7.6%. Two authors presented different views of the mechanisms behind the rise in the unemployment during the Great Recession and the persistently high unemployment during the recovery.

On the one hand, *Casey Mulligan* (University of Chicago) presented his paper “Uncertainty, Redistribution, and the Labor Market,” where he argued that small to medium-sized increases in uncertainty or risk aversion are enough to recommend an expansion of the safety net that would be broadly similar to the actual safety net expansions. According to Mulligan, these safety net expansions are responsible for the significantly depressed labor market.

On the other hand, *Adriana Kugler* (Georgetown University and IZA) presented her

work on “Cyclical and Structural Unemployment during the Great Recession: the Role of Policies”, arguing on the importance of both cyclical and structural factors that have depressed the demand for labor. She presented evidence from the estimation of Okun’s Law, to the estimation of matching functions, to employer surveys, to wage pressures and the estimation of the Beveridge Curve, which all point to a lack of demand as the main culprit behind the high unemployment rates of the past few years. Clearly, the policy consequences of both diagnoses differ considerably.

Moving into policy analysis, *Robert Valletta* (Federal Reserve Bank of San Francisco and IZA) presented his work entitled “Recent Extensions of U.S. Unemployment Benefits: Search Responses Under Varying Labor Market States,” where he compares the impact of post-Great Recession unemployment extensions on job search with the corresponding impact of the more limited extensions that occurred in the aftermath of the relatively mild 2001 recession. He finds that a 10-week extension of UI benefits raises unemployment duration by about 1.5 weeks, with little variation across the two episodes. This estimate lies in the middle-to-upper end of the range of estimates from past analyses, suggesting a moderate overall labor market impact of the recent benefit extensions.

Florence Jaumotte (IMF), in her presentation of “Labor Market Policies and IMF Advice in Advanced Economies During the Great Recession”, analyzed the IMF’s labor market recommendations for advanced economies since the beginning of the crisis, both in general and specifically in program countries. Her analysis focused on micro flexibility, namely the ability of the economy to allow for the reallocation of workers to jobs needed to sustain growth; and macro flexibility, namely the ability of the economy to adjust to macroeconomic shocks. Achieving both types of flexibility while protecting workers and maintaining incentives for workers and firms to invest in existing relations, is not that simple, and the design of labor market institutions faces delicate trade-offs.

Similarly, Giuseppe Bertola analyzed both theoretically and empirically how labor market policies shape the relationship between production and employment on the one hand, and income stability and inequality on the other in his presentation entitled “Labor Market Policies and European Crises.”

The presented studies are available online:

▶ www.iza.org/link/LMRGR2013

IZA Workshops on Behavioral and Organizational Economics: Using Experiments to Study Behavior in the Workplace and Beyond

How does the “mission” of a firm influence the quality of applicants and the performance of its employees? Can public recognition help to motivate workers, and how important is it to communicate the reasons behind existing pay differentials within a company? Can financial incentives make us engage in a healthier lifestyle, and how can insights from economics and psychology help to improve children’s eating habits? These were some of the questions discussed during two workshops that were organized by IZA’s research program area in Behavioral and Personnel Economics.

Opening up the black box of what happens within firms has been one of the most important developments in labor economics during the past few decades. Firms have become increasingly willing to make their personnel files available for academic use. Most recently, a growing number of companies have also started to directly collaborate with researchers and implement narrowly controlled experiments, in

order to find out which instruments they could use, for instance, to communicate organizational change, to attract the best qualified applicants, and to structure their compensation schemes and the non-pecuniary aspects of job design in a way that keeps their employees motivated. With its research program area in Behavioral and Personnel Economics, IZA has been at the forefront of this development. Ten years after the introduction of this research area at IZA, a workshop on “Behavioral Organizational Economics” took stock of recent

results and discussed new developments in the rapidly growing field.

A second workshop – organized in collaboration with the Social Science Research Center (WZB) and Humboldt University Berlin – was devoted to another rapidly emerging area of policy-oriented research: the question how insights from behavioral economics can be put into political practice. Interest in this topic is spurred by a growing acknowledgement that psychological factors should be taken seriously in the



design of economic policies – in labor economics, but also when designing policies related to health, education, financial decision making, and economic development. In all these applications, it has been argued that limited willpower and other systematic biases resulting from cognitive and attentional limitations might cause some people to act against their long-run self-interest. In light of such biases, a potentially attractive class of policy interventions is the so-called “nudges”: policies that preserve freedom of choice, but may help prevent boundedly rational individuals from making costly mistakes. Policy makers in the United States, the UK, and other countries have started using insights from behavioral economics in designing and implementing “behaviorally informed” regulations in a variety of settings. This development goes hand in hand with the insight that experimental methods and, in particular, controlled field experiments can successfully be used to inform the design of such policies, and evaluate their success. The “IZA/WZB Workshop: Field Days 2013” was devoted to evaluating a number of policy interventions that have already been implemented, and to discussing the future promises and challenges of this approach.

The question how the remuneration and actions of other workers influence workplace behavior has been one of the core topics of the first workshop. While previous literature has documented a robust influence of relative pay on variables such as job satisfaction, subjective well-being, and performance at the workplace, the evidence on how relative wages affect individuals’ reservation wage and the number of hours that people are willing to work at the offered wage was less conclusive. *Anat Brachat* (Federal Reserve Bank of Boston) presented new evidence from a laboratory experiment showing that relative wages can indeed affect labor supply: when people were offered a wage that was relatively low compared to a comparison worker, they were willing to work only fewer hours. However, when a strong enough reason was given for an existing pay gap, this difference disappeared. The latter result underlines the importance of implementing wage systems that workers perceive as “procedurally fair”, and it indicates that communicating the reasons behind existing differences in remuneration is important for workers’ acceptance of the pay scheme and, ultimately, their motivation.

