



Evidence-Based Scientific Policy Advice

It is by no means a new concept. Over the centuries, it has found its way – at least for a while – into government decision-making around the world: evidence-based policy making. But the precise role of this concept is neither stable nor undisputed. In the complex political process, it has to prove itself time and again. Despite its success, evidence-based policymaking has not secured a permanent place in the political arena. Case in point: German labor market policy, which has again steered away from its evidence-oriented approach towards politically more convenient solutions.

Successful policy advice provided by independent science needs adequate working conditions. It requires open data access, internationally competitive scientific expertise, and policymakers who are willing to engage in a dialogue. The concept assumes that there are well-defined and transparent goals of society which can – and should – be efficiently achieved with an appropriate allocation of resources for the benefit of all. This requires a sustainable policy approach based on at least a medium-term strategy.

In practice, policymaking is often a day-to-day business characterized by tough struggles for compromise. It is about finding the right balance of interests in mostly distributional matters. Those policy advisors who are immediately involved in this process are not usually academic scientists. Even if they have an academic background – or have only temporarily left an academic position, as in the case of the U.S. Council of Economic Advisers – they are nonetheless an integral part of the political system. The role of a policy advisor alone, regardless of academic expertise and previous achievements, does not make that person a scientist.

Scientific policy advisors publish in academic journals

Scientific policy advice is, by definition, reserved to academic scientists – people who contribute to the scientific generation of evidence. Typically, this is done by publishing articles in peer-reviewed academic journals. Policy advisors who do not publish such contributions cannot be regarded as scientific policy advisors.

Scientific evidence, in turn, can be defined as the rigorous presentation of statistically supported results. It consists of analyses that show, according to widely accepted standards of the discipline, which policy programs work – and which ones don't. In practice, however, evidence-based policymaking finds itself opposed to what may be called “policy-oriented evidence making.” The transition from the latter to the former is often difficult. Commissioned research, in which evidence only evolves at the demand of policymakers, is not per se questionable. What matters is the independence of the advice, the adherence to strict scientific ethics rules and standards, and the existence of scientific competition and rigorous peer review, which serves to strengthen and guarantee the robustness of the results.

The relationship between policymaking and scientific advice is not free of tensions.



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Scientists sometimes get the impression that their findings are ignored or even misused for political purposes. Policymakers, for their part, often regard scientific advice as unrealistic, or as coming too late for their time-driven agenda. Nevertheless, there is a widespread view that scientific policy advice can help improve the welfare of society through better political decisions. In Germany, for example, the National Academy of Sciences “Leopoldina”, one of the world’s oldest institutions of its kind, has the central task of providing independent policy advice, which bears witness to the relevance of this view.

In providing scientific evidence, researchers face a number of challenges:

- Findings of scientific studies are often not immediately relevant or usable to politicians.
- Evidence generation needs time, qualified scientists and independent research.
- Researchers who want to be regarded as scientists must publish their results in journals, facing academic competition and peer review, and they must adapt the highest quality standards. This also takes time.
- “Policy-based evidence making” through commissioned research may lead to the generation of results according to the political motives and requirements of the contracting authority. This would likely distort the evidence.
- In many cases, it is questionable whether the data needed for the analysis are suitable in terms of quality and (timely) accessibility.
- Likewise, it may be questionable whether the available methodology is sufficiently powerful to obtain robust conclusions on causality and the effectiveness of policy programs. The need for independent scientific evaluation is still too often ignored at the time of program implementation.

Data access determines the quality of evidence-based policy advice

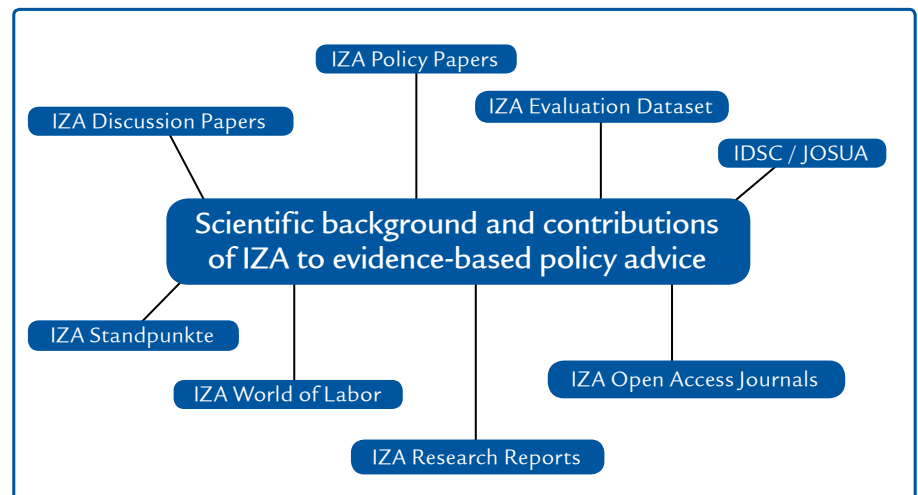
Data access is always the key to successful evidence generation. In many cases, suitable data that would be needed to answer a particular policy question are not available and have to be produced first. And even if the data already exist, access to them is often tedious because high legal barriers

must be overcome, particularly for official data. This makes the process of scientific policy advice considerably slower and more difficult. A critical point in this context is the desire for data retention: While this is an extremely controversial issue in the public debate, scientific policy advisors wish to work with appropriate data already beforehand (e.g. as scientific use files), or they want to have them as soon as they are asked to provide answers. At the very least, they wish to reach an immediate agreement on electronic access to the data through the internet.

In recent years, the research data centers that have been established around the world have made substantial progress in facilitating access to sensitive data. However, remote data access options are still very limited. Ideally, specialized scientists should be able to work online with confidential key datasets from anywhere in the

sequence, the evidence published in the form of scientific studies rarely fulfills the usability requirements of policy advice. In many cases, research findings have to be “translated” and made “transparent” to policymakers. To this end, scientific studies must meet certain criteria which – given the standard practice for scientific articles – are anything but self-evident:

- The findings must include statistical tests that allow an assessment of whether and why policy interventions are effective.
- Counterfactual analysis is the key ingredient: What would have happened in the absence of a policy intervention? This non-trivial task requires information on the behavioral responses of control groups that are unaffected by the policy program in question.



world without having to go through complex procedures. This is already possible using the *JOSUA* software developed by IZA’s International Data Service Center (IDSC). Refined to meet all legal data protection requirements, this remote processing tool has been implemented in a certified environment by the Research Data Center of the Institute for Employment Research (IAB) of the Federal Employment Agency in Nuremberg.

But we are still far away from realizing the vision of a “virtual visitors program” for the research data centers. Substantial progress at much higher speed is needed, not least to meet the growing demands and complexity of political practice and the high quality standards of scientific research.

Prerequisites to good scientific practice in policy advice

Typically, academic science is not immediately focused on policy advice. As a con-

- It must be possible to quantify the effects, e.g. through elasticities, to allow an evaluation and a comparison of the observed magnitudes.
- In addition to the direct effects of a policy program, the indirect effects must be taken into account as well.
- Selection problems and other causes of statistical bias in the analysis must be identified and controlled for.
- Sensitivity analysis must be performed, and the results must be replicable.
- In terms of language and wording, the studies should be written in a way that is understandable not only to a small expert audience.

