



Germany's Minimum Wage Experiment Independent Scientific Evaluation Needed

The new German government coalition has announced the introduction of a statutory national minimum wage. This will have a massive impact on the German labor market. In order to discuss the experiences of other countries with minimum wages and to derive the implications for Germany, IZA held an international conference in Berlin on March 20, 2014 (► page 5) and published a new "IZA Standpunkt" article by IZA experts *Patrick Arni, Werner Eichhorst, Nico Pestel, Alexander Spemann* and *Klaus F. Zimmermann*. IZA Compact summarizes the key findings of this German-language study.

Comparing minimum wages

Although many European countries have a minimum wage, they differ substantially in terms of the wage level, the mechanism of adjustment, and the exceptions for certain labor market groups. Minimum wages can be compared internationally by relating them to median earnings. This measure is commonly referred to as the Kaitz index, which is usually based on full-time earnings. For Germany, the median hourly wage for full-time employees was 17.10 euros in 2012. Thus, the proposed minimum wage amounts to 50 percent of the median income, placing Germany considerably above the OECD average (► figure, page 2). Excluding part-time workers makes this figure internationally comparable. Its validity is limited, however, given the large share of part-time employees in Germany. If part-time workers are included, median earnings in Germany are 14.00 euros, which increases the index value to 60 percent. The different calculations currently available for Germany average between 55 and 56 percent.

What do we know about the impact of minimum wages?

Germany – results from ex-ante evaluations

A number of micro-simulation studies (ex-ante evaluations) have studied the employment effects and the fiscal impact of implementing

a statutory minimum wage. The overarching finding is that the nationwide introduction of minimum wages will most likely lead to negative effects on employment. New IZA micro simulations underscore this result: Roughly speaking, at least 600,000 people – among them mainly part-time employees, women, low-skilled workers and East Germans – will lose their jobs if a statutory minimum wage of 8.50 euros per hour is implemented.

There are differing findings regarding the fiscal effects of the introduction of a minimum wage. Some studies project distinctly negative outcomes while others even find a short-term fiscal gains. The latter arise because the higher nominal income due to the minimum wage results in higher revenues from taxes and social security contributions – these extra revenues are large enough to more than offset the fiscal costs of job losses. The IZA micro simulations also find short-term fiscal gains of several billion euros.

However, for a number of reasons this result cannot be interpreted in a way that the introduction of a statutory minimum wage would help to improve public finances. First, presumably more than half a million people will become unemployed due to the minimum wage. The longer their unemployment duration, the higher the long-term fiscal costs. Given that low-skilled workers and East Germans will be disproportionately affected by the minimum wage, a rise in long-term unemployment must be expected. Second, a minimum wage provides incentives for adolescents and young adults to leave education and training early to accept a relatively well-paid job. If apprenticeships pay less than the minimum wage, young people will risk entering a "low-pay, no-pay" cycle. This will also lead to negative fiscal effects. Third, the models do not cover shadow economic activities, which tend to rise with the level of the minimum wage and will also result in forgone tax reve-

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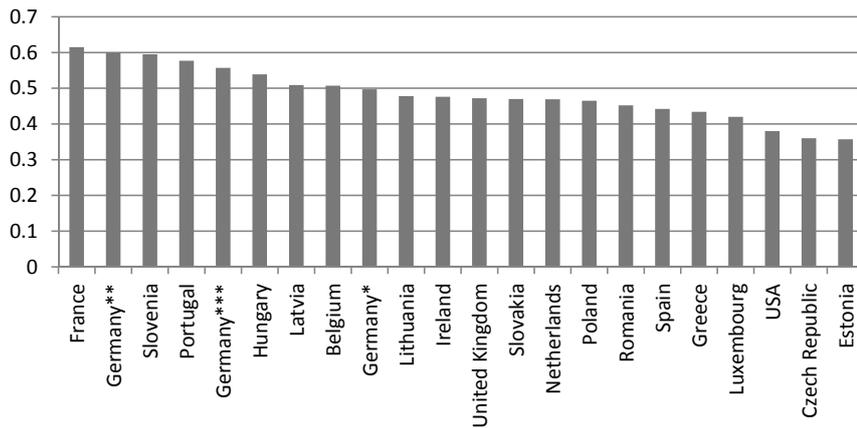
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OPINION: FREEDOM IN DANGER?

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Minimum wages in Europe relative to median full-time earnings (2012)



Source: OECD.

* Hypothetical value for Germany based on a median hourly wage of 17.10 euros for full-time employees subject to social insurance contributions, according to the Federal Employment Agency.

** Hypothetical value for Germany based on a median hourly wage of 14 euros (including part-time workers), according to DIW Berlin and IAQ.

*** Hypothetical value as a mean of available calculations according to Kluve (2013) with a median income of 15.26 euros.

number was recently revised downwards by the Federal Employment Agency to 46,814. At the same time, very few low-income households with children already earned incomes slightly below the Hartz-IV threshold before the introduction of the minimum wage. According to the above-mentioned IZA study, there will still be over a million supplemental benefit recipients in Germany after the introduction of the statutory minimum wage.

International experiences

In 1999, the United Kingdom introduced a statutory minimum wage. After several adjustments it now stands at 6.31 pound sterling (about 7.50 euros) per hour. Young workers under the age of 21 and trainees receive lower minimum wages. For many years, the employment and distributional effects, as well as the fiscal consequences, have been analyzed by the so-called Low Pay Commission, which also makes recommendations for an adjustment of the minimum wage level. The commission submitted their 14th report to the parliament in 2013. With regard to the medium to long-term effects of the introduction of a minimum wage, evaluations on behalf of the Low Pay Commission found significant positive employment effects and a reduction of wage inequality (not income inequality) at the lower end of the wage distribution. These results were partly due to the moderate starting level of the minimum wage, the favorable development of the labor market over a longer period, and the flexibility of the British labor market in general.

The statutory minimum wage in the United States, introduced in 1938, currently amounts to 7.25 dollars (about 5.25 euros) per hour, with exceptions for young workers and differences across U.S. states. The employment effects of minimum wages have been the subject of decades of scientific research. Summing up the results of all available studies shows that a minimum wage almost always has negative effects on employment. One of the very few exceptions is the methodologically controversial study by the IZA Prize laureates *David Card* and *Alan B. Krueger*. They found evidence that raising the minimum wage in New Jersey in 1992 resulted in positive employment effects for fast food restaurants. The U.S. currently discusses a proposal by President *Barack Obama* to raise the minimum wage in three steps to 10.10 dollars per hour in 2016. However, this minimum wage hike could cost of as many as 500,000 jobs, according to an analysis by the non-partisan Congressional Budget Office.

nue. Fourth, it is common knowledge that minimum wages negatively affect employment dynamics, which leads to a further reduction of fiscal revenues. Fifth, undesirable side effects on other aspects of the wage distribution which are not directly affected by minimum wages are not taken into account. These could require higher expenditures due to negative effects on employment.

