



IZA COMPACT

Shaping the Future of Labor

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May 2014

IZA World of Labor – Consult the Evidence New Online Resource for Policymakers Launched

A free, reliable and up-to-date information resource on labor market policy issues aimed at decision-makers worldwide is now available: IZA World of Labor. This innovative platform condenses relevant empirical findings for a non-academic audience. It is the first resource that provides expert know-how from evidence-based research on a variety of labor market topics in a clear and accessible style.

The mission of IZA WoL

Policymakers and business leaders are regularly faced with acute or systemic problems that call for immediate responses or that require far-sighted new approaches. While there is an abundance of scientific studies on almost any policy question, it is difficult for the policymaker to identify the most reliable analyses, particularly in cases where the findings are not unanimous. What is the most appropriate methodology for analyzing the available data? What are the shortcomings and caveats of existing studies? How do international findings compare?

This is where IZA World of Labor fills an important gap. By condensing evidence-based scientific knowledge in a readable style and

time-efficient format, it provides support and guidance to decision makers in identifying, evaluating and implementing the most appropriate policy option. And best of all, IZA World of Labor makes this knowledge freely accessible to a global audience.

IZA World of Labor addresses decision-makers worldwide, including cabinet members and other government officials, members of parliament and their research staff, representatives of employer associations and unions, staff members of NGOs and international organizations such as ILO, OECD, IMF and World Bank, as well as CEOs and senior managers. But the platform also caters to a wider audience including journalists, economics students and the interested public.



“The IZA World of Labor is an impressive resource platform containing important and much-needed policy prescriptions that decision-makers and other policy wonks would do well to consult.”

Solomon Polachek
(Binghamton University and IZA)

» In This Issue

IZA EVALUATION DATASET

The survey part of the IZA Evaluation Dataset, a unique resource combining administrative records and interviews, is about to be released for scientific use. [page 4](#)

GENDER CONVERGENCE

A recent IZA workshop held in Bonn analyzed why women are becoming more like men (and men more like women) in the labor market. [page 5](#)

IZA TOWER TALK

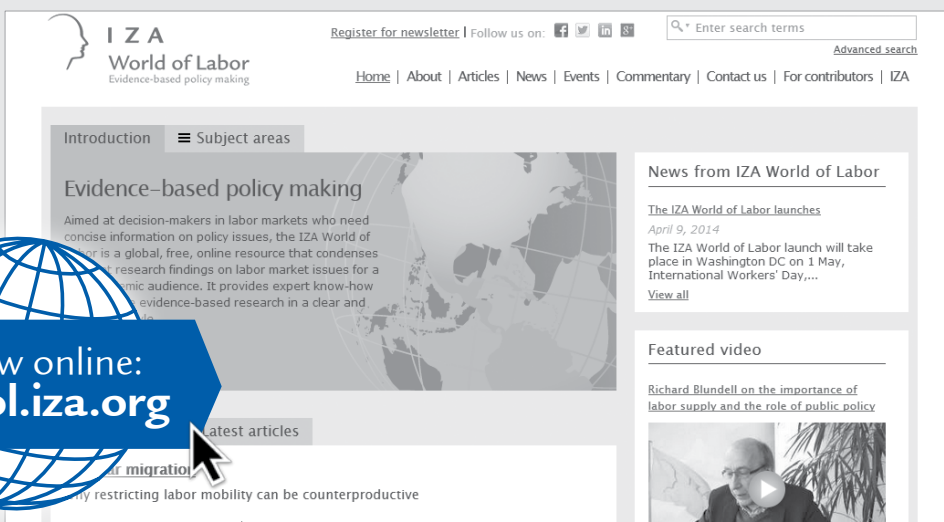
The role of women in the labor market was also discussed at the most recent IZA TowerTalk with Deutsche Post board member Angela Titzrath. [page 6](#)

INSIDE IZA

In an interview with IZA Compact, Max Tani answers questions about his career, his research, and his experience at IZA. [page 7](#)

OPINION

In his op-ed, Klaus F. Zimmermann calls for independent evaluation of Germany’s minimum wage. [page 8](#)



Unique features of IZA WoL


All IZA World of Labor articles are ten pages in length. The core of each article is the “one-pager” (▼), a condensed overview that informs the reader immediately about the relevance of the topic for policymakers (“elevator pitch”), the critical issues (“pros and cons”), and the key policy recommendations (“author’s main message”). These elements are supported by an intuitive, easy-to-understand chart. As a compact and highly readable summary, the one-pager can be viewed and downloaded separately from the rest of the article.

The remaining pages provide more details about the empirical evidence that supports the arguments put forth in the one-pager.

This includes an in-depth discussion of the pros and cons, the limitations and gaps of existing research, and a summary with a strong focus on policy advice. The article also provides the most relevant academic references and suggestions for further reading. Each full article and one-pager is available for free download as an innovatively designed, print-friendly PDF document.