IZA offers various products and formats that provide the basis of the institute’s independent advisory activities and serve as

tools for concrete scientific policy advice. In addition to various publication outlets and journals targeted at different audiences, the IZA Evaluation Dataset offers a unique combination of official and survey data, while the ambitious IZA World of Labor project explicitly aims to be an independent service provider for evidence-based policymaking by condensing the available state-of-the-art knowledge on key labor market issues in a practical format and deriving policy recommendations from the existing evidence (see IZA Compact, May 2014).

Policy design follows its own rules

Scientific policy advisors need to keep in mind that politics is about the perception of interests and the balance of these interests. Consequently, it is primarily about distribution and redistribution. Efficiency, in the sense of increasing welfare through the accumulation of goods, has a much lower priority in the process of allocating economic resources. Politicians like to ignore economic constraints, although this is impossible to keep up in the long run and may even be counterproductive to the planned intervention.

Politics is ultimately the design of compromise. Political progress therefore often entails taking some steps back. Pushing through a “good” proposal is a matter of give-and-take that usually requires the acceptance of another “bad” measure in return. In many cases, decision makers are not sufficiently aware of all the side effects that the agreed compromise may have.

Politicians do not always act out of conviction, but sometimes also out of selfish motives. Very few of them are open to rational arguments at all times. They are rarely willing to tie their political survival to a particular policy issue. Politicians have the difficult task to channel opinions in a way that will generate majorities, and to recognize a new trend early enough to become its harbinger.

This implies that active policymaking is short-term oriented and volatile. With the next election constantly looming on the horizon, the window of opportunity for political action is often limited to the first post-election year. The decisions made in the first year are then implemented in the second year and advertised in the third. The fourth year is again dominated by the election campaign. Long-term challenges, therefore, are often procrastinated up to a point where they become inevitable and require a short-term fix.

Summing up the above, evidence-based policy advice that is long-term oriented, sustainable, transparent and focused on efficiency gains is not in the immediate interest of practical policymaking. This is why it does not come natural to politicians to adapt and implement evidence-based advice. It is understandable that they tend to listen to scientific advice mainly in times of economic distress.

“Evidence-based policy advice knows no ideology, and it follows no beliefs. It thus enables politicians to enact their voters’ preferences efficiently.”



*Klaus F. Zimmermann
(IZA and University of Bonn)*

Against this background, evidence-based scientific policy advice should follow the universal Scout motto: “Be prepared!” In other words, long-term scientific research should ideally be designed so that the evidence is already available at the very moment the topic becomes politically “ripe”. By contrast, there is little chance for the scientific community to provide enough hard scientific evidence on a particular research topic to determine the political process.

A more promising approach to instill political interest is to talk about key empirical evidence in the media. Indirect policy advice through the press can be more effective because it reaches people in the immediate environment of policymakers and may then enter the political process literally through the back door.

Policymaking is experimenting with the truth

The political environment must be open and inviting to policy advice. Unless this precondition is met, evidence-based policy advice is doomed to failure and loses its agents. The best way to avoid this is to set up a proper legal framework and adequate institutions. For every policy program it should be made a legal requirement to undergo independent scientific evaluation prior to implementation, as well as a regular review of its effectiveness after implementation. New policy initiatives should first be tested in appropriate field experiments before they are introduced across the board for an explicitly specified period of time. This also implies that the legal restrictions on the retention of data, including social data, for research purposes must be loosened.

Policymaking is experimenting with the truth. The effectiveness of policy mea-

sures must be constantly evaluated in order to be able to correct or adjust them over time if they prove to be ineffective – or not sufficiently cost-effective.

One might, of course, argue that narrow evidence-based policy analyses are inherently incapable of addressing complex, content-rich and value-laden issues that are negotiated by diversely acting individuals, political parties and interest groups. This may be true – but evidence-based policy advice should not claim the opposite anyway. In fact, scientific advisors should keep out of the detailed issues of practical policy design, or else they should cast off the mantle of science altogether.

Scientific advisors need not contribute actively to policy design. From the policymakers’ perspective, internal advisors who are an integral part of the political system may seem more effective. But they are advisors-turned-agents. Scientific advice must come from outside, lest it loses its independence. Scientists can, of course, be internal advisors or even politicians. But then they are no longer scientific advisors.

Evidence-based scientific policy advice is the elaboration of options for politicians, who must ultimately make their own decisions. This is a burden that scientific advisors cannot take off politicians – and they should never claim they can.

The empirically founded mainstream of a discipline must dominate policy advice, even if this seems to contradict the notion of scientific competition – and certainly displeases the entertainment-demanding media. After all, every ambitious scientist is inclined to view the mainstream critically and propagate his own vision. Media and politics want to appear not only balanced, but even “politically correct”. As a result, marginal positions and findings often receive too much public attention. Striking a balance should not be the maxim of evidence-based scientific policy advice. It is all a matter of how strong the empirical basis of a political strategy or measure is.

What is considered empirically proven within the discipline cannot be undermined by individual opinions or beliefs from either direction. It can only be refuted through scientific progress.

The role of transparency and ethics

Evidence-based scientific policy advice is based on a thorough analysis that meets the standards of the discipline. Advisors

must be scientists who publish their results in peer-reviewed journals. This is the only way to ensure that they are in close touch with state-of-the-art research. The advice itself must not only be independent, it must also be based on independent prior research.

Data sources must be properly documented and openly accessible so that the results can be reproduced and verified. Replicating empirical results should not be regarded as scientifically inferior. The current situation of restricted access to key data for research purposes is scientifically unacceptable and runs counter to the ethos of science. An equally unacceptable requirement is that official data used for research must be erased at a specified point in time. This also prevents subsequent reviews using newly developed methods.

Transparency must also apply to any conflicts of interest of the scientist as a policy advisor. All actual and potentially relevant conflicts of interest must be fully disclosed. However, it is not always clear whether a conflict of interest indeed exists, or under what circumstances it may become relevant. After all, there are various different forms of potential conflict – ranging from financial to political or even religious issues. While the recent financial crisis has

sharpened our perception of financial conflicts of interest, the other causes of conflict are at least equally important.

Actual conflicts of interest pose a problem to every scientist who claims to conduct independent research. The logical consequence is to abandon any advisory activities that may cast a doubt on the scientist's independence and legitimacy. Potential conflicts of interest, on the other hand, are not per se an immediate problem. They are difficult to avoid in practice and may occur rather frequently. What we need is clear rules on how to make these potential conflicts adequately transparent.

The self-commitment of independent research to these principles of scientific integrity, such as the “IZA Guiding Principles of Research Integrity” to which all IZA network members are committed, is indispensable to preserve its role as an independent body for the provision of policy advice. There are vast policy challenges ahead of us – ranging from demography, family, pensions, health and social justice to environment, energy, transportation, urban and rural infrastructure. It must therefore be hoped that policymakers in Germany, and beyond, return to a closer collaboration with independent science to ensure a critical and objective evaluation of policy initiatives.

This article is based on:

Klaus F. Zimmermann

Evidence-Based Scientific Policy Advice

IZA Policy Paper No. 90, 2014.