Thus, the results of the micro simulations should not be overestimated. In particular, the fiscal analysis only partially covers the medium to long-term effects. Short-term fiscal gains do not justify the conclusion that minimum wages are beneficial for the public budgets in the long run.

Germany – results from ex-post evaluations

On behalf of the Federal Ministry of Labor and Social Affairs, a group of research institutes evaluated the introduction or adjustment of sectoral minimum wages for a number of sectors in 2011/2012. They found no evidence of definite employment effects – positive or negative – caused by minimum wages. Even a methodologically more refined analysis, mainly applied to the construction industry, came to the same conclusion. The only analysis that gave cause for concern was in the roofing industry, where the introduction of a sectoral minimum wage also had an impact on the wage distribution in domains not immediately affected by the minimum wage – with potentially negative effects on employment.

However, there are three reasons why these findings should not lead to the conclusion that the introduction of a minimum wage would be unproblematic due to negligible employment effects. First, the observation periods for the data gathered in the past studies of sector-specific minimum wages were too short. The outcomes of various adjustment processes in response to a new or higher minimum wage cannot be assessed after only one or two years. Second, the existing data sources for the analysis of minimum wages are too vague in various aspects. For example, administrative data usually do not show which employees are actually affected by the minimum wage. Survey data, on the other hand, contain too few observations to allow for detailed analyses. Third, the key problem is how to define an adequate control group.

Since the political rationale behind the introduction of a statutory minimum wage is usually dominated by social fairness considerations, it is important to look at the distributional effects. Despite having a positive impact on the wage distribution, the interaction of minimum wages with the tax and transfer system – i.e., higher wage income raises tax liability and leads to reductions in supplemental income benefits – means that there is little change in disposable income. Moreover, the number of currently 1.3 million supplemental income recipients (“Aufstocker”) will hardly drop. This is because only 0.1 percent of all workers are full-time employed singles who are entitled to supplemental income. Their

When looking at the minimum wage schemes in Europe, the French scheme is particularly interesting. The so-called SMIC in France is characterized by a relatively strict design with few exceptions. Lower minimum wages apply only to adolescents under the age of 18 with limited work experience, trainees under the age

“To minimize the risks associated with the introduction of a minimum wage, it should start at a low level and then be increased gradually. This major policy change must be monitored by a serious empirical impact evaluation.”



Bernd Fitzenberger (University of Freiburg)

“The key issue is not whether or not to have a statutory minimum wage in Germany, but at which level this wage floor is set. Who is going to make this very relevant decision?”



Tito Boeri (Bocconi University)

“Decisions on minimum wages should be depoliticized. A plausible criterion for adjusting minimum wages once introduced is the rate of growth of labor productivity, adjusted for inflation.”



Richard Freeman (Harvard University)

of 26, and interns. In general, however, the minimum wage is comparatively high (◀ figure). Another special feature of the SMIC is the adjustment mechanism: On the one hand, the minimum wage is automatically aligned with inflation. On the other hand, the minimum wage has to match the average development of wages, with a commission submitting recommendations to the government. Nonetheless, the government bears the sole responsibility for any increase of the SMIC. The high level of the minimum wage in France has contributed to compressing the wage distribution, which also affects higher income groups. Apart from these spill-over effects of the minimum wage, long-term negative impacts can arise. For example, statutory wage-setting in the form of a minimum wage can lead to the displacement of cooperative structures on the labor market. Early studies already observed that raising minimum wage levels results in higher unemployment among employees who had previously worked below the minimum wage

level. Negative effects of the minimum wages on employment are aggravated for young workers in France. When French firms hire workers at the minimum wage, the higher labor costs are at least partially subsidized by the state to cushion the negative effects on employment arising from the minimum wage. Thus, once these subsidies expire, the likelihood of job loss rises. This shows that an analysis of government interventions like the minimum wage must also take into account total labor costs, especially in countries with high social security contributions such as France and Germany.

Designing a minimum wage for Germany

According to the coalition agreement, a national statutory minimum wage of 8.50 euros per hour will be implemented as of January 1, 2015, allowing interim wage agreements until December 31, 2016. Given that the decision to introduce a minimum wage has already been made, the discussion now needs to focus on how to design the scheme in order to minimize the risks for the labor market. In general, the existing studies agree that a minimum wage will not come without negative consequences for the labor market. At the same time, the minimum wage is not a suitable instrument to meet redistributive goals.

Starting level and adjustments

If the introduction of a minimum wage is politically desired despite its potentially negative labor market effects, a cautious approach would be advisable. Rather than reaching a premature political agreement on the starting level, it would have been sensible to take a closer look at existing studies on the impact of minimum wages before reaching a decision on implementing a minimum wage and fixing its level. Starting off at a lower level, the government could have slowly approached higher levels, based on the findings of regular scientific evaluations as practiced in the UK. The initial level of 8.50 euros as defined in the coalition agreement is likely to take a massive toll on certain groups of workers and firms.

Due to large differences in minimum wage levels across EU member states, sizeable migration waves from countries with low minimum wage levels (such as Romania and Bulgaria) into low-skilled jobs paying the higher minimum wage in Germany cannot be ruled out. Furthermore, given the difficulty of monitoring actual working hours, there will be an increase in illegal work among both migrants and natives.

The federal government is planning to install a commission consisting of an equal number of representatives from unions and employers' associations, who are supposed to review the minimum wage level periodically and, if deemed necessary, adjust it. This will happen for the first time on June 10, 2017, taking effect on January 1, 2018. Scientific experts are only to be involved upon proposal by the committee and will have no voting power. Further adjustments of the minimum wage will be decided by the representatives of employers and unions in cooperation with policymakers. Unlike in the UK, expert advice is not explicitly required, nor is a systematic scientific evaluation of the minimum wage regulations intended. This will only further politicize the minimum wage.

In general, it makes sense to clearly separate scientific advice from political decision-making. Scholars should not have political co-responsibility. However, in terms of social policymaking it is absolutely irresponsible not to provide for thorough and independent accompanying research when implementing a project like the introduction of a national minimum wage that is extremely controversial among economists.

Reasonable exceptions

According to the coalition agreement, honorary work paid under the mini-job regulations will not be subject to the minimum wage provisions because this form of work usually does not constitute dependent employment. Also, there will be exceptions for mandatory internships as part of school and university curricula. Other proposals of exceptions for pensioners, students and mini-jobbers from the minimum wage are problematic as they could provide substantial disincentives and lead to discrimination. Firms could be tempted to minimize costs by focusing their hiring decisions on groups that are exempt from the minimum wage. General exceptions for entire labor market groups or employment types will not alleviate the negative effects of a (high) minimum wage and should only be considered when plausibly justified.