Results by *Robert Dur* (Erasmus University Rotterdam and IZA) further underlined the power of communication and public recognition as a motivation device. In an experiment conducted with more than 300 em-

ployees who worked on a data-entry task, Dur found that receiving recognition – in the form of a small “thank-you” card that carried no monetary value – increased subsequent performance of workers substantially, and particularly so when recognition was exclusively provided to those workers who performed best in the previous working period. Remarkably, the performance-increasing effects of the employer’s acknowledgement were particularly pronounced for those workers who did themselves not receive recognition, suggesting that public recognition and acknowledgment of workers’ achievements are simple but important elements in aligning workers’ goals with those of the employer.



That the employer’s goals or “mission” can itself be an important factor for the composition and performance of the workforce was demonstrated in two further presentations by *Oriana Bandiera* (London School of Economics and IZA) and *Judd Kessler* (Wharton School, University of Pennsylvania). Kessler collaborated with “Teach for America” – a non-profit organization where college graduates and professionals volunteer to teach for two years in public schools. In their study, Kessler found that subtle information in the acceptance letter (about the behavior of previous cohorts) matters a lot for whether applicants actually accept a job offer, and for how long they remain on the job. Bandiera studied the question how a firm’s mission matters for workers in the context of a nationwide field experiment in Zambia that was conducted in collaboration with the local Ministry of Health. In the job announcements for a new Community Health Assistant program, Bandiera varied whether the “private” aspects (e.g. good career prospects) or “public” aspects (e.g. serving the community) of the job were emphasized. They document that different missions affect the pool of applicants in terms of applicant skills, as well as the later performance of the workers on the job. These findings are important not only for jobs in the social service sector, but can potentially be applied in

a wide range of settings, as reflected in the increasing use of corporate social responsibility initiatives. Another potential strategy for hiring workers who are better suited for particular jobs is to rely on referrals of existing employees. *Mitchell Hoffman* (Yale University) presented evidence showing this can indeed be a successful strategy. Using detailed hiring and productivity data from nine large firms in different industries, Hoffman demonstrated that workers who were hired through a referral of an existing employee are 10-30% less likely to quit and have substantially higher performance.

An excellent example of a useful transfer of knowledge from insights in personnel eco-

nomics to other fields of research was presented by *Patrick Nolen* (University of Essex) during the second workshop. Nolen studied whether incentive schemes that are well-understood in labor market applications – piece rates and rank-order competitions – can be used to encourage health-promoting behaviors by school kids. Based on data from 31 primary schools in England, the authors studied whether rewarding children with stickers and little gifts for choosing a portion of fruit or vegetables at lunch, increases consumption of healthy food items. Nolen showed that, while both interventions had generally positive effects, the competition scheme worked better overall. After the end of the intervention, the long-term effects tended to be relatively small; however, for children from poorer socio-economic backgrounds, there was evidence for sustained positive effects even in the long run. Such health-promoting effects of incentives are likely not confined to primary-school pupils, but could be equally relevant on a larger scale for adolescents and adults. This was illustrated by *Heather Royer* (University of California, Santa Barbara) who studied how employees of a Fortune-500 company can be encouraged to use the company gym, and showed that long-lasting behavioral changes can be achieved through a commitment contract that combines incentive theory with tools

from behavioral economics that have proven to help people overcome procrastination and limited willpower in other domains of life.

That the same psychological mechanisms can be applied in a variety of different contexts was also illustrated by two presentations by *James Choi* (Yale University) and *Sebastian Goerg* (Florida State University). Both studied how goals influence our behavior in settings as diverse as saving for retirement or working in a tedious and repetitive job. Using large-scale field experiments, Goerg and Choi demonstrated that having a goal might in itself be important for people, even if there are no direct monetary rewards attached to achieving the goal. In particular, people who were randomly exposed to a higher savings goal or a higher performance target indeed ended up saving more for retirement and achieving being more motivated and productive, respectively. Notably, Goerg's results indicated that the performance-enhancing effects of

goals might be present even if employees can choose their goals for themselves, underlining that setting oneself a goal can by itself be motivating and rewarding.

These examples illustrate that more closely connecting the insights on human decision-making from behavioral economics, organizational economics, and other areas of economic research is a promising avenue for researchers and policy-makers alike. This was underscored by *Paul Adams* (UK Financial Conduct Authority), who illustrated how research results from economics and psychology have been applied to develop regulatory tools that help consumers in more effectively claiming redress in response to mis-selling of financial products. Recent policy initiatives such as the "Behavioral Insights Team" in the UK Cabinet Office and a growing acknowledgement of the virtues of evidence-based policy making, more generally, indicate that the coming years will see

a growing number of similar successful collaborations between behavioral economics research and practical policy making.

The "IZA Workshop on Behavioral Organizational Economics" was organized jointly by *Steffen Altmann* (IZA), *Armin Falk* (University of Bonn and IZA), *Mirco Tonin* (CEU Budapest) and *Michael Vlassopoulos* (University Southampton), with financial support from the UniCredit & Universities Foundation.

► www.iza.org/conference_files/boe2013

The "IZA/WZB Workshop: Field Days 2013. Experiments outside the Lab" was organized by *Steffen Altmann*, *Dietmar Fehr* (WZB), and *Maria Grith* (Humboldt University Berlin), and supported by Volkswagen Foundation and the German Science Foundation (through the CRC 649 "Economic Risk").