► <http://ftp.iza.org/pp90.pdf>

Further Reading

Klaus F. Zimmermann

Advising Policymakers Through the Media

Journal of Economic Education, 2004, 35(4): 395-405

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

IZA Compact May 2014

Klaus F. Zimmermann

Evidenzbasierte Politikberatung

Vierteljahrshefte zur Wirtschaftsforschung 1/2011: 23-33

Klaus F. Zimmermann

Der Berater als Störenfried:

Anmerkungen zur wirtschafts-

wissenschaftlichen Politikberatung

Wirtschaftsdienst, 2008, 2: 101-107

Patrick Arni, Marco Caliendo, Steffen Künn,

Klaus F. Zimmermann

The IZA Evaluation Dataset Survey:

A Scientific Use File

IZA Journal of European Labor Studies, 2014, 3:6

Rolf Ketzler, Klaus F. Zimmermann

A Citation-Analysis of Economic

Research Institutes

Scientometrics, 2013, 95(3): 1095-1112

Legal vs. Illegal Immigration in the United States

New Way to Study Empirical Characteristics of Migrants

Illegal or undocumented immigration is one of the most pressing concerns for host countries. By definition, illegal immigrants circumvent the screening put in place by policy makers to select the immigration with the desired characteristics deemed beneficial for their countries. An increasing effort is being made to understand the implications of illegal immigration, starting with estimating the number of immigrants who cross borders illegally and the number of undocumented immigrants who reside in one country. A further step in understanding the phenomenon of illegal immigration is to look not only at the number of illegal immigrants, but also at their characteristics. Where do they come from? What type of education do they have? How do they fare in the labor market compared to similarly educated legal immigrants? Are illegal immigrants more likely to be men or women? Young or old? Do they have many or few kids? All these questions are of great relevance for designing policies that can either help policy makers boost

the integration of all immigrants, or, on the contrary, help them understand what drives immigrants to cross borders illegally and design policies which are more effective in preventing that.

It is quite difficult to collect this type of information because large and representative sample surveys of the population, including the Census, do not collect data on the legal status of immigrants. Immigrants are not asked if they are residing legally or illegally as presumably asking this very question could create a tension between the interviewer and the respondent, which may lead to false responses and/or losing the respondent altogether. An alternative strategy is therefore needed to indirectly identify among the respondents in large surveys those immigrants who are most likely to be residing illegally in the country. Their characteristics can then be observed and quantified.

This is what a recent study by *Vincenzo Caponi* (CREST-Ensaï, Ryerson University

and IZA) and *Miana Plesca* (University of Guelph) does. The paper entitled “Empirical characteristics of legal and illegal immigrants in the USA”, originally published as IZA Discussion Paper No. 7304, is the lead article in the upcoming issue of the Journal of Population Economics. The authors provide and apply a methodology able to separate the legal immigrants from the illegal ones in a large U.S. national survey. Using information on immigrants in the U.S. from the American Community Survey (ACS) and the New Immigrant Survey (NIS), they are able to identify a set of conditional probability weights determining whether individuals are legal or illegal immigrants, based on their observed characteristics.

The NIS samples legal permanent residents in the U.S. who acquired legal status, or green cards, in 2003, i.e. it samples only legal immigrants. The ACS, by contrast, surveys all immigrants, regardless of their status. By comparing the observations in these two surveys, it is possible to

identify, with some probability, those immigrants in the ACS who are most likely to be illegal.

As a byproduct of this methodology, the authors are also able to assess what characteristics make immigrants more likely to immigrate illegally. They find that immigrant women are less likely to be illegal present in the U.S. than men, and that being married with the spouse present increases the probability to be legal, while being married but living without the spouse decreases it. Age and education decrease the probability to be illegal. Furthermore, due to its proximity, Mexico is the largest source of illegal immigration into the United States.

Turning attention to the characteristics and the labor market performance of immigrants, the study looks at the relationship between education and earnings for legal and illegal immigrants. All else equal, being an illegal male immigrant brings a substantive wage penalty of more than 50% relative to a legal immigrant for both males and females, although for males the penalty is higher. The penalty, however, is heterogeneous for different levels of education: compared with uneducated immigrants, the penalty decreases for middle education levels such as junior high or high school, but it increases for higher education levels such as college and above.

Another set of statistics that can be computed is the fertility rate for women aged between 15 and 49 years, by education and by legal status. Fertility is higher among illegal immigrant women than among legal ones. In particular, among legal immigrants there is the typical decreasing relationship between education

and fertility, but this pattern does not exist among illegal immigrants. For illegal immigrant women, fertility is higher at middle levels of education compared to the lowest or to the highest level of education. Moreover, fertility remains high at high levels of education. The authors find this a puzzling fact that needs to be investigated more.

Less puzzling are the statistics on the sector of activity. In agriculture, construction and, to a slightly lesser extent, recreational and entertainment services, the concentration of illegal immigrants is higher than in other sectors. On the contrary, in sectors like health care and retail trade, there seems to be a prevalence of legal immigrants. To some extent, those are expected results as there is plenty of anecdotal evidence that illegal immigrants concentrate in low skill jobs, especially in construction and agriculture. However, with their estimates the authors can go further and look into less obvious results, such as unemployment. In this case, they notice that the unemployed workers are more likely to be legal immigrants rather than illegal. This also can have an easy explanation in economic terms: illegal immigrants may be willing to accept lower paid jobs, as it may be hard for them to qualify for unemployment benefits and easier to disappear in the underground economy.

Future research can use the weights computed in the paper in a variety of applications where it is interesting to differentiate between legal and illegal immigrants. Using the same methodology and observed immigrant characteristics either from the ACS or from other micro data with information on immigrants, researchers can compute the probability

for each observation to belong to a legal or illegal immigrant. All that is needed are the estimated probability coefficients reported in the paper. Researchers can use these coefficients together with the characteristics of immigrants from their micro data sample to generate the conditional probability for each observation in the sample to belong to a legal. Since all micro data preserves the anonymity of its respondents, this methodology cannot be used to pinpoint the immigration status of any given individual; it can only be used to evaluate policies related to illegal immigrants as a group.

The methodology can be used to assess the net contribution of immigrants to welfare (social security), unemployment insurance, and other government transfer programs to which illegal immigrants contribute. It can also apply to studies related to immigrants' access to education, income inequality and intergenerational mobility and, more broadly, the contribution of legal and illegal immigrants to growth and productivity.

The paper is available for free download from the Journal of Population Economics website:

► dx.doi.org/10.1007/s00148-014-0524-x

Vincenzo Caponi, Miana Plesca
Empirical characteristics of legal
and illegal immigrants in the USA
Journal of Population Economics
27, 4 (2014), S. 923–960
ISSN: 0933-1433
www.popecon.org



Flagship Event of IZA's Research Program on Migration

11th Annual Migration Meeting in Bonn

The 2014 Annual Migration Meeting (AM²) took place at IZA in Bonn from May 30 until June 1. Entering its second decade, this flagship meeting of the IZA migration program area brought together migration scholars from all around the world to discuss, analyze and debate migration research. The program contained 18 presentations assigned in seven coherent sessions concerning women's and men's choices; the educational role of migration; political economy aspects of migration; implications of cultural diversity; self-selection, network effects and economic outcomes; and violence and migration, deportations and the health

of immigrants. The presented papers were chosen among 124 submissions, a record even for AM² standards.