Past research shows that (high) minimum wages encourage adolescents to drop out of training programs as the minimum wage makes simple jobs more attractive. Instead of accumulating human capital, which is increasingly important in an economy reliant on higher qualifications, young workers may accept instable and low-skilled jobs, which will damage their

future labor market prospects. A lower minimum wage for adolescents without training, as well as for trainees and interns, is therefore reasonable if the skills acquisition clearly has priority. Moreover, a temporary exception for the long-term unemployed makes sense in the first phase after they reenter employment to prevent the minimum wage from becoming a permanent hiring obstacle.

Interim arrangements

On the one hand, the interim arrangements that are planned for wage agreements may alleviate the impact of the nationwide minimum wage as some employees will reach the minimum wage through regular wage increases. Some of the existing sectoral minimum wages are

“Research findings are not unanimous, but evidence from many countries suggests that minimum wages reduce the jobs available to the low-skilled. In addition, there is little compelling evidence that minimum wage laws are effective at redistributing income to low-income families.”



David Neumark
(University of California-Irvine)

“We need to make sure institutionally that the focus of the minimum wage will be to provide a bottom to wage formation – i.e., a labor market instrument and not an instrument of income policy and redistribution.”



Wiemer Salverda (University of Amsterdam)

“Taxes and subsidies are more effective than the minimum wage to reduce income inequality.”



Pierre Cahuc (Ecole Polytechnique, Paris)

expected to approach 8.50 euros by January 2017, which indicates that employers are already starting to react to the statutory minimum wage. Especially in sectors like the hairdressing business, the meat industry, industrial cleaning and temporary work, newly introduced and uprated minimum wages can already lead to operational adjustments, higher prices, and reduced employment. This foreshadows the effects of a higher minimum wage to some extent.

Circumvention and evasion

Monitoring compliance with the minimum wage poses a serious challenge. Both employers and employees in certain sectors and professions can be expected to come up with creative ways to bypass the minimum wage regulations. An obvious way would be to work unpaid hours, or to pay employees in cash for extra work. Firms and workers could also agree on piece rates or work contracts with formal self-employment. For example, some hairdressers already work as formally self-employed so that the minimum wage does not apply to them. In these cases the minimum wage may even worsen the working conditions for certain labor market groups instead of improving their income and social protection as intended.

Challenges for evaluation

A systematic and independent evaluation of the minimum wage is vital, not only concerning the direct employment and distributional effects, but also with regard to broader consequences for the business cycle, employment dynamics, effects for higher income groups, as well as evasion and circumvention. It certainly makes sense to already observe the anticipatory effects prior to the implementation of the statutory minimum wage and evaluate them in terms of wage structure and employment.

The key challenge for reliable evaluation studies lies in the improvement of the data basis. This would allow more precise definitions of program and control groups, and an analysis of the effects of minimum wages on hours worked.

In addition, more refined control groups are an important advancement in minimum wage research. The nationwide introduction of a general minimum wage prevents quasi-experimental evaluation approaches. Nonetheless, valuable insights can be gained by more precise definitions of control groups or by systematically comparing several different control groups. The variation of the approaches could indicate to what extent heterogeneous, industry-specific trends influence the outcomes. Another option is the establishment of synthetic control groups. Also, the lagged adjustment of minimum wages in specific sectors can be useful for evaluation research purposes.

However, the greatest potential for future minimum wage research lies in addressing additional research questions beyond the

immediate short-term effects on employment: What is the impact on long-term trends in employment and wages? This implies the analysis of dynamic changes in the level of employment and wages, corporate workforces, labor demand, particularly the creation of new jobs, or the quality of employment. Moreover, it would be interesting to see how the statutory minimum wage affects the wage distribution above the minimum wage threshold. Such studies require methods that account for dynamics like job mobility in different dimensions.

Outlook

While international experiences can point at possible effects of the proposed minimum wage, they cannot forecast the precise impact on the German labor market. The available evaluation studies of existing sectoral minimum wages in Germany offer few reliable insights. Calculations based on micro simulations, however, arrive at clearly negative employment effects. Therefore, the introduction of a nationwide minimum wage is a labor market policy experiment with unknown

“The minimum wage should not be automatically indexed on inflation and growth, but its level should be discussed by a minimum wage committee that should make a proposal to the government every year.”



Etienne Wasmer (Sciences Po, Paris)

“The suppression in the late 90’s of the separate minimum wage for Spanish youth was a mistake. It provides the wrong signal to adolescents, who may be induced to leave the schooling system prematurely, and it may be a hurdle in the fight against youth unemployment in Spain.”



Marcel Jansen (Universidad Autónoma de Madrid)

“Minimum wage setting should be an evidence-based process, preferably administered by an independent body that aims to raise the minimum wage so workers gain in wages and at the same time there is no harm to their employment.”



Stephen Machin (University College London)

outcomes. Given the high starting level of the minimum wage and the current structure of the labor market, significant consequences for employment can be expected particularly in areas that have contributed strongly to recent job growth, such as the service sector and part-time employment. Many small businesses and employers in East Germany will be forced to make significant wage adjustments. This will also affect employ-

ment and create incentives to circumvent minimum wages, e.g. by working unpaid overtime or shifting to work contracts based on formal self-employment.

It is vital for the further development in Germany to establish an independent evaluation of minimum wage regulations with regard to their direct and indirect effects, and to use these findings for future decisions to update the minimum wage.

As is common in other countries, young workers, trainees, interns, and long-term unemployed individuals should be exempt from the minimum wage, or subject to a lower minimum wage, in order to prevent them having to face additional labor market entry barriers.

In any event, the German minimum wage adventure will provide economic research with lots of material for new studies.

Patrick Arni, Werner Eichhorst, Nico Pestel, Alexander Spermann, Klaus F. Zimmermann

Kein Mindestlohn ohne unabhängige wissenschaftliche Evaluation

IZA Standpunkte No. 65

► <http://ftp.iza.org/sp65.pdf>

Haroon Borat, Ravi Kanbu, Natasha Mayet

The impact of sectoral minimum wage laws on employment, wages, and hours of work in South Africa

IZA Journal of Labor & Development 2013, 2:1

► www.izajold.com/content/2/1/1

David Neumark

Employment effects of minimum wages – When minimum wages are introduced or raised, are there fewer jobs? Global evidence says yes

IZA World of Labor 2014

Daniel S. Hamermesh

Do labor costs affect companies' demand for labor? The effect on companies of increasing labor costs and consideration of overtime, payroll taxes, and labor policies on companies' product output and a country's GDP

IZA World of Labor 2014

David N. Margolis

Introducing a statutory minimum wage in middle and low income countries – Successful implementation of a statutory minimum wage depends on context, capacity, and institutional design

IZA World of Labor 2014

Klaus F. Zimmermann

Der Mindestlohn ist die Axt am Reformmodell Deutschland

in: Der Hauptstadtbrief Nr. 118 (2013), p. 28-32.