The IZA World of Labor website contains e-mail and share features for social networks like Twitter, LinkedIn and Facebook. It provides links to related IZA World of Labor articles, lists previous versions and explains some of the technical terms and the historic background for each article. All IZA World of Labor articles will be listed in RePEc and Google Scholar, and are expected to be

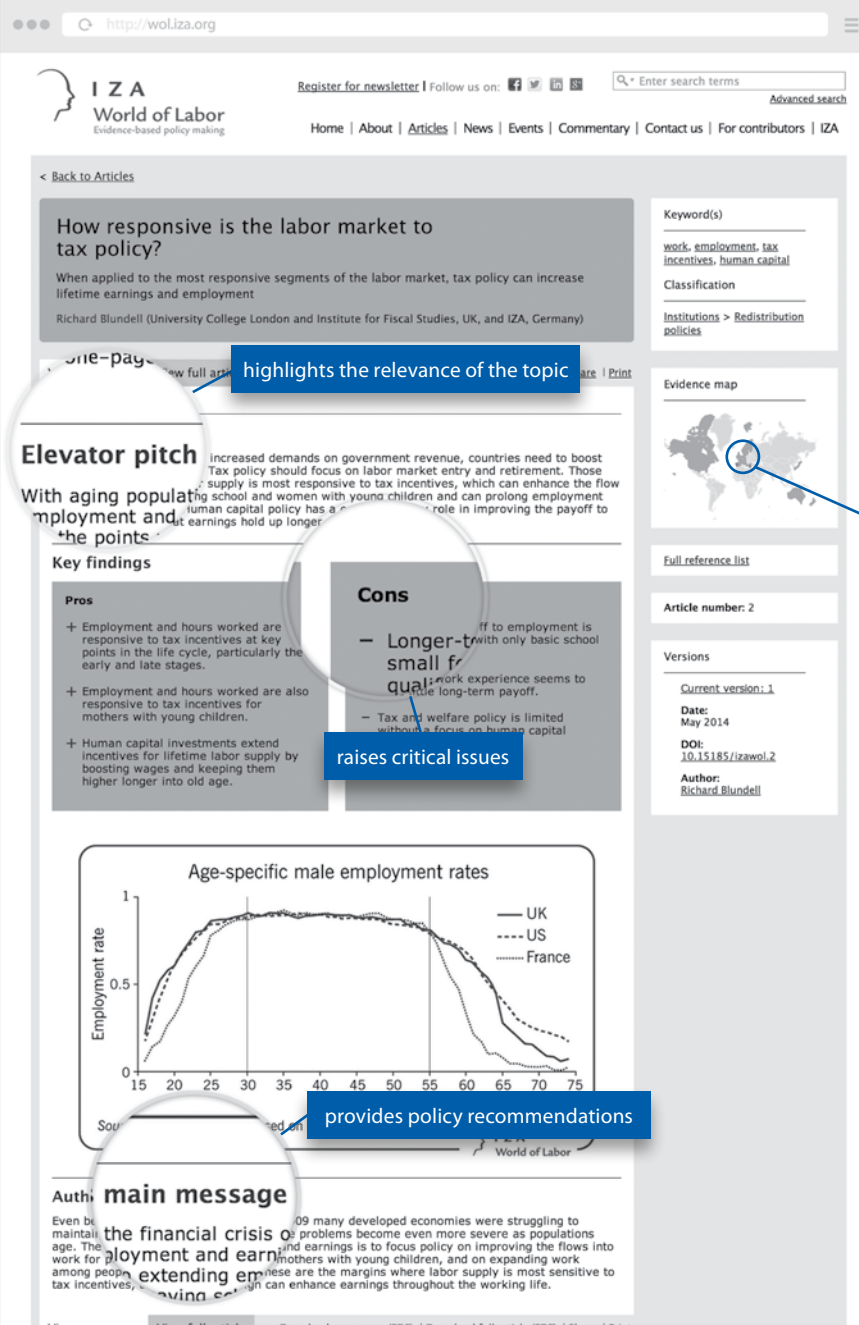
“I’m looking forward to seeing all the entries. The series will be a very useful way of making research findings broadly accessible and relevant to policy.”



Daniel S. Hamermesh
(University of Texas at Austin, Royal Holloway, University of London and IZA)

ranked by SSCI, Scopus, Summon, EconLit/EBSCO, and CrossRef.

Among the most innovative and unique features of IZA World of Labor is the “evidence map” (▼). Each article links to a world map that indicates where the empirical evidence comes from. This exclusive and pioneering element not only provides information on



http://wol.iza.org

IZA World of Labor Evidence-based policy making

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How responsive is the labor market to tax policy?