Amelie F. Constant, Program Director of Migration and co-founder of AM², welcomed the more than forty participants and opened the meeting. *Klaus F. Zimmermann*, Director of IZA, took the floor and chaired the first session. Three speakers posed their views on the subject. *Panu Poutvaara* (University of Munich and IZA) stated that dual-earner couples' migration depends on their education and their children. Based on Danish register data, he showed that it is more likely for

highly educated couples to migrate, but on the other hand it is more difficult to migrate when a family has children. While it is a fact that couples with university education are most likely to emigrate, they are also most likely to return. By analyzing U.S. Census data between 1980 and 2000, *Delia Furtado* (University of Connecticut and IZA) advocated that migration inflows increase fertility rates because highly educated women choose foreign nannies for childcare. *Agnese Romiti* (IAB Nuremberg) examined the phenomenon that in Italy women over 55 years of age are more likely to work outside the home and retire later in life.

Based on the Italian Survey on Household Income and Wealth, the explanation is tied to the increasing number of immigrants in a locality who are working in childcare.

Book Recommendation

Immigration Economics by George J. Borjas

Migration is a worldwide, continuously more relevant phenomenon – and today a central subject of research in modern labor economics, especially within the worldwide IZA research community.

At a time when large migration and refugee movements make global headlines, IZA Prize Laureate *George J. Borjas* (Harvard University) with his new book on “Immigration Economics” offers fresh insights into the causes and economic consequences of migration, integration and assimilation. The book presents theories, models, and methods to evaluate migration as well as core empirical findings on the impact of immigration on socio-economic outcomes.

“Immigration Economics sharpens our understanding of immigration with its clarity, educates us about economic models with rigor, and makes us think for ourselves. This book will become a classic.”

Amelie F. Constant

Immigration Economics

George J. Borjas

Harvard University Press 2014

296 pages

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Schooling as a potential catalyst for migration was the theme of the second session. *Chunbing Xing* (Beijing Normal University and IZA) presented the grave issue of the shrinking number of primary schools in rural China. This, in turn, constitutes an important factor of “forced” migration into urban centers as people migrate for their children to acquire the highest education possible. *Martina Viarengo* (Graduate Institute Geneva and IZA) presented descriptive evidence on immigrant arrivals to Ellis Island in New York City, as well as on return migration from the U.S., and showed that migrant inflows into the U.S.

determined the passage of state compulsory schooling laws.

The first paper of the second day dealt with taxation as a determining factor of migration. *Daniel Wilson* (Federal Reserve Bank of San Francisco) stated that star scientists’ migration is influenced by fluctuations in taxes. It is especially sensitive to the U.S. marginal tax rate on high income. *Briggs Depew* (Louisiana State University) showed that high-skilled H1-B workers in the U.S. exhibit a significant amount of inter-firm mobility, which varies over both the earnings distribution and the business cycle. Moreover, return migration increases with the unemployment rate. The paper by *Wei Huang* (Harvard University) examined research collaboration between Chinese and U.S. scientists, noting the increasing partnership and climate of scientific cooperation between these two countries.

Clearly, the political economy aspect of migration is a vital issue for migration researchers. *Alicia Adsera* (Princeton University and IZA) looked at border controls, benefits, and the rights of migrants. She addressed the question of how states shape migration patterns. *Mehmet S. Tosun* (University of Nevada, Reno and IZA) examined all the economic effects of aging trends. He highlighted the importance of adapting migrant workers in the political process of fiscal policy and that developed regions benefit from international labor mobility. *Aysit Tansel* (Middle East Technical University and IZA) investigated the role of internal mobility in Turkey on the country’s parliamentary elections in 2011. Controlling for the effects of socio-economic, demographic, political and institutional factors, she showed that migration has adverse effects on the political participation of migrants both at the origin and the destination.

Using Swiss voting results on immigration policies between 1970 and 2010, *Andreas Kuhn* (SFIVET and IZA) examined how immigrants’ different cultural values and beliefs, as well as their country of origin, affect natives’ attitudes towards them. While the presence of culturally similar immigrants does not affect natives’ voting behavior, the presence of culturally different immigrants does cause anti-immigration voting. Religiosity and culture can play a significant role on immigrant women’s labor supply according to *Duygu Guner* (K.U. Leuven). Using Turkish

data and proxying culture by employment rates in their respective provinces of origin in 1970, she found that culture has a positive and significant effect on the labor force participation decisions of migrant women in 2008. In contrast, religiosity has a negative effect on their labor force participation.

The last day of AM² started with selection issues that are congenial to migration. *Benjamin Elsner* (IZA) examined the consequences of emigrant self-selection on the per capita GDP of the sending and receiving country. Using two historical examples of mass migration to the U.S., namely from Norway in the 1880s and from Mexico in the 2000s, he found that while Norwegians were positively selected and Mexicans were negatively selected, neither had an effect on the United States. However, emigration led to a decrease in GDP per capita in Norway, and an increase in Mexico.

Family separations are a huge concern for scientists who study migration. *Catalina Amuedo-Dorantes* (San Diego State University and IZA) explored the phenomenon of the increasing number of child separations resulting from harsher enforcement policies in the U.S. She found that parents who are forcibly separated from their children are more likely to attempt an illegal crossing again. *Shoshana Neuman* (Bar-Ilan University and IZA) researched the self-assessed health status (SAHS) of older immigrants in Europe. She showed that during the first years of arrival, immigrants reported higher levels of health in comparison to their native counterparts. However, with additional years of residence in the host country, immigrants reported lower levels of health. Interestingly, the level of development in host and sending countries influences individuals’ SAHS differently.

The highlight of AM² since its inception is the Julian Simon Lecture. The 2010 IZA Prize laureate *Francine D. Blau* (Cornell University and IZA) delivered this year’s lecture. In her presentation she examined the relationship between gender roles in immigrant source countries and the behavior of second generation immigrants in the U.S., while highlighting assimilation versus culture. She presented numerous research findings and an exciting set of new research questions. Her results showed that source country gender roles influence immigrant and second-generation women’s behavior. At the same time she showed important assimilation effects with additional time in the U.S. Lastly, native-immigrant differences in fertility



and in labor shrink as source countries become more similar to the U.S.

As an extra bonus, this year's AM² participants were also able to attend the IZA Seminar by *Lawrence M. Kahn* (Cornell University and IZA), who presented his research on the wage premium in permanent

jobs relative to temporary jobs, investigating 13 European countries. He showed that among men, in general, the wage premium is lower for older workers and the native-born. Among immigrant men, in particular, it is higher for those originating from outside the EU. Among women, the wage premium is lower for older workers

and those with longer job tenure. Moreover, the permanent job pay premium is slightly smaller for women than for men.

The papers presented at AM² are downloadable at:

► www.iza.org/conference_files/amm2014

Skills for Productive Employment

9th IZA/World Bank Conference in Lima, Peru

Since 2006, the IZA/World Bank Conference brings together policy makers and economists in order to discuss and improve the functioning of the labor markets in developing countries. More than 150 participants were present at the 9th edition of the conference held in Lima on June 24-26, 2014. This year, IZA and the World Bank partnered with the Inter-American Development Bank and the Universidad del Pacífico. The key theme for the conference was "Skills for Productive Employment." Investment in quality education and promotion of skill use in the labor market represent some important driving forces of sustainable and inclusive development. However, challenges related to the labor market, such as youth unemployment or technological change, require some important transformation in the type of skills needed. Furthermore, little is known about how these skills are rewarded in the labor market, the complementarities between different types of skills and the relationship between skills, formal education and training. Therefore, the lessons that we can learn from programs introduced in developing and emerging countries are crucial to gain a better understanding of the role of skills and their use to promote productive employment.