IZA Conference: Minimum Wage – Learning from European Experiences

In the midst of the hot political debate surrounding the introduction of the minimum wage in Germany, IZA held an international conference in Berlin on March 20, 2014, gathering experts from all over Europe to draw lessons from the experiences with the minimum wage in other countries. The conference was organized by *Werner Eichhorst*, IZA Director of Labor Policy Europe, and IZA Director *Klaus F. Zimmermann*.

The first part featured a policy discussion, moderated by economics journalist *Ursula Weidenfeld*, with representatives from political parties, unions and employer associations. *Brigitte Pothmer*, the Green Party's labor market expert, stated that a statutory minimum wage is needed to counter the growing trend towards "wage dumping" and to protect the large group of workers who are not covered by sectoral minimum wage agreements. The Left Party's representative *Klaus Ernst* called for an even higher minimum wage of 10 euros in order to enable workers not only to make a living without supplemental benefits but also to save for retirement. *Micha Heilmann* (Food, Beverages and Catering Union) expected the minimum wage to even strengthen the power of unions, whereas *Reinhard Göhner* (Confederation of German Employers' Associations) believed it



Zimmermann, Göhner, Gerster, Weidenfeld, Pothmer, Heilmann, Ernst

would limit the scope of bargaining partners. He warned that the minimum wage would drive many firms to go abroad or out of business, and that it would be detrimental for the most vulnerable labor market groups, such as low-skilled and long-term unemployed individuals. *Florian Gerster*, former head of the Federal Employment Agency, pointed at immense difficulties in monitoring compliance with the minimum wage in such sectors as the restaurant industry. IZA Director Zimmermann underscored the dangers of circumvention and deplored

that the current legislative bill contains no provision of independent scientific evaluation of the direct and indirect effects of the minimum wage. There was a consensus among the discussants that exemptions should apply to young workers, although some found the currently planned age threshold of 18 years too low.

The afternoon was devoted to three panels with top economists from various European countries. *Carlos Vacas Soriano* (Eurofound, Dublin) presented results

from a research project that evaluated a hypothetical European minimum wage. The analysis by *Tito Boeri* (Bocconi University and IZA) of between-country differences in minimum wage setting regimes (government vs. collective bargaining) revealed that minimum wage levels set by collective bargaining tend to be higher than government-legislated minimum wages. *Pierre Cahuc* (Ecole Polytechnique and IZA) gave insights into the minimum wage in France, which is comparatively high and set by the government each year. He stressed that massive wage subsidies are needed to avoid negative employment effects and concluded that there are more efficient ways to redistribute income.

The second panel focused on the Spanish, British, and Dutch experiences. Regarding the minimum wage in Spain, *Marcel Jansen* (Universidad Autónoma de Madrid and IZA) reported a negligible effect on adult employment and a moderate negative effect on youth unemployment. Employers seemed to adjust along other lines, such as an increase in part-time contracts and the informal sector. Jansen argued in favor of reintroducing an age-group differential in the minimum wage legislation to prevent youth from dropping out of education or training. As a member of the Low Pay Commis-

sion in the UK, *Stephen Machin* (University College London and IZA) explained how the nine independent members give evidence-based recommendations to the government for adjusting the minimum wage. The success of the British minimum wage in generating wage growth for workers without harming employment was also due to a rather low starting level and moderate adjustments, including decreases during economic downturns. *Wiemer Salverda* (University of Amsterdam) described the Dutch experience with a statutory minimum wage. There appears to be a long tail of youth minimum wages down to very low wage levels and a high incidence of part-timers receiving the minimum wage. He explained that the minimum wage is a blunt instrument for redistribution and minimum wage policy should focus again on its role as a labor market instrument to enhance productivity and the quality of production.

The last panel was about drawing lessons for the design and evaluation of minimum wages. *Etienne Wasmer* (Sciences Po, Paris and IZA) called for a flexible adjustment mechanism instead of indexing the minimum wage on inflation or growth. He also argued in favor of sector-specific rather than national minimum wages and stressed the need

for better European coordination. *Peter Dolton* (University of Sussex and IZA) proposed installing an independent commission like in the UK and explained that a national minimum wage should always start out at lower level than what is considered optimal. In the German case, he viewed the strong regional labor market differences as problematic. *Bernd Fitzenberger* (University of Freiburg and IZA) presented findings from evaluations of Germany's sectoral minimum wages and described the methodological challenges associated with measuring the long-term and structural effects of minimum wages. He agreed that a minimum wage should start at a low level and be increased gradually on the basis of sound scientific evaluation.

Alexander Spemann, the new IZA Director of Labor Policy Germany, summed up the findings of the day and pointed out that the German minimum wage reform will coincide with a pension reform that is expected to cause additional job losses.

For more information, videos and pictures of the conference go to:

► www.iza.org/link/MW2014

EU Enlargement and the Labor Markets

6th IZA/ASE Workshop in Bucharest

The EU enlargement rounds in 2004 and 2007 triggered a major migration wave from the new to the old member states. IZA has been at the forefront of analyzing the consequences of this remarkable event for the labor markets in the sending and receiving countries, resulting in two edited volumes, numerous discussion papers, and a series of workshops within the "EU Enlargement and the Labor Markets" research program of its Migration Program Area. This year, the 6th IZA/ASE workshop on EU enlargement and labor markets, organized by *Martin Kahanec* (Central European University, IZA and CELSI) and *Monica Roman* (Bucharest University of Economic Studies, ASE) took place in Bucharest. The workshop brought together researchers, policymakers and experts with an interest in Eastern and Southeastern European labor markets at a two-day event.

Almost 10 years after the first enlargement round, labor mobility in Europe remains an important item on the EU policy agenda. In January 2014, the transitional arrange-

ments with Romania and Bulgaria has expired, allowing workers from these countries to take up jobs in any EU member state. A number of countries in Eastern Europe have signed an association agreement with the EU, and some of them hold the status of a candidate country. Moreover, the European Commission is discussing temporary migration frameworks with the countries participating in the EU's Eastern Partnership (EaP) initiative. The negotiations about the association agreement with Ukraine, the largest of the EaP countries, are currently making headlines in Europe and beyond. These are the considerations that underscore the need for a better understanding of East-West migration patterns, and generally the labor market issues in Eastern and Southeastern Europe.