► www.iza.org/link/fielddays2013

Analyzing the Labor Market Effects of Environmental Policies: First Workshop of IZA's Environment and Employment Program

Do renewable energy policies lead to changes in employment? Does air pollution affect the productivity of workers? What is the impact of natural disasters on economic growth and development? These questions are of growing interest. IZA has established a new research program area "Environment and Employment" in order to extend research on these kinds of questions and to analyze how the environment and labor market outcomes interact. On September 6-7, IZA Program Director *Olivier Deschenes* from the University of California at Santa Barbara and his Deputy *Nico Pestel* (IZA) welcomed participants at the first workshop of IZA's new program area in Bonn. IZA Director *Klaus F. Zimmermann* attended the workshop, and gave in his introduction an overview about previous IZA studies in this research area.

In the first presentation, *Joseph Aldy* (Harvard University) looked at the labor market impacts of the largest oil spill in the U.S. history. The incident suspended offshore oil drilling, which was expected to cause a decrease in local employment. However, the mobilized spill response resource, the BP compensation fund, and the rig workers relief fund provided work opportunities and income to counter the negative effect. Aldy finds that the most affected oil-intensive parishes in Louisiana experienced net increases in

both employment and wages relative to non-occurrence. More distant areas, like Florida, in contrast, experienced a decline of employment because of the event.

The consequences of environmental disasters for long-run economic growth were discussed by *Amir Jina* (Columbia University). Jina examined tropical cyclones that occurred during the period 1970-2008 around the world, with an impact on 2.3 billion people. He found that environmental disasters not only caused a permanent loss of income, but that repeated exposure has a large effect on economic development.



Another potential impact of natural disasters is increased emigration. IZA Research Associate *Linguère Mously Mbaye* analyzed the effect of natural disasters on emigration rates, especially how this effect de-

pends on the level of education. By investigating the bilateral migration flows from developing countries to the main OECD destination countries, she discovered that natural disasters are positively related with emigration rates. Furthermore, she found partial evidence of natural disasters causing brain drain. *Wolfram Schlenker* (University of California, Berkeley) examined the impact of weather changes on internal migration in the U.S., particularly how weather-induced changes in agricultural yield affects migration in the Corn Belt. He found that yield change led to a strong response of worker's migration but only when they are young.

The object of several studies was the labor market effects of environmental policies and air quality. The effects of extra energy costs for energy production in the industry induced by the cap and trade regulation of carbon dioxide in the USA and its consequences on employment were studied by *Mark Curtis* (Georgia State University). He discovered that young workers' employment and newly hired wages were those most affected, while employment decline happened mainly through a decrease in the hiring rate. *Ulrich Wagner* (Universidad Carlos III de Madrid) discussed the EU Emission Trading Scheme's free quota allocation to carbon intensive compliance industries. He found the cur-

rent practice over-compensating certain carbon leakage. Wagner showed that by improving on efficiency of the permit allocation, aggregate job loss can be reduced by more than half without increasing aggregate compensation.

What is the employment effect of environmental regulations in regulated industries? This question was studied by *Ronald Shadbegian* (Council of Economic Advisers) with regard to the 1990 Clean Air Act Amendments. He exploits different time, region, and standard of implementation to identify the effect of regulation on employment growth in non-attainment areas compared to attainment areas. He found a small negative effect on relative employment growth for the most stringently regulated classifications and the newly regulated areas. The impacts of outdoor air pollution on indoor worker productivity were investigated by *Matthew Neidell* (Columbia University). He analyzed productivity data from a fruit plant in order to explain these impacts. He found that increased outdoor air pollution significantly decreases the productivity of indoor workers. According to the study by *Michael R. Ransom* (Brigham Young University and IZA) lower air pollution has a positive impact on student's health, so that school absenteeism can be reduced.

Another alternative to improve air quality was presented by *Erdal Tekin* (Georgia State University and IZA). Tekin examined the relationship between infant mortality and the adaptation of natural gas as a clean fuel. In the case of Turkey, he found that the expansion of natural gas supply to households had significantly decreased the infant mortality rate, as different regions construct the natural gas network over time, resulting in improved air quality. The improvement had a higher impact for regions with more serious air pollution, where infants were weaker. *Reed Walker* (University of California, Berkeley) examined the long-term impact of ambient air pollution during pregnancy and after birth on future adult labor market outcomes. Walker found that the exposure to lower ambient air pollution levels due to the 1970 Clean Air Act Amendments in the year of birth positively impacts one's earnings 30 years later.

An important issue of the new IZA research field is the potential of so-called "green jobs." *Robert J. R. Elliott* (University of Birmingham) showed that within industry estimates indicated green intensity to be negatively correlated with productivity growth. In his data, Elliott also found the green intensive industry to have increased demand of workers in the middle of the skill

distribution, and decreased demand for lower skilled workers. For India *Ama Baafra Abeberese* (Columbia University) demonstrated that an exogenous increase in electricity prices leads to a reduction in firms' electricity consumption or a switch to industries with less intensive electricity demand, in addition to reducing firms' output and productivity growth rates – which may ultimately slow down a country's economic growth.

Hendrik Wolff (University of Washington and IZA) analyzed the impact of increasing gasoline prices on speeding. Wolff used a new methodology to estimate a significant negative relationship between the two. The program concluded with a study by Nico Pestel. Jointly with co-organizer *Andreas Peichl* and two other IZA colleagues, Pestel studied the employment effects of transferring conventional energy supply into renewable energy supply in Germany. They analyzed the impact of increasing electricity prices on employment, finding moderate complementarity between low skilled labor and electricity, while medium skilled labor and electricity are weak substitutes. The papers presented during the workshop are downloadable from the IZA website:

▶ www.iza.org/link/envir2013

Creative Approaches to Policy Evaluation: 8th Conference of IZA's Evaluation Program Area

The demand for high-quality empirical policy evaluation keeps increasing worldwide. Not only as a result of the recent economic crises and globalization, empirically based policy advice becomes more and more accepted by policy makers concerned with labor market issues. Governments, NGOs and institutions like the World Bank move towards evidence-based policy making, which involves proper policy evaluations as a condition and integral part of the funding of new pilot policies or reforms. Promoting and mirroring the development of the approaches and techniques of quantitative policy evaluation is therefore an important issue when it comes to providing creative input for future evaluation projects.