Gary Fields (Cornell University and IZA) delivered a keynote address about the re-



Gary Fields

lationship between employment, development and skills. He highlighted the fact that good labor market conditions foster development. Education and skills are among the important channels that explain this relationship. Workers in developing countries face many different issues such as an insufficient number of good jobs, uncertainty of work, low earnings despite long hours, few jobs related to social protection, and indecent work. Skills development can thus help the poor to earn their way out of poverty and is a powerful channel to generate more paid jobs and an increase in self-employment earnings. However, while education and skills improve the individuals' labor market opportunities, it will not necessarily produce the same effect on the whole economy if unemployment is due to skills mismatch between employees

and available jobs. Finally, Fields stressed those policies in the labor markets that would help reduce poverty the most. He suggested that the priorities for labor market research are to better understand how people in developing countries are working, and why they are doing what they are doing. It is also important to have some empirically grounded theoretical models of labor markets. Moreover, more attention should be paid to sector-level and market-level analysis of various labor market outcomes. Fields also recommended more in-depth empirical studies in which policy interventions take into account social cost-benefits analysis.

Hugo Hopenhayn (UCLA) focused in his keynote address on the relationship between labor, misallocation and aggregate productivity. He pointed at the large productivity gap across countries. Misallocation of resources across firms seems to explain a large share of this productivity gap. However, while most of the papers in the literature only provide some quantitative evidence, Hopenhayn provided some theoretical background to explain the difference between inter-firm distortions and aggregate productivity. In order to measure large effects which match with the measured size of distributions, it is important to have a clear measure of distortions or derive them from observed policies. Hopenhayn thus

developed a method to obtain the lower bounds of distortions using the size distributions of firms and highlighted that these

ate an information center to help policies and decision making in the LAC region through a Social Protection Observatory.

Minister of Education *Jaime Saavedra* provided the Peruvian perspective, approach and challenge to increase the quality of



David A. Robalino, Leonardo Narvarte, Edgar Quispe, Stefano Scarpetta, Nuria Rodriguez-Planas, Klaus F. Zimmermann, and Gustavo Yamada

lower bounds are very small. Moreover, the rank reversals in firm size need to be substantial to have some large effects on the TFP. Finally, since policies also affect the aggregate productivity through the distribution of the firm level productivity, entry cost and credit constraints can play an important role in this process.

Carmen Pagès (IDB and IZA) and *Lucia Madrigal* (IDB) presented in a plenary session the New Longitudinal Survey on Social Protection (LSPS). The aim of this survey is to collect information on employment, social security contributions, access to health services and social programs and education in five Latin America countries (LAC) including El Salvador, Colombia, Ecuador, Paraguay and Uruguay. The main advantages of this survey are that the data have a panel structure, are nationally representative, comparable across countries and can be merged with administrative data. The LSPS can be used for a lot of topics, such as labor market dynamics, impacts of labor markets on social security or policy evaluation. However, beyond the data, the aim is to cre-

The 9th IZA/World Bank Conference Policy Forum brought together Peruvian policy makers and IZA World of Labor experts to discuss the topics of “Skills and Labor Policies”. IZA Director *Klaus F. Zimmermann* introduced IZA World of Labor as the ultimate resource in evidence-based policy making in labor economics. The first pan-



Jaime Saavedra

el discussed the need for strong collaboration and coordination efforts between education and labor market policies in order to provide skills to the workforce that are relevant for the labor market. Peruvian

higher education. Moderated by *Gustavo Yamada*, Dean of the Economics Faculty at the Universidad del Pacífico, the other members of the panel – *Edgar Quispe* (Peruvian Vice-Minister of Labor), *Stefano Scarpetta* (OECD and IZA), and *Klaus F. Zimmermann* – commented and brought in international experiences. They highlighted the need to provide alternative paths, especially via vocational training. The second panel focused on Peruvian labor market programs introduced and described by *Edgar Quispe*. IZA World of Labor experts *David Robalino* (World Bank and IZA) and *Nuria Rodriguez-Planas* (Queens College, CUNY and IZA) related these to international experience and evidence.

The entire program of the IZA/World Bank conference, which includes links to numerous papers presented in parallel sessions, is available online:

► www.iza.org/link/worldb2014

Creating and Adapting Jobs in Europe

IZA Contributes to NEUJOBS Project for the European Commission

European societies are aging. Fertility rates remain low. Family structures change with more and more women entering the labor force. People flee rural areas and move to cities. How will these transitions shape the European labor markets of the future? Together with many other research institutes and universities from all over Europe, IZA attempts to answer this pressing question within the NEUJOBS research project, which is financed by the European Commission under the 7th Framework Programme.

In April, IZA held a conference at the University Club Bonn to evaluate and discuss the current status of the project. Organized by IZA Research Associates *Karina Doorley* and *Sebastian Sieglösch*, the conference brought together researchers from all work packages of the NEUJOBS consortium. *Duncan Campbell* (ILO, Geneva and IZA) delivered the keynote speech and stressed the urgency in dealing with the high levels of youth unemployment in Europe and combating income inequality across and within the EU, as well as globally.

In seven thematic sessions, the 70 conference participants discussed the implications of several transitions affecting the EU labor market in 2025. A central driver transforming the future labor market is the rise of female employment. *Piotr Lewandowski* (IBS, Warsaw and IZA) showed that the intensity of female employment has been increasing in past years throughout Europe – a trend which will continue in the near future. This is mainly due to policies limiting access to early retirement schemes and increasing the female statutory retirement age. Another

factor driving female employment, investigated by *Iga Magda* (IBS), are measures facilitating flexible employment forms for women, which prove to be especially advantageous for high-paid women.

Moreover, *Michaela Gstrein* (IHS Vienna) showed that the increased labor force attachment of women will lead to an increased demand for child care services and thus growing employment in the care sector. *Attila Bartha* (CEU, Budapest) investigated whether parts of this increased demand for care sector jobs can be absorbed by increased immigration of care workers. His assessment is, however, quite pessimistic: current national policies often ignore the rising demand for care and do not facilitate migration into the formal care sector.

In order to stimulate high-skilled immigration from countries outside of the European Union, the EU has established the EU Blue Card. *Katarina Eisele* (CEPS, Brus-

Henkens and *Harry Van Dalen* (NIDI, The Hague) investigated the consequences of population aging on personnel policies of employers. They showed that despite the warnings of policymakers about the possible consequences of population aging, European employers are not yet engaging in human resource strategies that promote active aging. *Claudia Villosio* (Collegio Carlo Alberto, Torino) showed a promising example of such an employer policy for older workers: lifelong investment in training. She demonstrated that taking part in training activities can increase wages of workers aged 50 and over by up to 6.5%.

Another side effect of aging societies is a change in the consumption pattern. *Marek Radvansky* (Slovak Academy of Sciences, Bratislava) showed that in countries with higher incomes the elderly will spend relatively (but also absolutely) more on recreation, restaurants and transportation.

newable energy sources. *Arno Behrens* and *Caroline Coulie* (CEPS, Brussels) investigated how this transition will affect employment in the European energy supply sector. Their results show that the energy sector will not only offer more jobs, but these jobs will require higher-level qualifications when compared to the current energy sector. Changes in the energy mix will also have effects on transportation within cities. *Rodric Frederix* and *Christophe Heyndrickx* (Transport & Mobility Leuven) analyzed which policies prove to be most effective in countering the increasing demands of growing cities and growing transportation demand. Overall, they showed that the most promising policies are to stimulate cycling and to promote public transit and energy efficiency in general.