The event was opened with the Romanian launch of the International Handbook on the Economics of Migration (see IZA Compact, October 2013, for details on the book). IZA Director *Klaus F. Zimmermann* highlighted the relevance of the handbook

for the new and prospective EU Member States, in particular with regard to the chapters on circular migration, the migration of health professionals, educational mismatch, and on diaspora policy. *Martin Kahanec*, author of the chapter on labor mobility in an enlarged EU, gave an overview of the most important findings. He emphasized the potential of migration as a macroeconomic adjustment mechanism, and the role of migrants from the new Member States in enhancing efficiency in EU labor markets.

The first session presented frontier research on labor mobility in the EU, and the impact of emigration on the sending countries. *Benjamin Elsner* (IZA) summarized the current state of knowledge on the effect of emigration on labor markets in the sending countries, and identified future research questions in this area. Based on his research on Lithuania, he showed that emigration can lead to significant wage increases, especially for young workers. Young workers that stayed behind become

a more scarce resource on the labor market, and they cannot be easily replaced by old workers, resulting in economically and statistically significant wage increases for younger workers. A future research agenda on the effects in the sending countries could go beyond employment and wages, and rather look at the impact of emigration on firms, families, schools, and public amenities.

Labor mobility in the EU can serve as a macroeconomic adjustment mechanism, which is particularly important in light of the economic crisis in Europe. *Anzelika Zaiceva* (University of Modena and Reggio Emilia and IZA) showed that migrants from the new Member States are indeed very responsive to economic shocks. Drawing on a variety of European data sources, her findings suggest that migrants are more likely to return if the economy of the host country is in a recession. However, in many cases the return is not permanent, as returnees express the intention to move again once the economy picks up. These are important pieces of evidence with regard to emerging circular migration patterns in Europe.

Besides the Eastern enlargement rounds in 2004 and 2007, the EU has entered partnership agreements with countries east of the EU in order to foster their economic development, regulate migration flows from these countries, and give the countries a long-term perspective of EU membership. *Martin Kahanec* presented the results of recent IZA Research Reports No. 55 and No. 56, outlining the labor market effects of migration from the Eastern partnership countries, and evaluating future migration flows from this area. This strand of research shows that the labor market effects of migration from the Eastern partnership countries were limited due to the relatively small size of these migration flows, but overall rather on the positive side, whether at the country or EU level. Projections of future migration flows indicate that a full or partial lifting of the barriers to migration would lead to moderately increased migration flows, with the effect of liberalization tapering off after a few years. Simulations of the economic impacts of future migration flows predict positive effects on GDP (also per capita), dampening effects on inflation, and rather negligible effects on unemployment.

The following sessions were devoted to country studies by local experts from Central and Eastern Europe. *Rossitsa Rangelova* (Bulgarian Academy of Sciences) described the large emigration wave from Bulgaria. Currently, around 10 percent of the Bulgarian population is living abroad, and this

number is expected to grow in light of the free mobility in the EU as of 2014. Especially the number of college students abroad has increased dramatically in the last years. Contrary to other sending countries in the area, Bulgarian policymakers recognize the potential of emigration for the development of the country through remittances, knowledge transfers, and return migration.

Dumitru Sandu (University of Bucharest) reflected upon emigration from Romania. He highlighted the complexity of Romanian migration processes, with Romanians going to more than 50 destination countries.



Data limitations make it very hard to study the drivers of migration from Romania. Based on the existing evidence, however, he showed that migration networks are very important in explaining the location choice and skill selection of migrants.

Hanna Vakhitova (Kyiv School of Economics) pointed out the current challenges on the Ukrainian labor market. The transition process in Ukraine has slowed down, and the global crisis had a strong negative effect on the Ukrainian economy, leading to a large degree of skills mismatches and wage arrears in many sectors. These developments make it very difficult for the government to encourage return migration from the large Ukrainian diaspora; rather, emigration from Ukraine continues. Russia has been the traditional destination country for Ukrainians, but recently emigration of high-skilled specialists to Germany has increased considerably.

The third session was devoted to prospective EU members and their experience with emigration. *Verica Janeska* (University of SS. Cyril and Methodius) presented the current situation in Macedonia. Since the onset of the transition process, the country has gone through difficult times, with high youth unemployment, severe skill mismatches on the labor market, and substan-

tial emigration to Western Europe. In this climate, designing an effective migration policy is a difficult task as it requires the careful weighting of the gains from remittances against the costs of a brain drain.

One of the most remarkable emigration episodes in Europe has been going on in Albania. *Kosta Barjaba* (European University of Tirana) presented a broad picture of the drivers of migration flows from Albania, and the potential impacts of Albanian migration on the receiving countries. While the yearly emigration rate remains almost constant, the skills of Albanian emigrants

have deteriorated over the last few years. Nevertheless, emigration has been mostly a positive experience for the country. Remittances are very important for investment in education and for business creation. These positive channels are fostered by recent seasonal migration agreements with Greece and Italy, which grant Albanian workers easy access to temporary work visas.

Finally, *Georgeta Mincu* (CASE) presented the current situation in Moldova. Moldova is an interesting case, as it has longstanding seasonal migration agreements with several EU countries, and it is one of the main recipients of remittances in the region, due to its relatively large stock of migrants in the EU. While there is significant down-skilling of migrants in their respective destination countries, there is little evidence of a brain drain from Moldova according to Mincu.

The event was concluded with a panel discussion that elaborated on the lessons from the migration experience in South-eastern Europe. *Valentina Vasile* (Institute of National Economy) delivered the keynote speech, highlighting the important role of emigration for the development in the region. Rather than seeing emigration as a threat, countries should consider emigra-

tion as an opportunity for economic development. For Romania, emigration has been particularly beneficial as it enhanced business creation, investment in education, and led to poverty relief.

Four panelists elaborated on some of the arguments raised in the keynote, complementing it with further policy insights. While the overall picture of East-West mobility appears to be optimistic, measuring migration flows and their effects is difficult due to data limitations. *Nicoleta Caragea* (National Institute of Statistics) presented the latest data collection effort by the Romanian statistical office, which combines migration data from several countries to provide a better picture of current migration flows from Romania. A first glance at the newly created statistics shows a sharp increase in emigration from Romania since the country's EU accession.

A severe problem in all countries of the area is emigration in combination with skills shortages in specific sectors. As shown by *Cristina Boboc* (ASE and Institute of National Economy), emigration of health workers from Romania is a big problem for the health sector, and imposes substantial externalities on the health of the Romanian population.

Dorel Parashiv (ASE) highlighted the large potential of student migration. If students get the chance to study abroad for a year, they acquire knowledge that has a long-lasting impact on the Romanian economy. For this reason the Romanian government actively supports academic exchange programs.