The 8th IZA Conference on Labor Market Policy Evaluation took place in London in mid-October. This year the organizers from IZA – *Patrick Arni* and the Program Directors *Marco Caliendo* (University of Potsdam) and *Gerard J. van den Berg* (University of Mannheim) – teamed up with the Institute for Fiscal Studies (IFS), represented by the co-organizers *Monica Costa Dias* and *Barbara*

Sianesi. The London-based institute follows a mission highly similar to IZA, aimed at giving empirically based high-quality policy advice for labor, fiscal and social policies. The IFS is also in close exchange with University College London, and the Evaluation Conference took place in the IFS building right on the UCL campus. It attracted, beyond the presenters, many attendees from the greater London area and from continental Europe. The demand for giving presentations was also very high – only about 15% of the submissions could be accepted.

The conference program mirrored the extended interest in policy evaluations related to the labor market, geographically and topic-wise. Several contributions of studies from beyond Europe enriched the program. Besides the contributions on the evaluation of labor market programs and on methodological issues, the spread of topics becomes larger every year, now comprising issues in education, family policy or development economics. The keynote speaker of the conference, *Costas Meghir* (Yale University and IZA), pre-

sented highly interesting insights in a recent field experiment that addresses early childhood development interventions. In a randomized controlled trial in Colombia, Meghir and his research team evaluate the impacts of direct interventions which support low-income families. The interventions involve repeated home visits and micronutrient supplementation. First shorter-run results already show some positive effects on the children's development with respect to outcomes like cognition or language and social skills.

Family-level policies were also relevant in the invited talk by *Richard Blundell* (University College London and IZA), winner of the 2012 IZA Prize in Labor Economics. He presented a comprehensive analysis on effects of reforms in the UK welfare system, specifically of the use of tax credits and income support programs for low-income families. The analyses show that these policy measures crucially shape the education decisions, human capital accumulation and employment prospects of women in the long run. Thus, in the implementation

of such reforms it should be taken into account that an increased presence of such income support may reduce women's incentives to invest in their own education.

The effects of education were also in the focus of the presentation by *Rosa Sanchis-Guarner* (London School of Economics), albeit in another context. She showed some compelling evidence that the presence of broadband internet access in pupil homes is beneficial for their educational outcomes. *Jeffrey Smith* (University of Michigan and IZA) addressed the question whether participants in training courses evaluate the effect of the course with the same result as econometric impact esti-

welfare. *Nadine Ketel* (VU University Amsterdam) presented experimental evidence on the effects of providing explicit search incentives through "search periods" for welfare recipients. During these periods, which lasted in maximum four weeks, welfare recipients were urged to search intensely, by means of search requirements and a waiting period in benefit payments. Individuals affected by such a "search period" left welfare significantly earlier. The talk by *Nitika Bagaria* (London School of Economics) shifted the focus on the incentives faced by public employment services when counseling job seekers. Changed incentives and organization due to a welfare reform in the UK finally resulted in more

evaluation of the returns to fostering mobility between local labor markets through relocation assistance in Germany. The researchers find that this type of assistance can help the unemployed get more stable jobs. Patrick Arni focused in his contribution on the interplay between "carrots and sticks", i.e. supportive and punitive instruments in unemployment insurance. The empirical results showed that the more intense use of "carrots" supports the individual's earnings outcome in the longer run, and increased use of "sticks" harms them. Surprisingly, the joint increase in the use of both instruments at once does not result in positive complementary effects, but harms the individual's earnings perspective.



mates. Surprisingly, it turned out that the subjective assessments of the participants were unrelated to the measured economic outcomes. They were rather related with issues like service intensity provided by the course teachers.

The discussions about evaluation methods were animated by three new methodological contributions relevant for applied policy evaluation. *Robert Joyce* (IFS) started off by revisiting concerns related to inference with Difference-in-Differences approaches. While previous research has focused on problems related to hypothesis testing, he shifted attention to the issue of power calculation. A second talk by *Matias Cattaneo* (University of Michigan) proposed a new compelling method for non-parametrically obtaining robust confidence intervals in Regression Discontinuity Design settings. Finally, *Thierry Magnac* (University of Toulouse and IZA) analyzed the use of interactive fixed effects and synthetic control groups in regional policy evaluation, in order to test under which conditions the respective methods performed best.

Labor market policy evaluations in its narrow sense were, of course, present as well – with a series of innovative evaluation projects on unemployment insurance and

outflow of disabled and unemployed people. The full social cost, however, turned positive only after five years – a period that is often too long for politicians who are elected for four years. *Sashka Dimova* (Aarhus University) added a third dimension to the discussed policy evaluations by analyzing how Active Labor Market Policies affect the demand side of the labor market. The study finds that only in the economic downturn meetings between caseworkers and job seekers significantly helped to reduce vacancy durations.