Within the NEUJOBS project, a special emphasis is placed on the situation of the Roma within the European Union. *Martin Kahanec* (CEU and IZA) and *Vera Messing*



sels) evaluated the attractiveness of the card. She argued that while the directive sets forth minimum standards providing for a common floor, it falls short of its goal to create one European high-skilled admission scheme.

Besides a higher demand for child care, the aging of societies across Europe will increase the demand for old-age care service as well. Focusing on Denmark, Germany, Italy, Poland and Slovakia, *Johannes Geyer* and *Erika Schulz* (DIW Berlin) showed that this demand will most likely exceed the supply of care. Aggravating the current shortage of nursing and caring personnel, this mismatch calls for political answers and retention strategies.

But the implications of demographic change go beyond an increased demand for care service. First, employers will have to adjust to the older workforce. *Kene*

Another crucial factor that will have an impact on future European labor markets is worker mobility within and across countries. In this respect, *Kees Dol* (Delft University of Technology) and *Nick Horsewood* (University of Birmingham) empirically verified the well-known hypothesis that labor mobility is hampered by home ownership. The housing market is directly related to the mortgage market. *John Doling* (University of Birmingham) analyzed the development of employment in this particular labor market until 2025. Due to national and super-national policies that aim at the stability of the market whose crash caused the Great Recession, he does not expect the market to grow beyond the pre-crisis peak of 2007.

Besides higher migration and aging populations, a third influential transition affecting European labor markets will be the shift away from fossil fuel to re-

(CEU) analyzed the present situation of Roma employment, showing extremely low rates of formal employment in Europe – ranging from 20% to 45%. The main reasons for these results are lack of education, regional disadvantages, and ethnic discrimination in the labor market (► see also the interview with Martin Kahanec on page 18 in this issue). In a field experiment, *Lucia Mytna Kureková* (Slovak Governance Institute, Bratislava) investigated policies implemented to spur Roma employment. She found that the most direct assistance to Roma is provided by field social workers who give advice in terms of job search and legal issues. Yet, labor offices mostly lack strategic thinking in bringing Roma into work.

More about the NEUJOBS project:

► www.neujobs.eu

Economic and Social Implications of Risky Behaviors

6th Annual Meeting in Medellin, Colombia

The 6th IZA Annual Meeting on the Economics of Risky Behaviors (AMERB), co-founded and co-organized by IZA Program Director *Amelie F. Constant* (George Washington University and Temple University) and *Erdal Tekin* (Georgia State University and IZA), took place in May 2014. AMERB, which is characterized by great success over the past five years, was held at Universidad EAFIT in Medellin, Colombia. AMERB was also supported by the Andrew Young School of Policy Studies at GSU, the Center for the Economic Analysis of Risk at GSU, and Universidad EAFIT.

AMERB brought together close to fifty specialists from all around the world. The great variety of presentations that covered many aspects of social, political, econom-

ics, and health issues was extraordinary. does not increase social isolation, but it increases social networking and communicating via internet.

Nicholas Papageorge (Johns Hopkins University) examined the effect of positive health shocks on a woman's probability to endure domestic violence. The main result was that providing pharmaceutical treatment to chronically ill women reduced domestic violence among them. The author highlighted that women who experienced a positive health shock often reduce the use of alcohol and drugs and live longer. Therefore, he argued, it is a fact that by abridging risky behaviors, a woman can limit her exposure to violence. *Giulia La Mattina* (University of South Florida) examined the phenomenon of intimate part-

nership violence against women in Rwanda by using post-genocide data. She detected that women who married after the genocide were more likely to suffer from intimate partner violence.

Australia, which showed that legal access to alcohol does not have an impact on motor-vehicle accidents. Instead, it might be the main factor for hospitalizations due to alcohol abuse. *Michael French* (University of Miami) studied the correlation between spring breaks at U.S. universities and an increased number of fatal vehicle crashes. He indeed found a higher probability to be involved in a car accident as many students travel from place to place. Drunk driving, however, seems to play no major role.

Shoshana Neuman (Bar-Ilan University and IZA), based on the SHARE dataset, presented the health risk factors among the older European populations. *Robert Kaestner* (University of Illinois at Chicago)



ic and health issues was extraordinary. Besides the 19 presentations, selected out of a hundred submissions, the meeting featured a keynote by *Steven Raphael* (University of California, Berkeley and IZA) entitled "Why Are So Many Americans in Prison?" Raphael talked about the high rate of incarceration in the U.S., which is almost four times higher than in European countries, and has skyrocketed since 1980. Drug-related sentencing rates are by far the highest and have doubled since 1974. In conclusion, he said that nearly all of the growth in incarceration since the 1980s is attributable to changes in sentencing policy.

After welcoming remarks from Amelie F. Constant, Erdal Tekin and *Gustavo Javier Canavire Bacarreza* (Universidad EAFIT and IZA), AMERB commenced with *Robert W. Fairlie's* (University of California, Santa Cruz and IZA) paper on cyberbullying. He examined the impact of the use of computers on social isolation and cyberbullying among schoolchildren in California. By conducting a randomized control experiment, he found that computer ownership

ner violence against women in Rwanda by using post-genocide data. She detected that women who married after the genocide were more likely to suffer from intimate partner violence.

The next presenter was *Glenn Harrison* (Georgia State University, CEAR and IZA), who explored the beliefs, time and risk preferences of criminals in Denmark by using data from the Danish Registry. *Darwin Cortes* (Rosario University) presented his paper about the high crime rates in Colombia after a large income shock, caused by various Ponzi schemes in 2008. Using matching and difference-in-differences techniques on monthly frequency data, he found out that cash-grabbing in affected areas was higher than in other places with no appearance of Ponzi schemes. On the other hand, there are no signs of an increased number of hideous crimes like murders, only for minor crimes such as mugging and burglary.

In the next session, *Peter Siminski* (University of Wollongong and IZA) presented a study using data from New South Wales,

stated that the use of cholesterol-lowering statins is responsible for a large number of bad health behaviors. For example, it increases the probability of becoming obese and it also contributes to high blood pressure among men and women.

Benjamin Hansen (University of Oregon) talked about the high juvenile crime rates, which are a huge concern in the U.S., and asked if the existing legal framework is capable of reducing this phenomenon. Some states have adopted laws which permit youth under the age of 18 to be prosecuted and sentenced. He found some evidence that harsher punishments can reduce criminal activities like robberies, but he observed that there are no deterrence effects for sexual crimes.

With regard to HIV/AIDS awareness and sexual behavior, *Hyuncheol Bryant Kim* (Cornell University) examined ways to promote knowledge and testing for the virus, and the impact of those two factors on sexual behavior. An experiment showed that home testing is substantially more efficient than facility-based testing to de-

tect those with HIV. *Ben Vollaard* (Tilburg University) showed that as individuals live in a neighborhood for a longer time, their perceived prevalence of crime increases.