Rossitsa Rangelova (Bulgarian Academy of Sciences) pointed out the challenges in Bulgaria, arguing that emigration has exacerbated

the country's demographic problems. In the last 20 years, Bulgaria has experienced low birth rates and an increase in life expectancy, leading to a sharp increase in the old-age dependency and imposing a burden on the pension system. The emigration of young workers makes this problem even worse.

In his closing remarks, IZA Director Zimmermann emphasized the importance of bringing together experts from the new, old, and prospective EU member states, in order to understand the current challenges of labor markets in Europe and to advise policymakers on strategies that foster a single European labor market and benefit all parties involved.

The presented papers are available online:

www.iza.org/link/EUEnlargement2013

Luca Barbone, Martin Kahanec, Lucia Kureková, Klaus F. Zimmermann

Migration from the Eastern Partnership Countries to the European Union – Options for a Better Future

IZA Research Report No. 55

www.iza.org/files/report55.pdf



Martin Kahanec, Klaus F. Zimmermann, Lucia Mytna Kureková, Costanza Biavaschi

Labour Migration from EaP Countries to the EU – Assessment of Costs and Benefits and Proposals for Better Labour Market Matching

IZA Research Report No. 56

www.iza.org/files/report56.pdf



Immigration may decrease inequality

Heated debates surround the economic effects of immigration in receiving countries. Research has shown that fears about competition for jobs or welfare are misguided, as immigrants contribute to receiving countries' GDP (also per capita), employment rate, public budgets, or cross-border trade and business relationships; and immigrant entrepreneurs directly create jobs.

Much less is known, however, about the effects of immigration on inequality. This is because these effects are complex, as immigration changes the composition of the host population, may affect the distribution of wages or rents, and its effects may also be channeled through a behavioral response of natives or policy adjustment.

A new study by IZA Director *Klaus F. Zimmermann* and *Martin Kahanec* (CEU and IZA) published in the *IZA Journal of Migration* shows that skilled immigration increases the quality of the labor force, which in turn leads to a lower measure of inequality, the Gini coefficient, in receiving countries. The argument is supported by a theoretical model and empirically tested using data for the countries from the World Income Inequality database and OECD. The authors show that these effects are independent of a range of economic and demographic variables, such as GDP per capita, unemployment and participation rates, government size, or share of working age population. The authors conclude that immigration may decrease inequality in receiving countries.

Download the article (open access) at:

www.izajom.com/content/3/1/2

Fostering Research on the Chinese Labor Market

In recent years, IZA has been very active in fostering research on Chinese labor markets by organizing workshops and conferences, making China data and scientific use files publicly available to the scientific community, publishing articles and editing journal issues, and leading an EU-funded exchange of researchers between Europe and China.

IZA/CIER Workshop in Beijing

The traditional annual workshop co-organized by IZA and the Center for Employment Research in China (CIER) at Renmin University of China was held in Beijing on October 26-27, 2013. The

program was put together by *Corrado Giulietti* (IZA), *Klaus F. Zimmermann* (IZA and University of Bonn), *Zhong Zhao* and *Xiangquan Zeng* (both at Renmin University of China and IZA). It featured sessions on labor economics themes that are at the core of both research and policy debate in China. *Shi Li* (Beijing Normal University and IZA) and *Simon Chang* (Central University of Finance and Economics) presented their recent works on the relationship between the business cycle and its effect on the wage distribution. A session on human capital included presentations by *Yang Du* (Chinese Academy of Social Sciences and IZA) and *Costanza Biavaschi* (IZA), who covered schooling

dynamics and performance in rural and urban areas. The studies presented by *Shihe Fu* (Xiamen University) and *Junfu Zhang* (Clark University and IZA) covered issues related to urbanization and agglomerations.

A session was devoted to presenting works related to labor market institutions, with contributions from *Hartmut Lehmann* (University of Bologna and IZA), *Yang Song* and *Yihua Yu* (both at Renmin University of China). *Albert Park* (Hong Kong University of Science & Technology and IZA) and *Qi Sun* (Shanghai University of Finance and Economics) discussed the health effects of public expenditure and

taxes, respectively. The presentations by *Luigi Minale* (University College London) and *Jackline Wahba* (University of Southampton and IZA) focused on explaining the dynamics behind the rural-urban migration in China. *Jun Han* (Nankai University) and *Hau Chyi* (Renmin University of China) outlined their work on how, respectively, market structure and the task content of jobs can affect workers' and households' welfare.

The final session involved the presentation of data on China, with contributions from Zhong Zhao, who provided highlights from the piloting of the China Matched Employer-Employee Longitudinal Survey carried out by the Renmin University of China, from *Tao Kong* (Peking University), who gave an introduction about the China Health and Retirement Survey (CHARLES) conducted by Peking University, and from Corrado Giulietti, who illustrated the content and features of the Rural-to-Urban Migration in China (RUMiC) dataset.

The papers are available online:

www.iza.org/conference_files/CIER2013

CES Session at ASSA Meeting in Philadelphia

Following the event in Beijing, a conference session entitled "Labor market issues in China: Evidence from the RUMiC Longitudinal Survey" was organized by IZA for the Chinese Economists Society at the ASSA Meeting in Philadelphia in January 2014. Chaired by IZA Director Klaus F. Zimmermann, the session featured four papers based on RUMiC data. The introductory paper was presented by Corrado Giulietti, who outlined how the RUMiC Longitudinal Survey fosters re-

search on labor markets in China. The paper provides a description of the survey, its structure, sampling frame and tracking method, and provides an overview of the topics covered, and a review of existing studies based on the RUMiC data. *Li Shi* (Beijing Normal University) presented work on the international financial crisis and wage inequality in urban China. The paper uses the Urban Household Survey of the RUMiC to investigate the effect of the government stimulus package, introduced by the Chinese government right after the 2007/8 international financial crisis, on wage growth and inequality. The findings indicate that the stimulus policies contributed to narrowing wage inequality in urban China. However, as the impact of the policy started to fade around 2010, wage inequality was observed to rise again.

Zhong Zhao presented a paper on labor contracts of Chinese rural-to-urban migrants, using the RUMiC Migrant Household Survey to explore the determinants of the type of labor contract of the migrants and how these determinants have changed in recent years. Preliminary results show that there is a considerable increase in the share of long-term labor contract among migrants, albeit migrants are less likely to hold long-term contracts compared with urban natives. Furthermore, while work experience is helpful to obtain long-term labor contracts, education seems to play a minor role. Costanza Biavaschi presented findings from her study highlighting the importance of the effects of parental migration on the educational outcomes of children left behind by focusing on sibling interactions. Empirical results show that sibling influence on schooling performance is stronger among left-behind children.