When applied to the most responsive segments of the labor market, tax policy can increase lifetime earnings and employment

Richard Blundell (University College London and Institute for Fiscal Studies, UK, and IZA, Germany)

one-pager | View full article | Download one-pager (PDF) | Download full article (PDF) | Share | Print

Highlights the relevance of the topic

Elevator pitch

Increased demands on government revenue, countries need to boost Tax policy should focus on labor market entry and retirement. Those supply is most responsive to tax incentives, which can enhance the flow of human capital policy has a role in improving the payoff to

With aging population employment and earnings hold up longer

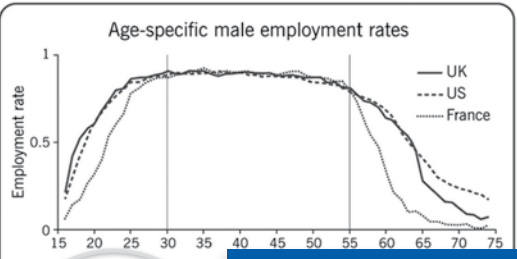
Key findings

Pros	Cons
<ul style="list-style-type: none"> + Employment and hours worked are responsive to tax incentives at key points in the life cycle, particularly the early and late stages. + Employment and hours worked are also responsive to tax incentives for mothers with young children. + Human capital investments extend incentives for lifetime labor supply by boosting wages and keeping them higher longer into old age. 	<ul style="list-style-type: none"> - Longer-term work experience seems to have long-term payoff. - Tax and welfare policy is limited without a focus on human capital

raises critical issues

Author's main message

Age-specific male employment rates




provides policy recommendations

Even before the financial crisis of 2009 many developed economies were struggling to maintain employment and earnings is to focus policy on improving the flows into work for mothers with young children, and on expanding work among people extending earnings are the margins where labor supply is most sensitive to tax incentives, which can enhance earnings throughout the working life.

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“I am delighted that this unique project will make evidence-based scholarly information available to a global audience, which is central to IZA’s mission. The complex interdependencies of an increasingly globalized world require a new form of analysis and explanation which the portal will provide.”



Klaus F. Zimmermann
(IZA and Bonn University)



indicates where the evidence is from

Commentary

Full reference list

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Author: Richard Blundell

W: 2054-9571

the academic research underlying each IZA World of Labor article, but also serves as a tool for assessing the reliability of the empirical foundation.

The people behind IZA WoL

The key responsibility for this cutting-edge project lies with *Klaus F. Zimmermann* (IZA and Bonn University), who serves as editor-in-chief, and *Alexander Kritikos* (DIW Berlin, University of Potsdam and IZA), who is the managing editor. *Olga Nottmeyer* (IZA) heads the project office and runs the daily operations. *Alessio J. G. Brown*, IZA's new Director of Strategy and Research Management, supervises the smooth functioning of the complex processes behind the scenes.

In addition to the core management team on the IZA side, each of the ten subject areas covered by IZA WoL – ranging from migration to demography, family and gender – is led by a renowned international expert on the subject (▶). These subject editors coordinate the articles within their areas of expertise and ensure quality control.

The authors of the IZA World of Labor articles are highly reputed researchers, many of them members of IZA's dynamic international network of about 1,300 economists. They include, for example, *Richard Freeman* (Harvard University and IZA), *Edward Lazear* (Stanford University and IZA), *Daniel Hamermesh* (University of Texas at Austin, RHUL and IZA), *Solomon Polachek* (Binghamton University and IZA), *Richard Blundell* (University College of London and IZA), *Gary Fields* (Cornell University and IZA) and *Robert Moffitt* (John Hopkins University and IZA).

IZA strongly encourages other scholars to contribute articles as well. IZA World of Labor not only offers the chance to assist and guide policymakers, but also provides an ideal platform for authors to present themselves and make their expertise accessible to a global audience outside of academia. Authors' pages provide biographic information including publication record and activities as

IZA World of Labor Subject Areas

- PROGRAM EVALUATION [Jan van Ours](#) (Tilburg University and IZA)
- BEHAVIORAL AND PERSONNEL ECONOMICS [Kathryn Shaw](#) (Stanford University and IZA)
- MIGRATION [Klaus F. Zimmermann](#) (IZA and Bonn University)
- INSTITUTIONS [Pierre Cahuc](#) (Ecole Polytechnique, Paris and IZA)
- TRANSITION AND EMERGING ECONOMIES [Hartmut Lehmann](#) (University of Bologna and IZA)
- DEVELOPMENT [David Robalino](#) (World Bank and IZA)
- ENVIRONMENT [Matthew Kahn](#) (UCLA and IZA)
- EDUCATION AND HUMAN CAPITAL [Colm Harmon](#) (University of Sydney and IZA)
- DEMOGRAPHY, FAMILY AND GENDER [Junsen Zhang](#) (Chinese University of Hong Kong and IZA)
- DATA AND METHODS [John Haltiwanger](#) (University of Maryland and IZA)

policy advisors. To ensure that all content is free from third-party interests, all authors are committed to the IZA Guiding Principles of Research Integrity. The articles also undergo a rigorous peer review process.