Olga Shemyakina (Georgia Tech) presented a paper on the impact of the 2002-2007 civil war in Côte d'Ivoire on children's health by using data from before, during and after the conflict. She found that children from regions more affected by the conflict suffered significant health setbacks compared with children from less affected regions. Her findings also suggested that "conflict-related household victimization" is an important channel through which armed conflict affects children's health. In an innovative paper, *Benjamin Lessing* (University of Chicago) showed how incarcerated individuals can take control over prison life and build a criminal empire from behind bars. They can, in fact, manage and mobilize gangs and instruct them what to do. Lessing's model predicted that common state responses such as crackdowns and harsher sentencing can backfire and result in

stronger gang effects over outside actors. Gang-strengthening effects of incarceration can have increasing returns and even erode state authority.

David Simon (University of Connecticut) reported on early exposure to cigarette smoke and the impact of tax hikes on health. He found evidence that a one-dollar increase in the state cigarette excise tax reduces sick days from school by 10% and also leads to fewer doctor visits. *Nadia Campaniello* (University of Essex) analyzed gender differences in the "crime market." While women commit less than one-third of all crimes, they obtain 32% less in criminal earnings (due to a generally lower willingness to take risks) but are 10% more likely to be arrested than males.

AMERB was fortunate to have the Dean of the School of Economics and Finance (Universidad EAFIT), *Juan Felipe Mejía Mejía*, participate and chair a session. All presented papers had a formal discussion and feedback from the audience through floor discussion.

The co-organizers thanked the participants for making this a productive and memorable event during which great efforts were applied to advance our understanding of the causes and consequences of risky behaviors, as well as promoting policies aimed at reducing their incidence and cost. The two-and-a-half day meeting ended with a guided tour of the city, called urban transformation in Medellín. The tour offered tremendous insights related to economic development, migration, labor and the environment. Attendees had the opportunity to see high crime areas of Medellín which used to be ruled by gangs and criminals but have been transformed to more peaceful, safe and productive neighborhoods, not least through the provision of libraries and transportation. Cable cars facilitate commuting and also provide a model of environmentally friendly transportation.

The papers presented at the conference are downloadable at:

► www.iza.org/link/AMERB2014

New Topics in Entrepreneurship Research

5th IZA Workshop in Potsdam

Hosted by the University of Potsdam, the 5th IZA Workshop on Entrepreneurship Research provided leading economists in the field of entrepreneurship research the opportunity to present and discuss their work with other experts. The two-day workshop was opened with a short welcome address by the organizers *Marco Caliendo* (University of Potsdam and IZA) and *Alexander S. Kritikos* (DIW Berlin, University of Potsdam and IZA).

In the first presentation, *Fabiano Schivardi* (LUISS Guido Carli University) focused on the question whether entrepreneurs learn from other entrepreneurs. Using a rich dataset from Italy, he showed that individuals who grew up in provinces with a high density of firms are more likely to choose an entrepreneurial job as they get older. Individuals exposed in youth to an environment dense of firms also tend to earn higher incomes from their businesses and manage more productive firms.

The paper presented by *Andrea Bassanini* (OECD and IZA) provided empirical evi-

dence on the much debated topic where firms dismiss workers when they have to



reduce employment. Firms with secondary establishments dismiss more employees in establishments which are located further away from the corporate headquarters. He also finds that the effect of distance on dismissals increases with the visibility of the firm in the local commu-

nity of its headquarters, suggesting that social pressure is a key determinant of the correlation between distance to headquarters and dismissals.

In the second session, *Niels Bosma* (Utrecht University) analyzed whether entrepreneurs are more likely to be allocated at new firms or at established organizations where they act as intrapreneurs. Using GEM data, he revealed that in developed economies the prevalence of entrepreneurial employee behavior is on average found to be in the same order of magnitude as that of independent entrepreneurial activity. He also showed that time prevalence rates of these two types of entrepreneurship vary substantially between countries. He concludes that labor market institutions and the extent to which societies value autonomy affect the allocation of entrepreneurship across new and established organizations.

Nico Pestel (IZA) examined the effect of positive wealth shocks on labor market supply and particularly on entrepreneurship. He found that unanticipated finan-

cial windfalls lead to an increase in the level of self-employment income. There is also evidence that self-employed individuals expand their businesses in the wake of financial windfall, hiring more personnel, and increasing the return to their businesses. The next two presentations focused on the returns to entrepreneurship.

Eleanor Dillon (Arizona State University) estimated a dynamic model of sectoral choice in a lifecycle context to assess the option value of entrepreneurship. Her model decomposes the share of the difference in expected individual returns to entrepreneurship, which is accounted for by non-pecuniary benefits, from the option value of experimentation, and from non-random selection into self-employment. She finds that, on average, entrepreneurs earn about 1% less than comparable wage workers. However, when looking separately at workers who are pulled and pushed into self-employment, she revealed that workers who are pulled into self-employment earn 5% more on average than wage workers while those who enter self-employment after a negative shock in the wage market earn 13% less.

A different perspective was taken by *Sara da* (Duke University), who analyzed the unobserved returns from entrepreneurship. She hypothesizes that expenditure is a better measure of self-employment returns than reported income, suffering from fewer biases. In her empirical analysis she uses 38 years of longitudinal data and finds that while individuals report earning 26.2% less in self-employment, their expenditures are 4.5% higher than in their observed alternative. Savings are also higher for those who persist in self-employment.

The third block of the first day was concluded by *Evan Starr* (University of Michigan), who examined the impact of enforcing non-compete covenants (CNC) on the formation and performance of new firms. For his analysis he used matched employer-employee data on 30 U.S. states. In order to identify the impact of CNC, he exploited the inter-state variation in CNC enforcement along with the fact that courts do not enforce such covenants between law firms and departing lawyers in any state. He finds that states with stricter CNC enforcement have fewer, but larger within-industry spinouts that are more likely to survive their nascent years. Conditional on survival, they also grow faster during those years. Moreover, with stricter enforce-

ment, only founders with higher-quality ideas and resources choose to overcome CNC-related barriers. This reduces entry rates but increases observed short-term performance of these spinouts.

In the keynote speech, *David Story* (University of Sussex) examined the performance and volatility of new ventures. His guiding hypothesis was that it is worth comparing actual entrepreneurial behavior not only with strategic entrepreneurship but also with the behavior of a gambler. To underscore this hypothesis, he presented stylized facts of survival probabilities which showed – over the period of the first two to three years after venturing a business – certain similarities with a gambler throwing dice. His main point was that (too?) many decisions towards entrepreneurship are done without careful planning, rather in a trial-and-error approach. The presentation induced a very fruitful controversial discussion between the keynote speaker and all workshop participants on the pros and cons of his competing hypotheses.

The second day started with a joint presentation by *Siri Terjesen* (Indiana University Bloomington) and *Niels Bosma*. They analyzed to what extent entrepreneurial opportunities were identified during the latest global economic slowdown. They tested multi-level theories of the knowledge-based view to explore individual, firm and country characteristics associated with entrepreneurs' ability to perceive additional business opportunities in the global economic slowdown. Responses from 13,174 entrepreneurs across 63 countries revealed that entrepreneurs are more likely to perceive opportunities in an economic slowdown if they had gathered experience in developing new product innovations or servicing international customers.