RUMiC data:

Second wave publicly available

The second wave of the RUMiC data is now available at the International Data Service Center (IDSC) of IZA. The RUMiC consists of three components: the Urban Household Survey, the Rural Household Survey and the Migrant Household Survey. It was initiated by a group of researchers at the Australian National University, the University of Queensland and the Beijing Normal University and has been supported by IZA, which provides the Scientific Use Files. RUMiC is a unique tool to explore topical issues of the Chinese labor market. A recent paper (IZA DP No. 7860) illustrates the technical aspects of RUMiC, including its sampling frame, tracking method and the topics covered. RUMiC data can be requested at:

<http://idsc.iza.org/?page=27&id=58>

Mehtap Akgüc, Corrado Giulietti, Klaus F. Zimmermann

[The RUMiC Longitudinal Survey: Fostering Research on Labor Markets in China](#)

IZA Discussion Paper No. 7860

ftp.iza.org/dp7860.pdf



"Europe Meets China"

During 2012 and 2013, IZA led the exchange program "Europe Meets China: Images of contemporary China" financed under the EU FP7 Marie Curie Actions. The program consisted of exchanges of researchers between IZA, CERGE and Renmin University of China. As part of their international visits, researchers fully participated in the activities of the host institutions, such as seminars, lectures and workshops, and actively collaborated in joint research projects. "The exchange was a great opportunity for European scholars to learn more about labor market issues that are peculiar to China, and for Chinese scholars to interact and exchange knowledge on labor issues with their European peers," said IZA Research Director Corrado Giulietti, who coordinated the activities. The exchange has also generated new project ideas and provided the basis for current collaborations between IZA and other Chinese institutions, including Beijing Normal University and the Institute for Population and Labor Economics at the Chinese Academy of Social Sciences.



Free Trade: Key to Growth and Employment? Friedrich Merz at IZA Tower Talk

The negotiations between the United States and Europe on the Transatlantic Trade and Investment Partnership (TTIP) are entering the decisive phase. If the proposed agreement is enacted, it will create the world's largest free trade area, covering 800 million people living in countries with a combined GDP of close to 32 trillion dollars.

What are the economic and political opportunities that arise from such an agreement, and what are the risks associated with it? IZA Director *Klaus F. Zimmermann* discussed these questions with the chairman of the Atlantik-Brücke, *Friedrich Merz*, and the CEO of the local chamber of commerce (IHK Bonn Rhein-Sieg), *Hubertus Hille*, at the IZA Tower Talk on February 17, 2014. Several hundred guests witnessed a lively and spirited debate.

Merz explained that the agreement offered the U.S. and Europe the chance to jointly set the global standards and industrial norms for future technological innovations, the thereby significantly influencing future global economic strategies. He also regarded the project as a political test case that will show whether Europe and the United States are still able to act together on the global stage. If the negotiations fail, the U.S. would presumably turn to even closer cooperation with the Pacific region.

Merz acknowledged that the European Commission is striving for transparency and involves important stakeholders in society in the preparations of negoti-

ating positions. However, the Europeans still have a great deal of homework to do in terms of establishing a common position on several controversial issues vis-à-vis the United States. At the same time, Merz refuted concerns that the agreement will lead to a lowering of European standards when it comes to such issues as food safety and genetic engineering – as long as market access for genetically modified foods from the U.S. will be regulated in a transparent manner and labeled accordingly to ensure that consumers are able to make informed choices.

IZA Director Zimmermann underscored that this is the last chance for the transatlantic partners to coordinate their economic interests more effectively than in the past: “If the project is successful, it could set the standard for a new global economic order, given the multitude of bilateral negotiations on free-trade agreements already going on around the world.” Zimmermann and Merz agreed that international politics in the wake of the economic and financial crisis have been marked by government intervention, regulation and protectionism, which could now see a trend reversal towards open markets and a more liberal economic order. But this will depend on



Klaus F. Zimmermann, Hubertus Hille



Friedrich Merz

a successful outcome of the transatlantic trade negotiations.

In the discussion moderated by *Kai Pfundt* (General-Anzeiger Bonn), *Hubertus Hille* commented on the opportunities for medium-sized local businesses. Recent surveys show that most firms do not primarily see the potential advantages resulting from tariff reductions, but they are more eager to explore new sales opportunities arising from the harmonization of standards and thus facilitated market access. Then again, according to Hille, most enterprises do not yet have any concrete strategies what they will do if the free-trade agreement is reached. Like Hille, Zimmermann expressed considerable skepticism whether the negotiations will succeed in the near future. Merz was more optimistic, but conceded that the chances of success will decline if the negotiations are not completed until the end of Obama's second term.

In his closing statement, Zimmermann stressed that the negotiations on free trade must also deal with free movement of labor. “Ultimately, effective free trade is impossible without open and mobile labor markets. Cross-border mobility of workers offer an even greater economic growth potential than the removal of classical trade and investment barriers,” Zimmermann explained.

IZA/DFID/AERC Conference in Nairobi Evidence and Policy Lessons from Training Programs

Commissioned by the United Kingdom Government Department for International Development (DFID), IZA set up the “Growth and Labour Markets in Low Income Countries Programme” (GLM-LIC) in 2012. GLM-LIC is targeted at addressing an important gap in research, and focuses on various labor markets issues in low income countries (LICs). Over a period of five years, promising research and capacity building activities in the field are selected for funding with

the overall objective to improve the understanding of labor markets in LICs and their relevance for economic growth, and to help local decision makers with the design and implementation of labor related policies.

In addition to producing various publications, GLM-LIC also hosts a number of workshops and conferences. In December 2013, a joint conference with the African Economic Research Consortium (AERC)

was held in Nairobi, Kenya, to provide evidence and policy lessons from training programs in African labor markets. The conference brought together academic researchers, policy makers, and representatives of governmental and non-governmental organizations involved in training programs in various African countries. Lessons were drawn from the design, implementation, and evaluation of such programs.

After an introduction by *David Lam* (University of Michigan and IZA Program Director for GLM-LIC) and *Witness Simbanegavi* (Director of Research, AERC) the first presentation by *Markus Goldstein* (World Bank) reported on his experience with evaluation programs in Africa and stressed the importance of rigorous evaluation. *Pamela Jakiela* (University of Maryland), *Mwangi Kimenyi* (Brookings Institution), and *Isaac Mbiti* (Southern Methodist University) also shared their recent experience with projects involving the evaluation of skill training programs in Africa.

The policymakers' perspective on training programs was provided by *Dan Baffour-Awuah* (former Executive Director, Ghana Council for Technical and Vocational Education and Training), *Ehud Gachugu* (Proj-

ect Director, Kenya Youth Employment Project), and *Stephen Okello* (International Rescue Committee Kenya). A panel discussion involving *Germano Mwabu* (University of Nairobi), *Mwangi Kimenyi* (Brookings Institution), *Alice Githu* (Directorate of Youth Affairs, Kenyan Ministry of Devolution and Planning) and Markus Goldstein summed up the findings from skill training programs in Africa and discussed the different methods of evaluation.