If you wish to contribute, we invite you to visit wol.iza.org and contact the IZA World of Labor office (wol@iza.org) for details.

The partners of IZA WoL

IZA World of Labor has been developed by IZA in partnership with Bloomsbury Publishing Plc and with substantial support from the World Bank. Bloomsbury is a leading independent publishing house established in 1986. It is widely known for publishing Harry Potter, but also has substantial experience in distributing scientific content. With offices in London, New York, Sydney and New Delhi, Bloomsbury will play an essential role in promoting IZA's new product around the world to a wide audience outside of academia.

The World Bank has been one of IZA's key partners in a number of projects and innovative initiatives, most notably the Job Knowledge Platform (JKP), an online platform to share ideas about how to stimulate entrepreneurship, create good jobs, and improve working conditions around the world. Other

partner institutions in the JKP project include the McKinsey Global Institute, the Economic Research Forum, Fedesarrollo, the International Development Research Centre (IDRC), the Latin American and Caribbean Economic Association (LACEA), and REALM/AMERU. IZA World of Labor benefits from this initiative particularly in the field of development economics.

The entire IZA World of Labor project was made possible by substantial financial support from the Deutsche Post Foundation.

Launch and promotion events

The IZA World of Labor website is officially launched during the annual meeting of the Society of Labor Economists (SOLE), the most important conference for U.S. based labor economists, held in Arlington, Virginia on May 2-3, 2014. An invited session chaired by SOLE President *John Abowd* (Cornell University and IZA) is devoted to an in-depth presentation of the project by IZA Director Klaus F. Zimmermann and several contributors of IZA World of Labor articles. Additional articles are presented as posters.

On the day before the launch, "International Workers' Day" (May 1), selected journalists and policymakers are invited to an exclusive roundtable in Washington, DC, to discuss some of the hot topics covered in the IZA World of Labor with the authors.

Over the past months, a series of other events have set the stage for the official launch. An event co-organized with the World Bank and hosted by the International Monetary Fund in November 2013 was an ideal opportunity for the makers of IZA WoL to present the project to the research and policymaking community in Washington, DC. Several academic and policy panels discussed the strong need and high demand for evidence-based research and the objec-

IZA WoL articles shown at the SOLE Meeting

AUTHOR	TITLE
RICHARD BLUNDELL	How responsive is the labor market to tax policy?
ALEX BRYSON	Union wage effects
AMELIE CONSTANT	Do migrants take the jobs of native workers?
RICHARD FREEMAN	Who owns the robots rules the world
DANIEL HAMERMESH	Do labor costs affect companies' demand for labor?
EDWARD LAZEAR	Structural or cyclic? Labor markets in recessions
ROBERT LERMAN	Do firms benefit from apprenticeship investment?
DAVID NEUMARK	Employment effects of minimum wages
KLAUS F. ZIMMERMANN	Circular migration



"I am confident that IZA World of Labor will help bridge the gap between research and politics as it wraps evidence-based research findings in an abridged format for those who are interested in labor market issues but lack the time to dig deeply into the subject."

Alexander Kritikos
(DIW Berlin, University of Potsdam and IZA)

tives of the IZA World of Labor project. For hands-on illustration, a selection of some of the very first IZA WoL articles was presented in a poster session (▶), which generated a lot of valuable feedback.

Another great opportunity to present the venture to stakeholders and potential contributors was the session on "Providing evidence-based policy advice" at the Annual Meeting of the Allied Social Science Associations (ASSA), held in Philadelphia in January 2014. Chaired by Klaus F. Zimmer-

mann, the panel featured presentations by IZA WoL contributors Richard Blundell, Daniel Hamermesh, Robert Moffitt and Solomon Polachek.

European researchers and policymakers were introduced to the IZA WoL project at the international IZA conference "A Minimum Wage for Germany? Learning from European Experiences" held in Berlin in March 2014. Participants received a selection of IZA World of Labor articles that address the issue of minimum wages in developed as well as developing countries, authored by *David Neumark* (University of California, Irvine and IZA), *Tim Gindling* (University of Maryland, Baltimore County and IZA), *David Margolis* (Paris School of Economics and IZA) and Daniel Hamermesh.

Stay in touch with IZA WoL

The initial collection of articles available at launch is expected to reach

about 250 contributions by the end of the year, and 500 by the end of 2016. Each article will be continuously updated to reflect ongoing advances in research. Please visit the website, share the link, and sign up for our newsletters to stay up-to-date on new articles and events around the IZA World of Labor.