Different perspectives on the effects of Unemployment Insurance design were another key topic of the conference. *Marcus Hagedorn* (University of Oslo) first provided new evidence on interactions between macroeconomic outcomes and the provision of unemployment benefits. Focusing on exit behavior of unemployment insurance recipients depending on their personal liquidity situation, the contribution by *Andreas Fagereng* (Statistics Norway) exploited quasi-experimental variation created by a Norwegian reform. The study finds that a severance payment by the last employer worth 1.2 months' earnings, at the median, lowers the fraction of re-employed individuals after a year by about eight percentage points. *Robert Mahlstedt* (IZA) presented an

A further section of the conference that received special attention was the one adapting a global focus by the analysis of labor markets in emerging countries like India or Mexico. Contributing to the evidence on income effects of microcredit provision, *Manuela Angelucci* (University of Michigan and IZA) presented first experimental results from a randomized microcredit program placement experiment by Compartamos Banco in Mexico. The intervention, which allowed increased levels of lending, seems to have done some good and little harm, as suggested by the results based on a rich set of outcomes measured up to three years after the expansion. *Supreet Kaur* (Columbia University) exploited quasi-experimental variation in rain falls to assess the channels of nominal wage rigidity in agricultural village labor markets in India. Wage and employment responses to rainfall shocks were positive, but the levels did not lower again after droughts. The downside of these upward wage rigidities is that they hurt those in more precarious conditions: the landless laborers experience employment reductions.

The presented papers are downloadable from the conference website:

► www.iza.org/link/Eval2013

Cutting-Edge Research in Labor Economics: 15th European Summer Symposium

In September 2013, the Deutsche Post Management Training Center in Buch/Ammersee, Germany hosted the 15th European Summer Symposium in Labour Economics (ESSLE), organized by IZA and CEPR. *Giuseppe Bertola* (EDHEC Business School), *Corrado Giulietti* (IZA) and *Josef Zweimüller* (University of Zurich and IZA) had put together a program marked by a broad variety of topics within the research on labor market issues.

The Great Recession due to the financial crisis was, of course, a prominent one. *Samuel Bentolila* (CEMFI Madrid) presented a study on the impact of the big credit crunch on job creation in Spain. He was able to show that firms being attached to weak banks, which got in trouble during the financial crisis, suffered an additional fall in employment. *Fatih Karahan* (Federal Reserve Bank of New York) discussed the impact of the recession on the macroeconomic effects of unemployment insurance in the US. The large extension of UI benefits, aimed at tempering the impacts of the recession, did also exert a certain negative effect on job creation, as he argued. Evidence on the consequences of another large unemployment insurance benefit ex-

creasing it for the latter would provide more time for the young to find a suitable job of better quality. *Nicola Pavoni* (Bocconi University) presented a theoretical framework to address the question on how to optimally choose among different sequences of policies in unemployment insurance – like job search assistance, transitory work schemes, training or unconditional benefits – in order to reach the highest value for the individuals and for the institution. *Patrick Arni* (IZA) adopted an empirical perspective in the analysis of the question on how much support and how much pressure should be applied in labor market policies. Using a large set of individual register data on Switzerland, he showed that it is harmful for the individual's earnings after unemployment when both sanctioning and supportive policies are intensely used at the same time.

Avoiding unemployment by optimally relocating public jobs was one goal of a recent relocation initiative in the UK. *Giulia Faggio* (London School of Economics) empirically studied the consequences of this initiative and found positive impacts on the local employment perspectives. Unemployment is often very unequally distributed,

the skills of these occupations have been less valued by the market. *Georg Graetz* (London School of Economics) analyzed the polarization issue from a technological point of view. He found that labor-saving innovations – in particular automatization and computerization – can empirically explain some parts of the observed polarization developments. Another aspect of inequalities in the wage setting was identified in the presentation by *Julien Prat* (IAE-CSIC Barcelona and IZA): international trade. He documented that trade-driven firm dynamics may support the divergence of wages offered on the labor market. The reaction of changing wages on the willingness to offer work, i.e. to supply labor, is a crucial statistical measure in the economic analysis of labor. *Monika Merz* (University of Vienna and IZA) showed in her contribution the challenges to correctly estimate such labor supply elasticities on the aggregate level of the economy.

A completely different approach to the question on how wages are affected by different economic incentives was taken in the study presented by *Lorenz Goette* (University of Lausanne and IZA). He presented results of a field experiment which suggest that indi-



viduals orient their work effort on reference points, in particular earnings targets. Comparable reactions of work effort were not found when the students were paid by fixed wages rather than piece rates. Another field experiment was presented by *Jan Feld* (Maastricht University), assessing phenomena like discrimination or favoritism in education. In a set of university exams, where the identity of students had been hidden randomly, he found that students of the same nationality as the person grading the exam were less favored in the anonymized setup.

tension, particularly driven by a recession and downsizing of the steel industry in Austria in the late eighties, was presented by *Rafael Lalive* (University of Lausanne and IZA). His empirical analysis revealed positive externalities on the non-affected job seekers: They were quicker in finding a job due to the fact that the job seekers who profited from extended benefits remained unemployed for a longer duration.

for example across different ethnic groups. *Etienne Wasmer* (Sciences-Po Paris and IZA) presented an analysis which showed that spatial factors like longer commuting time and more difficulties to find appropriate housing could explain 1 to 1.5 percentage points of the unemployment rate gap between locals and minority ethnics in France and the US.

Another form of inequality in employment prospects arises from the increased polarization by skill of jobs offered on the labor market, a development that particularly has been observed in the last two to three decades. The study presented by *Michael Boehm* (University of Bonn) revealed that the wages of workers in middle-skill occupations relatively declined, one explanation being that

Further evidence on important educational issues was presented by *Deborah Cobb-Clark* (University of Melbourne and IZA), *Ricardo Estrada* (Paris School of Economics and IZA) and *Jisoo Hwang* (Bank of Korea). Cobb-Clark docu-

mented the results of a large-scale analysis in the state of Victoria, Australia, on the question on how school resources affect student's achievements. It turned out that the per-pupil spending level was less important than expected whereas the allocation of specific resources, e.g. different types of staff, to school was more relevant. Estrada found in a broad analysis of school data in Mexico City that admission to an elite high school increases not only learning achievements, but as well the expectations about earnings and returns from a college education. Hwang reported in her presentation the phenomenon of the "Golden Misses", which came up in many Asian countries as a reaction to the rapid economic growth and change in society. Well-educated and high-paid women marry less often in those countries due to an insufficient "offer" of men who have already adopted the modern role models. A related issue is the gender imbalance in countries like China and India, which leads to very high pressure in the marriage market, as *Xi Chen* (Yale University) report-

ed. This pressure had particularly negative impacts on the parents of sons who seem to engage more often in health-threatening behavior, like smoking and alcohol drinking, in order to cope with the stress. The pressure is further increased by social networks.