IZA/DFID/AERC short course on the evaluation of training programs

In conjunction with the conference, GLM-LIC also organized a short course on evaluation of training programs. It was designed for postgraduate students, faculty members, and researchers in government

and non-governmental organizations who wanted to develop their skills in the evaluation of training program using the latest econometric methods. The course consisted of four half-day sessions that covered the following topics: design and analysis of randomized controlled trials in training programs; propensity score matching methods; difference-in-difference estimators; regression discontinuity designs. In line with the conference, the main focus of the course was on the application of econometric methods to the evaluation of skills training programs, especially in Africa. *Isaac Mbiti* (Southern Methodist University), *Marco Caliendo* (University of Potsdam and IZA), *Pamela Jakiela* (University of Maryland), *Owen Ozier* (World Bank) served as instructors for the group of about 40 students.

IZA Young Labor Economist Award Presented in Philadelphia

At the traditional IZA reception during the Annual Meeting of the Allied Social Science Associations (ASSA), held in Philadelphia in January 2014, IZA Director *Klaus F. Zimmermann* and Research Director Corrado Giulietti presented the 2013 IZA Young Labor Economist Award to *Martha Bailey* (University of Michigan), *Brad Hershbein* (Upjohn Institute) and *Amalia Miller* (University of Virginia) for their article “The Opt-In Revolution? Contraception, Fertility Timing and the Gender Gap in Wages” (American Economic Journal: Applied Economics, 2012, 4 (3), 225-254).

The award-winning paper is a prime example of how careful empirical research can enhance our understanding of the functioning of labor markets. The paper starts out from a classic and long-standing puzzle in labor economics – the gender wage gap and the question what determines whether the gap widens or declines. The paper then comes up with a creative and original hypothesis about a potential driver of the wage gap. Finally, the authors combine a large amount of data from various sources to convincingly show that their hypothesized mechanism is actually empirically relevant.

The puzzle to be explained is why the gender wage gap, after being relatively stable for about 30 years, declined rapidly and substantially in the 1980s. The authors hypothesize that the introduction of “the Pill” played an important role in this reduction. Oral contraception could be relevant for women’s life-time earnings, for instance, because it changed women’s incentives to invest in education, it allows them to accumulate more labor market experience,

and it could change the type of jobs that women select into.

To test the influence of the Pill on the gender wage gap, the authors follow a sample of U.S. women who were born in 1943-1954 and who were interviewed by the National Longitudinal Survey of Young Women at several points in time from 1968 onwards. Some of these women lived in U.S. states where legal access to the Pill under age 21 was introduced earlier than in other states. The authors use these differences in early legal access to test whether and why the Pill really had a causal impact on the women’s labor market experience.

The paper demonstrates that early legal access had indeed a dramatic impact on several important outcomes in the lives of these women. In particular, the authors show that women who had early legal access to the Pill were more likely to be enrolled in school in their early 20s and had reached higher levels of education at age 25. Consistent with greater school enrollment, these women had lower labor force participation rates and work hours in their early 20s, but they worked more afterwards, so that by their early 40s they had cumulated higher levels of work experience. Women with early legal access also received more formal job training and were more likely to work in professional occupations and in jobs that were traditionally

“non-female occupations”. Their greater human capital investments and higher labor market participation led to steeper wage profiles and higher overall wages. By age 50, those women with early legal access to the Pill earned as much as 8 percent higher hourly wages.

The authors also go on to explore the precise mechanisms behind these overall effects. Interestingly, they find that effects



Hershbein, Zimmermann, Bailey, Giulietti, Miller

of the Pill on work experience and life-cycle wages are largest for women in the middle of the IQ distribution. This suggests that the narrowing of the gender gap in the 1980s can be traced back to a revolution in the flexibility and family planning possibilities that the Pill brought about, and that allowed these women to “opt into” the labor market and have well-paid jobs.

In sum, the paper provides important new insights on the reasons behind the observed trends in the gender wage gap. It also enhances our understanding of the links between fertility, education, and life-cycle wages, more generally.



Freedom in Danger: The End of European Integration?

The recent shocking vote of the Swiss people to re-introduce strict immigration quotas will primarily affect Western Europeans, most of all Germans and Italians. In line with numerous opinion polls from other European countries, the Swiss referendum shows that migration is one of the hottest political topics Europeans are currently concerned about. Many political strategists will therefore be tempted to use this issue to stir up emotions in the upcoming elections to the European Parliament.

The wide-spread distrust of the EU institutions is also a result of the failure to communicate that our wealth and strong social safety net is owed largely to the international division of labor and increasing economic integration.

It holds true, particularly for Europe, that more labor market mobility translates into better prospects for economic growth. At the ballot boxes in May, the citizens from 28 EU countries will have to decide whether to continue on this path. The newly elected European Parliament and the future European Commission should make it a top priority to develop a truly convincing and credible migration strategy. This will be one of the most vital tasks in the face of various ongoing economic and political challenges.



Klaus F. Zimmermann

This is why the fallout of the controversial referendum will extend far beyond the Swiss border. Apart from the threat it poses to many other agreements between Berne and Brussels, the vote also constitutes a fundamental test case. What is Europe's stance on freedom of movement? Free movement of people, goods, services, capital, information and opinions is the cornerstone of a liberal Europe united in a common market. A free and social Europe is not divided into first and second class citizens. The European idea is also about open, increasingly integrated labor markets. Eroding this principle essentially means giving up the whole concept of European integration.

“ We need clear rules on mobility that are fully applicable in practice, not just on paper. ”

We need clear rules on mobility that are fully applicable in practice, not just on paper. Existing uncertainties must disappear, not least to counter the mostly unfounded fears of welfare immigration. Some of the existing

regulations in this regard may be insufficient or too vague. It is also necessary to provide more support to integration efforts on the local level. Unless we manage to create a daily environment for the people of Europe to live together in harmony, the great European idea might soon be at the brink of collapse.

The European Union has no choice but to maintain a strong position in the negotiations with Switzerland, given the growing calls in many EU member countries to restore stricter limits on immigration. This will certainly be an issue in the upcoming European elections. Some parties will try to incite fears for obvious purposes. EU policymakers must therefore strongly advertise the idea of open borders and free labor markets in their campaigns.



Institute for the Study of Labor



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Web: www.iza.org
Graphics/Photographs: IZA
Printing: Güll GmbH, Lindau
Layout: Thomas Wasilewski, Benedikt Kliche