▶ wol.iza.org



IZA WoL poster session at the IMF in Washington

Unique Resource for Labor Market Research: The IZA Evaluation Dataset Scientific Use File Soon Available

The creation of the IZA Evaluation Dataset (IZA ED) has been one of IZA's main data initiatives in the last decade. IZA is proud to announce the release of the survey part of the dataset to the scientific community as a Scientific Use File. The general aim of this dataset is to overcome existing data limitations with respect to the evaluation of social and labor policies, and to study the transition process from unemployment (back) to employment. While the development of econometric methods and computational power has increased dramatically, data availability or the information content of existing datasets still represent a bottleneck, in particular for population subgroups like the unemployed. As it is highly important for policymakers to have reliable estimates on the effectiveness of policies for this group, the IZA ED aims at removing this data barrier. In contrast to population-representative datasets, the IZA ED focuses on entries into unemployment. This offers a unique opportunity to concentrate on the primary target group of labor market policies.

The data contain information from both administrative records and interviews. The administrative part consists of a 5% random sample of entries into unemployment in Germany (2001-2008) and is drawn from the Integrated Employment Biographies as provided by the Institute for Employment Research (IAB) in Nuremberg.

As a core part of the dataset, IZA initiated the creation of a survey that covers a panel of 17,396 individuals who entered unemployment between June 2007 and May 2008. Based on computer assisted



telephone interviews, the individuals were interviewed up to four times – at frequent intervals during the first 12 months after entering into unemployment and in the long run after three years. The survey contains very detailed information on a variety of usually unobserved aspects such as personality traits, job search behavior, social networks, non-cognitive skills or ethnic identity. Due to its large sample size, in combination with its broad set of variables and the measurement of unemployment dynamics (via repeated interviews over up to three years), the survey offers many new

research perspectives. In particular, this makes it possible to generate new knowledge on how policies, incentives or institutional features affect the behavior of job seekers. The knowledge on behavioral effects – as opposed to only considering final labor market outcomes – is very valuable for future policy design.

A crucial innovation of the IZA ED is that the survey can be merged with the administrative data, which even increases the analytical potential. However, the inclusion of administrative data made the entire project subject to strict data security legislation, which has restricted data access so far to IZA staff members only. Recently IZA has made significant progress in achieving its goal to provide the entire research community with access to this innovative dataset.

As a first step, the survey data will soon be released as Scientific Use Files. The distribution of the survey will be organized by the International Data Service Center (IDSC) at IZA. The even stricter data security rules for administrative data makes scientific-use access to the two other parts of the IZA ED more complicated. However, IZA is working closely with the IAB to find a solution.

More information on the IZA ED Survey:
▶ <http://idsc.iza.org/iza-ed-survey>

IZA Workshop on Gender Convergence: Why Are Women Becoming More Like Men (and Men More Like Women) in the Labor Market?

For most countries, women's labor force participation and hours of work have been rising while men's have been falling. At the same time, men's and women's wages and occupational structures have been converging. In April 2014 an IZA workshop in Bonn, organized by Solomon Polachek (Binghamton University, New York and IZA), *Konstantinos Tatsiramos* (University of Nottingham and IZA) and Klaus F. Zimmermann (IZA and University of Bonn), brought together leading researchers in the field to present their work related to gender issues and the labor market.

Joyce Jacobsen (Wesleyan University) tracked the changing levels of and returns to human capital in terms of education and potential experience over the last 50 years in the US. Average years of education have been increasing at a much higher rate for women since 1964. By the early 2000s women had overtaken men in average years of education. Returns to education also converged, but when accounting for selection, women's returns appear to be higher in the later years. Similarly, women experienced a convergence in hourly wages, but this slowed down in the 2000s. Finally, the authors also documented convergence in hours of work, and to a smaller extent in expected lifetime earnings.

Research on female labor supply has focused on the extensive margin (whether women work or not), while that of men has mostly considered the intensive margin (hours of work). Women today work more, in jobs with higher skill content, and with higher returns to experience than in the past. Motivated by these changes, *Christina Hakanson* (Sveriges Riksbank) presented a study that incorporated flexibility and time constraints in the labor supply decision of women. The predictions from her theoretical model suggest that low levels of work-hours flexibility cause women who face family constraints to opt for routine jobs which pay less but do not require long hours. When flexibility in the labor market becomes widespread, women with family constraints choose jobs in more career oriented occupations. These jobs are at the expense of time allocated to leisure and home production.

Family constraints, which can be proxied by marital status and the presence of children, are the prime source of the observed gender wage gap. These patterns are consistent with division of labor in the home, which has been explained by gender differences in bargaining power or by differences in productivity between males and females in the market and at home. Solomon Polachek proposed an alternative biologically-based explanation for the division of labor



in the home and the resulting wage gap. The idea is based on the fact that husbands are older and typically more educated than their wives at the onset of marriage. The explanation for these age and education differences is related to the demand for children. If there is a high demand for children, then there is a higher demand for younger, less educated wives because women have limited years of fecundity and because education takes time. To empirically support this hypothesis, the authors examined the effect of China's one-child law on fertility and on husband-wife education and age gaps. The decrease in demand for children induced by the one-child law reduced husband-wife age and education gaps, and it did so more in rural areas. Also, age and education gaps decreased even more in areas where there was a higher fine for violating the one-child policy. These results are consistent with a biological basis for the gender wage gap and can explain the simultaneous decrease in fertility over time and the narrowing of the wage gap.