The importance of social networks among family members, friends and co-workers was also shown by *Francis Kramarz* (CREST-INSEE Paris and IZA). He presented evidence that networks of co-workers in past jobs affected the way on how firms opened and filled vacancies in Sweden. The probability of jobs being opened and filled was higher when a former co-worker or a worker's child was on the labor market. Family ties also affect the fertility behavior of young mothers, as the presentation of *Mario Padula* (University of Venice) suggested. He showed that the availability of retired grandparents was related to up to 10% higher fertility rates in Italy. Additional issues of nature and nurture were at the center of the presentation by *Pietro Biroli* (University of Chicago). He documented

that the interactions of some genetic predispositions with risky behavior, like not exercising and a less healthy diet, seem to be related to a higher incidence of obesity.

Positive health impacts are, however, often visible for immigrants. *Lidia Farré* (IAE-CSIC Barcelona and IZA) demonstrated this "healthy immigrant effect" by large-scale empirical evidence on the exodus of several hundred thousands of Ecuadorians to Spain in the late 1990s. Positive health effects are found as well from involvement in sports activities. *Aderonke Osikominu* (University of Zurich and IZA) documents the positive relation of athletic involvement with the development of character traits and social skills using the extensive survey data from the German Socio-Economic Panel.

The presented papers are available from the conference website:

► www.iza.org/link/ESSLE2013

The Political Economy of Labor Market Reforms: 8th IZA/World Bank Conference in Bonn

Since 2006, the IZA/World Bank Conference brings together policy makers and development economists in order to discuss, analyze and improve the functioning of labor markets in developing countries. This year, more than 100 participants attended the 8th edition of the conference held in Bonn on August 22-23. The key theme was the political economy of labor market reforms. Important labor market reforms have been implemented in developing and emerging countries for more than twenty years now. However, many issues such as the structure of the economy in developing countries dominated by the informal sector or the economic crisis have increased the difficulties to design and implement labor market reforms. The successes and failures of past reforms, as well as the road to their implementation, offer important lessons for the improvement of future reforms.

Elsa Fornero, economics professor at the University of Turin and former Italian minister of labor, social policies and gender equality in the Monti cabinet, was the first keynote speaker. Introduced by *Stefano Scarpetta* (OECD and IZA Program Co-Director), she stressed in her speech the prominence of the pension and labor

market reforms to deal with the Italian sovereign debt. These reforms, which are the result of intense consultation and debates between the government and social partners, are based on the flexibility in labor market entry and exit, social protection



Stefano Scarpetta, Elsa Fornero, Selim El Sayegh, Klaus F. Zimmermann

schemes, employment services and activation policies, with a strong focus on follow-up, monitoring and evaluation. According to Fornero, the pension reform is not only a financial tool to balance the public finances, but also a means to rebalance opportunities in favor of the young generation. Moreover, this reform is linked to the labor market reform which aims to create a better institutional environment. Consequently, the labor market reform gives priority to a better inclusion, which means having some employability enhancement programs, a universal safety net and a shift from job protection to worker protection.

The labor market reform also involves more dynamism through shorter school-to-work and job-to-job transitions, and more flexibility for employers. Finally, Elsa Fornero highlighted the fact that in order to be effective, reforms need time and the involvement of all stakeholders in society such as the social partners, institutions, media and the public in general.

In his keynote address, former Lebanese minister of social affairs *Selim El Sayegh* pointed out the importance of social protection and employment policy reforms in the case of Lebanon. This country has to deal with a lot of issues such as a growing economy without enough job creation, a high share of informality and a low transition toward formal employment, high emigration of skilled workers while low-skilled workers tend to immigrate. In order to face these challenges, El Sayegh highlighted the role of the National Social Development Strategy (NSDS), a program aiming to promote mechanisms of social protection. A reform of social protection is needed to provide some financial security to the most vulnerable people, such as a decent income to old-age pensioners, an insurance to cover unemployed people or those with disabilities. This social protection reform needs to be accompanied by an employment policy

reform promoting more innovation and entrepreneurship, reallocating investments to high productivity sectors, improving skills through active labor market policies, and having more labor regulation for a better protection of workers.

Using the example of Latin America, which is the most unequal region in the world with a lot of difficulties related to productivity growth, *David Kaplan* (Inter-American Development Bank and IZA) showed that social insurance programs are closely related to the labor market. He further stressed the fact that these programs generate labor market incentives which in turn affect people's behavior. Consequently, the design of the social insurance program should take these effects into account.

David Robalino, IZA Program Director and leader of the World's Bank Labor team, pointed out that protecting workers and creating good jobs are not necessarily two conflicting goals. Due to the taxes associated with programs, the social insurance system can impact the labor markets after a certain level of coverage. The aim is therefore threefold: social insurance systems should improve worker protection, but at the same time it is important to contain costs and maximize the impact of the subsidies on the most vulnerable population. Moreover, taxes can be used to reduce the labor market distortions. In order to do so, he suggests thinking about a new mandate of the programs which will for instance define the benefits for different groups of people, calculate the share that has to be financed by the individuals, or calculate the expected costs. He also argues that the redistribution should be made explicit and

financed through general revenues. Finally, *Robalino* stressed that the initial conditions such as the size of the informal sector, the level of payroll and other taxes and the existence of anti-poverty programs matter and should not be neglected.