The gender wage gap is also related to occupational segregation of women. For example, women are more likely to work in the care sector. These jobs are disproportionately in the public sector where wage penalties may be large. *Barry Hirsch* (Georgia State University and IZA) analyzed the relationship between caring jobs and wages.

Instead of simply depicting these jobs as the usual dichotomy of whether a job is in the care sector or not, the study considered the degree of caring tasks and attributes of all occupations in the US. The findings showed that wage penalties are more notable for men than women, but that women are more likely to work in such jobs.

Despite the increase in their labor force participation, women are still underrepresented in top leadership positions. *Daniele Paserman* (Boston University and IZA) investigated the effect of women in managerial positions on firm and employee outcomes. The focus of the analysis was on the gender composition of the top and second layers of management using a linked employer-employee data set on a sample of German establishments in the last two decades. The authors reported a negative relationship between the share of women in top man-

agement and firm performance, wages and employment outcomes. However, these effects at the firm level are mostly explained by women sorting into smaller firms, which are less productive, pay less, and have higher turnover. For employees, the authors found a negative effect of women in top management on employment and wages. These findings provide no evidence that a high fraction of women in top management improves women's relative outcomes, although there is some evidence that having more women in top management is associated with more family-friendly policies at the firm level.

Several countries have introduced subsidized parental leave as a way to encourage a high level of female labor force participation. Despite this policy, the glass-ceiling remains especially for women in top management positions where the wage gap is substantially higher. *Susan Vroman* (Georgetown University and IZA) examined the evolution of the glass-ceiling in Sweden over the period from 1985-2008, the extent to which the glass-ceiling is related to having children, and to the way parental leave is taken. The authors found that the glass-ceiling in Sweden has persisted over time; it exists for natives; it is more pronounced among white-collar workers; and it increases with age. Although the glass-ceiling

is present even before the first child is born, it increases after having children and when parental leave taking is spread out. These findings suggest that the availability of very long parental leave in Sweden may be responsible for the glass-ceiling because of lower levels of human capital investment among women and employers' response by placing relatively few women in fast-track career positions. Using register data from Norway for private sector workers, *Astrid Kunze* (Norwegian School of Economics and IZA) in her presentation provided a direct link between having children and the career progression of women. The findings suggested that women are less likely to be promoted than men, and women with children are less likely to be promoted than women without children. Following cohorts of workers over time, she showed that women fall behind men especially during the early parts of their career which coincide with their fertile period.

An interesting trend emerging in the last decades is that marriage rates and marital stability are higher among the higher educated in recent years compared to the past.

Shelly Lundberg (UC Santa Barbara and IZA) investigated whether cognitive ability and several indicators of non-cognitive skills can explain the socioeconomic gap in family outcomes. The findings suggest that the Big-Five personality traits (openness, conscientiousness, extraversion, agreeableness, and neuroticism) have significant effects on family status and family history of a recent cohort of young Americans, but can explain very little of the differences in family behavior between education groups.

Policies designed to boost women's employment in many countries raise the issue how resulting increases in female labor supply might affect employment and wages for men. To a large extent the answer depends on whether men and women are complements or substitutes. *Marco Paccagnella* (Bank of Italy) estimated the elasticity of substitution between men and women. Using data from Italy, he exploited two sources of variation in relative female labor supply: the abolition of compulsory military service, and sex ratios at birth. The authors find evidence of imperfect substitutability for a sample of 15 to 24-year-olds. These

findings may have important implications in terms of evaluating policies aimed at increasing female participation in the labor market.

The changing patterns in education and labor force participation for women may partly be related to increasing demand for high-skilled workers as a result of skill-biased technological progress which tends to favor women more than men. *Manuel Fernandez* (University of Oxford) investigated this hypothesis examining the evolution of the gender wage gap in Mexico before and after joining NAFTA, which has been associated with skill-biased technological change and differential growth across sectors. The study suggested a significant narrowing of the wage gap at the lower and upper tails of the wage distribution with no change in the gap for the median. He found the narrowing of the wage gap to be driven mostly by increased gender-based occupational sorting and improvements in the rates of return to human capital for women relative to men.

The presented papers are downloadable: [▶ www.iza.org/link/gender2014](http://www.iza.org/link/gender2014)

Is the Future of Labor Female?

IZA Tower Talk with Angela Titzrath

Better policies to increase female labor market participation are urgently needed to cope with the demographic challenge and the growing shortage of skilled labor. Among the main impediments to women's careers are insufficient childcare, work disincentives provided by joint income taxation, and generally lower career advancement prospects for women.

IZA not only stimulates research on this topic (see previous article) but also actively supports women's careers in academia. Examples are the IZA European Summer School in Labor Economics with its large share of female graduates or IZA initiatives to promote anonymous job applications as a way to reduce discrimination of female applicants. Awarding the 2010 IZA Prize in Labor Economics to *Francine Blau* (Cornell University and IZA) for her contributions to gender economics also reflects IZA's mission to strengthen the role of women in the labor market.

At a recent IZA Tower Talk co-organized with Zonta Club Bonn, guest speaker *Angela Titzrath*, board member for human resources at Deutsche Post DHL, stressed that women's equal participation in professional life is also a "matter of economic reason" as it would lead to substantial GDP gains. However, although women "are clearly in the lead"

when it comes to education and training, there are still too many "male domains" in corporate structures and too many high-skilled women who involuntarily work part-time, *Titzrath* argued. She also reported on initiatives by Deutsche Post DHL to set internal gender quotas and to offer flexible working time arrangements. Moreover, her company actively helps mothers and fathers during parental leave to maintain their labor market attachment and achieve a smooth return to the job. She also called for a "new corporate culture" – away from the "fetish of workplace presence" and towards a better family-work balance, which is increasingly demanded by "Generation Y" career entrants. In addition to childcare access, employees should be able to take extended sabbaticals for family and elderly care, or for education.

IZA Director *Klaus F. Zimmermann* pointed at the recent improvements in female participation, but warned that the high part-time rate for women in Germany reveals the deficits in childcare provision. He called it "socially unfair and economically counterproductive" that parents have to spend enormous

amounts of money for childcare services while university education is essentially free.

In a lively debate moderated by *Adelheid Feilcke* (Deutsche Welle), an inside view of women's situation in academia was given by *Annegret Schell*, equality commissioner at the Bonn-Rhein-Sieg University of Applied Sciences. She reported subtle incidents of discrimination against female candidates for professorships. Unlike Schell, however, IZA Director Zimmermann opposed all forms of statutory gender quotas. He agreed with Angela Titzrath that the main focus should be on improving childcare – including after-school care – to improve women's career prospects and save them from the part-time trap.



Angela Titzrath

Interview with Max Tani: “Head Count vs. Head Content”



Max Tani

This new IZA Compact interview series provides a look behind the scenes of one of the world’s most vibrant economics research institutes. In this issue, *Massimiliano (Max) Tani* answers questions about his career, his research, and his experience at IZA. Max has been an IZA Research Fellow since 2005 and has contributed an article to the IZA World of Labor (see pages 1-4 of this issue). He joined the IZA team in Bonn as a Senior Research Associate in January 2014.

IZA Compact: *Max, you worked as an investment banker before becoming a labor economist. Why did you give up a well-paid job to enter the halls of academe?*

Max Tani: My job in investment banking was exciting and exhilarating. I worked with some extraordinary colleagues, and this was the job I had dreamt of as a student. But as my career progressed, I realized that my intellectual interests were taking me in a different direction. I had always found economics stimulating, and a series of chance encounters led to me enrolling as a Ph.D. student at the Australian National University to work on labor migration. That was over ten years ago. Since that time I have found my teaching and research experiences very rewarding, not least because I see how education can change people’s lives.

Is this why much of your research also focuses on education?

Yes, I’m particularly interested in the educational experience of university students. Education is often treated as a “black box” – students gain human capital that enables them to realize measurable outcomes such as a certain employment probability or hourly salary. But I am intrigued by how exactly this human capital emerges and by how we, teachers, can enhance its “generation.”

How does this relate to your research on migration?

It matters a lot whether people have acquired their education abroad. This is often accompanied by some kind of penalty in the labor market as the experience of the newcomers tends to be discounted by host country employers, relative to a native worker. This results in a tension between a country that competes internationally to attract highly educated immigrants and the frequent outcome of under-utilizing those migrants’ skills and knowledge. When looking beyond highly educated migrants, we often face the issue of people who are very able and would be fantastic migrants, but are locked out of the possibility to migrate by having not been able to complete a tertiary degree.

In this context, you wrote an IZA World of Labor article on “points systems” countries use to screen immigrants. What is the main message?

Points systems are effective at admitting the people you want. But that does not necessarily imply these people are used effectively in the labor market. What you observe in places that screen newcomers is that many high-skilled immigrants have jobs that require less education. And we need to understand better why that is the case and how to avoid it. In other words, policymakers should not focus on immigrant selection alone, but also on the efficient use of migrants. They are and should be viewed as a resource, not just as labor.

What is your opinion about the IZA World of Labor project?