One of the conference sessions was dedicated to global data provided by the Wage Indicator Foundation. Since lack of data is one of the major difficulties for economists, Wage Indicator Data aims to contribute to the transparency of the labor market by providing information about the labor market situation such as wages, working conditions, occupation, and cost of living, with the possibility to have access to a large sample size. For instance, in 2012, Wage Indicator Data provides information about 200,000 observations with wage information in 60 countries. The organization has regional teams in Slovakia, Argentina, South Africa, Belarus and India, but beyond these teams, the wage indicator is present in 70 countries. More information is available through IZA's International Data Service Center (IDSC) and at:

► wageindicator.org

What can we learn from pension and labor market reforms? This is the main question that *Arup Banerji*, IZA Fellow and the World Bank's global Director for Social Protection and Labor, asked during the closing panel discussion to *Robert Holzmann* (University of Malaya and IZA), *Tan Mei Ling* (Associate Director of PEMANDU), *Selim El Sayegh* and IZA Director *Klaus F. Zimmermann* (University of Bonn). There was a consensus that successful reforms need to involve all the relevant stakehold-

ers and must be communicated effectively to the public. For *Holzmann*, although people tend to underestimate the role of both pension and labor market reforms, it is crucial to find a consensus among the different groups in society. He further stressed that policy makers need a lot of theories and empirical evidence to be able to implement good reforms. This vision is also shared by *Ling*, who underscored that the implementation of research and scientific ideas at a political level is important. According to her, about 25% of policy decisions are based on scientific evidence, which highlights the need to have reliable data in order to be able to take the right decisions at the political level. Moreover, researchers should have a new mindset and work on the implementation of their findings in a more practical way. Along the same lines, *Selim El Sayegh* suggested making stronger efforts to connect theory and practice in order to bring together scholars and policy makers. According to *El Sayegh*, it is necessary for researchers to think beyond the mainstream and propose new solutions to the problem that the world economy is facing, particularly in the developing countries. *Zimmermann* also deplored that most policy decisions are based on beliefs rather than scientific evidence. He called for a long-term vision in the implementation of reforms and outlined IZA's mission to fill the gap between policy makers and academics.

More information about the conference and other joint IZA/World Bank initiatives is available at:

► www.iza.org/development

Second IZA@DC Young Scholar Program

Inspired by the great success of last year's IZA@DC Young Scholar Program, IZA again joined forces with the Georgetown University Economics Department and its Georgetown Center of Economic Research (GCER) to run this program for a second time. The main objective is to expose Ph.D. students from outside of the U.S. to the world's leading labor economists through a week of presentations, and to give them the opportunity to create networks with local researchers from the Washington metro area. The IZA@DC Young Scholar Program is the most recent of IZA's various initiatives to promote talented doctoral students in the field of labor economics.

In contrast to other workshops and conferences organized by IZA, students cannot apply themselves but have to be nominated by IZA Research Fellows. Based on these nomi-

nations, the program organizers *Frank Vella* (Georgetown University and IZA) and *Steffen Künn* (IZA) selected ten students from nine different countries. In the last week of September, these young scholars came to Washington for an intensive program consisting of lectures, meetings with senior researchers, and own presentations.

In seminars, leading labor economists presented their frontier research and discussed it with the students. On the first day, *Janet Currie* (Princeton University and IZA) presented a model of diagnostic and surgical skills and their effect on unnecessary procedure use. Using U.S. data, she investigated whether and how the different skills of doctors affect the probability of a C-section, given that the rising number of C-sections in the U.S. is considered to be higher than optimal. As

predicted by the model, she finds that better diagnostic skills would decrease C-section rates among low-risk women and increase them among high-risk women, while better surgical skills increase C-section rates among all women.

The next day, *Martin Ravallion* (Georgetown University) presented results of a randomized control trial in India that aimed at increasing information about an employment guarantee scheme among rural households. The results show that the information campaign had an effect on the awareness of the employment scheme, but not on economic outcomes, possibly due to corruption. While that experiment was set in the context of a developing country, *Joseph G. Altonji* (Yale University and IZA) focused on the U.S. labor market. Investigating the ef-

fects of economic conditions at labor market entry among college graduates on labor market outcomes later in life, he found that a higher unemployment rate at labor market entry negatively affects later earnings and full-time employment rates.

David Autor (MIT and IZA) also presented empirical evidence on the U.S. labor market. He asked how workers are affected by negative labor demand shocks – in this case, the growing Chinese import competition in the U.S. market. His results using micro data show that workers' earnings in trade-exposed industries are negatively affected, mainly because the workers move to other sectors where earnings are lower. The last speaker of the week was *George J. Borjas* (Harvard University and IZA). His presentation addressed the topic of economic assimilation of immigrants in the U.S. and how more recent immigrant cohorts appear

to not only have lower entry wages, but also smaller rates of wage convergence. He finds that this pattern is partly driven by a rapid growth in the size of specific national origin groups that is related to a slower rate of acquiring English language skills.

In addition to attending the seminars, the students also had the chance to meet with the lecturers personally in order to discuss their own research and to ask questions about important issues in academic research, such as the publication process or the job market. Besides the presentations by the senior economists, the students also presented their own work and discussed it with their colleagues. The student sessions were chaired by senior researchers, all of them IZA fellows: *John C. Haltiwanger* (University of Maryland) *Amelie F. Constant* (George Washington University and Temple University), *James Albrecht*

(Georgetown University) and *Eric Gould* (Hebrew University).