It’s an incredible initiative to bring academics together with policymakers. It’s also a huge challenge for academics to communicate in an effective and understandable way. I embrace this challenge because I think it can change the way academics think of policymakers and vice versa. It’s a way to establish a dialogue.

You have been at IZA for a few months now. What was your motivation to move from Sydney to Bonn?

I was at a point where I needed more time for research at a place where research is not compromised by other duties – and IZA is such a place. So being “on loan” from my faculty for a very long sabbatical comes at an ideal time in my academic career when I really need to think research, push research, write research without distractions. And what I found at IZA is the true spirit of research with rich communication, insightful reflections, and robust discussions with similar-minded people. IZA offers great opportunities for this via its events that are virtually non-stop. Also, IZA, being a specialized labor economics research center, makes it possible for people not to work behind closed doors but to interact. These interactions are intensive and exciting – and they are genuine, not forced.

What are you currently working on?

I’m very much interested in short-term mobility, especially in business visits. You can change your physical location without changing your passport. Mobility is a way to transfer and share knowledge that is useful for commercial purposes. It can help a country to grow and develop. And this it is not a zero-sum game: When people go somewhere, they spark new knowledge and come back with new experiences. We see this at IZA all the time: Someone comes for a week and tells us something about a new way of estimating some relationship – we all learn something that helps us write better papers. At the same time the visitors get inspiration they take back home. But there is no change in labor supply, no migration. So rather than thinking about mobility in terms of “head count,” I prefer the “head content” approach.

Do business visits still matter in the age of modern communication technology?

Absolutely. We interviewed a few thousand people at the airport in Australia about their business travel motives. For example, there was someone who invented a new technology of processing tea leaves and came across a particular problem with the size of tea leaves that he couldn’t communicate. So he had to go and show to the manufacturers what the problem was, and this eventually led to new machinery. Communicating in person also prevents a lot of misunderstandings. Technology cannot replace your skin. This is why people will keep investing enormous amounts of time and money for flying out.

As a “temporary migrant” in Germany, what is your experience so far?

I must admit I used to think of Germany as “lots of rules, no sense of humor.” To my surprise and delight, I found the opposite to be true: Germans definitely have a sense of humor, but rules don’t apply to everything – particularly not, it seems, to bikers zooming by on the sidewalk at high speed without wearing a helmet...

Germany's Minimum Wage Needs Independent Evaluation

The German governing coalition's bold move to introduce a statutory minimum wage at an extraordinarily high initial level has raised quite a few eyebrows around the world. Minimum wages are certainly a global trend, implemented by many OECD countries. Nonetheless, there is wide agreement among economists that the German plan is a risky experiment with potentially vast consequences that are hard to predict. This became apparent during a recently held international IZA expert conference in Berlin, which generated a lot of public interest.

Other countries have started out at a much lower level. The U.S. federal minimum wage, in effect for over 75 years, is still comparatively low today. In the UK, the Low Pay Commission has used great caution in adjusting the minimum wage step by step since it was introduced in 1999. While no more than three percent of employees are affected by the minimum wages in most countries, an estimated 15 percent of German workers currently have earnings at or below the proposed minimum wage level of 8.50 euros. This share is even larger in the east, where average wages are lower, as is the cost of living.

The plethora of available economic studies on the minimum wage suggest that Germany will likely experience job losses. At the same time, the distributional effects of the policy remain unclear. This also corresponds with findings from the articles on minimum wage effects that were written for the IZA World of Labor (see pages 1-4 in this issue).

In the most recent revision of the minimum wage bill, the German government has relaxed some of the rigor contained in the first draft prepared by the labor ministry. While the proposed wage floor remains at 8.50 euros, exemptions apply to long-term unemployed during the first six months of re-employment, untrained workers

under 18 years of age, and interns who are in education or training. The coalition is planning to pass the bill before the summer break, so that the statutory minimum wage would enter into effect on January 1, 2015. Interim wage agreements will apply to certain sectors until the end of 2016.

In response to massive pressure from the scientific community, the German government has amended the bill to include a paragraph that requires an impact evaluation of the minimum wage in 2020. The minimum wage commission, which is yet to be installed, will also receive a budget to spend on evaluation research.

“ Research funds must be substantial and allocated to independent research in a competitive procedure ”

Considering that the first draft of the bill had no evaluation element whatsoever, this is certainly a step in the right direction. However, the research funds must be substantial and allocated to independent research in a competitive procedure. Data collection must start now to capture the anticipatory effects of the minimum wage. Given the enormous scope of this policy intervention, parallel research should be permitted to arrive at solid results.

Improvements are also needed regarding the setup of the minimum wage commission. Based on the example of the British Low Pay Commission, it should be an independent body. Scientists should have no voting right, as this would make them political players, thus compromising their independence as advisors. Instead, the commission should be required to seek scholarly expertise on a regular basis and procure independent research. This is the only way to provide the people with the transparency required for democratic voting decisions.




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