Another integral part of the program are individual talks with local IZA Research Fellows. The students were asked in advance to contact IZA fellows in the DC metro area with whom they would like to discuss their research. On average, the students arranged three visits with fellows at such institutions as the World Bank, Brookings Institution, U.S. Bureau of Labor Statistics, Bureau of International Labor Affairs, Inter-American Development Bank, and Georgetown University. The participants of this year's IZA@DC Young Scholar Program widely reported that this one-week program had a significant impact on their research. They met some of the top scholars in the field, started future collaborations with local researchers and received many useful comments and advice for their own work.

Strengthening Research and Policy Advice: IZA Appoints New Directors

With a number of new appointments, IZA is further expanding its activities in research and policy advice. In addition to the renowned international scholars who will spend extended research stays at IZA as a Visiting Research Fellows (see IZA Compact, October 2013), three new Directors will complement the IZA management team over the next few months.



Werner Eichhorst, Alexander Spermann, Alessio Brown

As of January 2014, *Werner Eichhorst*, currently Deputy Director of Labor Policy at IZA, will become Director of Labor Policy Europe. He has a strong record of comparative labor market research and will be mainly responsible for our collaboration with various European institutions, such as the European Parliament, the European Commission, the OECD, ILO, national governments and central banks. *Jo Ritzen* (Maastricht University) will continue to support our European activities as IZA Senior Advisor Policy.

Alexander Spermann, currently a Director at Randstad Germany, will be appointed as IZA Director of Labor Policy Germany starting in April 2014. Before joining Randstad, he was head of the labor market department at ZEW Mannheim. He has made important contributions to the academic and public debate on German labor market reforms at an early stage. At IZA he will coordinate the activities in policy evaluation and policy advice in Germany, with a particular focus on lifelong learning.

In March 2014, *Alessio Brown* will join IZA as Director of Strategy and Research Management. He has held various positions at the Kiel Institute for the World Economy and is Executive Director of the Kiel Global Economic Symposium. His research covers reform policies in welfare states. Brown will support the IZA Director in shaping and implementing the institute's global research strategy and its various activities around the globe while continuing with his research.

Other key management positions at IZA will remain unchanged.

"We believe that these personnel decisions will underscore and enhance IZA's leading role in global labor market research and policy advice," said IZA Director *Klaus F. Zimmermann*.

Paolo Masella Wins Kuznets Prize 2014

IZA Research Fellow *Paolo Masella* (University of Sussex) will receive the 2014 Kuznets Prize for his paper "National Identity and Ethnic Diversity," which was selected as the best published article of 2013 in the *Journal of Population Economics*. Since 1997 the Prize has been awarded every three years in honor of Simon Kuznets, Nobel laureate and pioneer in population economics. Starting from 2014, the Prize will be awarded yearly. It will be presented at the Annual Congress of the European

Society of Population Economics (ESPE) in Minho, Portugal. The Prize Committee included the journal's Editor-in-Chief, IZA Director *Klaus F. Zimmermann*, and the journal's editors, *Alessandro Cigno*, *Erdal Tekin*, and *Junsen Zhang*. The Prize will be presented at the ESPE 2014 Annual Conference.

The winning paper is downloadable free of charge from the journal homepage:

► www.popecon.org



Paolo Masella



False Hopes in Germany's Minimum Wage

The new German government coalition is planning the phased introduction of a national minimum wage of 8.50 euros per hour. This is a bold move placing Germany among the world leaders in terms of government-mandated minimum wages. A simulation based on data from the German Socio-economic Panel (GSOEP) shows that 4.5 million people – 15 percent of all employees in Germany – would be affected. Most young workers under 25 years of age fall below this threshold. In all of Europe, only France has a higher minimum wage of EUR 9.43. Notably, this is the country where youth unemployment soared to almost 26 percent at the end of 2012.

The markets will have a hard time adapting to this new situation. Many sectors currently have collective wage agreements below the planned minimum. Moreover, income support schemes in Germany are highly complex. Given the constitutional guarantee against poverty, low wage earners are entitled to wage subsidies supplementing their labor income. For those who are not employed, basic income support under the “Hartz IV” legislation is available. As Germany has no experience at all with a national minimum wage, the country is trading new ground – which, if anything, will provide economic research with lots of material for new studies.

In the international research and policy community, the German plans have caused some astonishment. To be sure, many countries have a minimum wage – but on a much lower level, where the damage it can do is limited. The U.S. minimum wage of 7.25 dollars, for example, is equivalent to about five euros. Fewer than three percent of U.S. workers fall into this category. People like Paul Krugman, who favor raising the minimum wage to stimulate the U.S. economy, will certainly applaud the German minimum wage as a means to strengthen mass purchasing power. This could then be viewed as Germany's contribution to boosting domestic consumption

so that rising imports would reduce the country's large trade surplus, thus silencing criticism of the German export miracle.

But it is much more likely that a large share of new jobs in the low-wage sector, which have been created over the past years, will disappear again before long. This would undermine the recently achieved flexibility of the German labor market, which is owed in part to various forms of marginal employment. It is important to note that job losses are not necessarily confined to those who currently earn less than the planned minimum wage. If firms face lower demand for their products after raising prices in response to higher labor costs, they may also resort to laying off low-skilled employees who work in regular full-time jobs above the minimum wage.

Low-wage earners in Germany are not typically low-skilled. Most of them are not the sole earners in their family, nor do they live in households with a high risk of poverty. Therefore, contrary to what the minimum wage movement has been propagating, minimum wages are not an appropriate instrument for redistribution. Studies have shown that the introduction of a minimum wage in Germany would fail to make household incomes more “socially just.”

Since the situation of low-income households is unlikely to improve as a result of the minimum wage, there will be no boost in consumption and, accordingly, no rise in imports. The minimum wage will further diminish the role of unions, who lose an incentive to fight for the interests of workers in the absence of government intervention. What remains is the self-congratulatory mood among policymakers who feel they have “done the right thing.”



Klaus F. Zimmermann



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