A different, rather long-term perspective was taken in the second presentation by *Michael Fritsch* (University of Jena), who focused on the effect of regional entrepreneurship culture on economic development. Based on historical German data on the self-employment rate as an indicator of a regional culture of entrepreneurship, he linked these data to economic growth in recent periods. The analysis reveals that German regions with a high level of entrepreneurship in the mid-1920s have higher start-up rates about 80 years later, and that the effect of current start-up activity on regional employment is significantly higher in regions with a pronounced entrepreneurial culture. He concluded that a regional cul-

ture of entrepreneurship is an important resource for regional growth.

Laura Rosendahl Huber (University of Amsterdam) addressed a recently debated topic within the field of entrepreneurship research, the Jacks-of-All-Trades hypothesis. She tested whether the effect of more balanced skills is also positive in a team of entrepreneurs and whether (a lack of) individual balanced skills can be substituted by combining the skills of various specialists within one team. To answer this question, she used a field experiment which studied teams of children participating in an entrepreneurship education program. Based on pupils' precisely measured level of verbal and mathematical ability, she exogenously composed 179 teams separated into four different types: JAT teams, math-specialist teams, verbal-specialist teams and mixed specialist teams. Her results show that balanced skills are beneficial to team performance, but that it is hard to substitute individual balanced skills by combining different specialists within one team.

Sabrina Artinger (University of Oxford) raised the question whether the negotiating behavior of entrepreneurs differs from that of non-entrepreneurs. In a series of laboratory experiments, she compared owners of small and medium-sized businesses with a group of employed individuals. Analyzing negotiation outcomes, behavioral data, and coded conversations, she showed that entrepreneurs make extensive use of emotions and arguments as tools of persuasion. Their assertive behavior leads to fewer agreements but higher profits when they close a deal. Her results suggest that the strategic use of emotions plays an important role in entrepreneurs' negotiations, and that entrepreneurs take higher risks in negotiations. The "experimental session" was closed by a presentation of *Katrin Burmeister-Lamp* (Erasmus University Rotterdam). In her experimental study on 157 entrepreneurs, she investigated how psychological ownership, family support and hindrance-related stress influence the exit decisions of entrepreneurs. She found that both family support and psychological ownership reduce hindrance-related stress being positively associated with the likelihood of venture exit.

In the last session of the workshop, *Stefan Hochguertel* (VU University Amsterdam) studied how unemployment insurance that is also available to self-employed influences entrepreneurial start-up behavior and entrepreneurial performance. Results

based on Danish data show that the causal effect of insurance on the probability of starting up a venture is positive for native entrepreneurs. Using firm data, he also investigated how the newly insurance-induced entrepreneurs fare relative to their uninsured peers. Results suggest that the insured survive longer, but are not more likely to employ any workers or to make higher or lower profits. The final presentation was given by *Anisa Shyti* (IE Business

School, Madrid). She investigated the influence of risk and ambiguity attitudes of entrepreneurs and non-entrepreneurs on occupational choice decisions. Her observations show that entrepreneurs exhibit more optimism for both risk and ambiguity compared to non-entrepreneurs, across likelihood levels and degrees of ambiguity.

This year's workshop showed that diverse new topics are constantly enrich-

ing research in entrepreneurship. IZA will therefore continue its strong commitment to bringing together leading economists in the field of entrepreneurship research by organizing this annual event.

The presented papers are available online:

► www.iza.org/link/Entrepreneurship2014

Wage Rigidities and the Business Cycle

IZA Workshop in Bonn

Whether wages are rigid or not has considerable implications for the way productivity shocks affect the economy. Unemployment volatility over the business cycle depends to a large extent on the degree to which wages adjust to economic conditions. In turn, this depends on the design of institutions such as wage bargaining institutions. In June 2014, a workshop organized by IZA Program Director *Pierre Cahuc* (CREST-Ecole Polytechnique, Paris) and IZA Deputy Program Director *Konstantinos Tatsiramos* (University of Nottingham) was devoted to "Wage Rigidities and the Business Cycle". The event brought together leading researchers in the field who presented their work on wage cyclicality, the adjustment of entry wages versus that of incumbent workers, and the influence of the institutional setting on wages and employment adjustments over the business cycle.

The first theme of the workshop was related to the way in which firms adjust their wages over the business cycle. In his study of the behavior of worker flows and wage rigidity in Portugal, *Mario Centeno* (Banco de Portugal and IZA) found that the most distinctive feature of the impact of the current crisis on the labor market is the reduction in hiring and the increase in wage cuts for continuing workers. The evidence presented suggests that Portuguese firms are characterized by a high degree of wage flexibility with no evidence that wage rigidity indicators increase with the business cycle. Using similar employer-employee data for the U.S., *André Kurmann* (Drexel University) documented that U.S. firms systematically achieve reductions in labor costs by reducing hours worked instead of cutting hourly wages. Focusing on annual earnings, the authors found evidence that more than 25% of workers experience an earnings cut in a given year, which was markedly increased during the Great Recession. This evidence suggests that downward rigidity in labor costs is not a general feature of U.S. firms. *Gregory Verdugo* (Bank of France and IZA) investigated

the response of real wages to the business cycle in major Eurozone countries before and during the crisis. Using individual level panel data, he found that, after accounting for changes in the composition of the workforce, there is a significant decrease in average wages during the downturn in countries most affected by the crisis.



The second theme of the workshop was related to the adjustment of entry wages versus that of incumbent workers. Whether wages of newly hired workers are rigid or not is important as firms' decisions to open vacancies is influenced by their real wage and how it adjusts over the business cycle. *Heiko Stüber* (IAB, Nuremberg) investigated the real wage cyclicality of newly hired workers in Germany, finding that entry wages are not rigid but respond significantly to business cycle conditions. *Antonella Trigari* (Bocconi University) using U.S. data also found evidence which suggest that wages for new hires are more cyclical. However, she reported that there is no excess wage volatility for workers coming from unemployment. This suggests that the wage cyclicality of new hires reflects cyclical in match quality of job changers as opposed to new hire contract effects.

The third theme of the workshop was related to the economic effects of the extension

of collective bargaining agreements. These extensions may address coordination issues but may also distort competition by imposing sector-specific minimum wages and other work conditions that are not appropriate for many firms. *Pedro Martins* (Queen Mary, University of London and IZA) analyzed the impact of such extensions along several mar-

gins drawing on firm level monthly data for Portugal, a country where extensions have been widespread until recently. He found a fall in both formal employment and wage bills in the relevant sector, which was driven by both reduced hirings and increased firm closures, and an increase in informal work. *Ernesto Villanueva* (Bank of Spain) exploited similar extensions of sector-level collective agreements in Spain and found that agreements bargained after the fall of Lehman Brothers in September 2008 adjusted to the large aggregate employment losses by agreeing on lower wage growth. In contrast, agreements signed earlier had settled higher wage increases, and the covered workers faced higher employment losses, suggesting that downward wage rigidity may have real effects during a recession.

These and other papers presented during the workshop are downloadable:

► www.iza.org/link/wagerigidities2014

Mapping Diasporas in the European Union and the United States

IZA/RAND Workshop in Brussels

In June 2014, IZA and RAND Europe organized a workshop in Brussels to present their report on “Mapping Diasporas in the European Union and the United States”, a project which was commissioned and financed by the European Commission (DG Home Affairs). The aim of the project is to build on existing evidence on diasporas in order to provide an overview of diaspora communities settled in Europe and the United States, and to provide concrete recommendations for EU and U.S. engagement with diaspora groups.

The event brought together several academic and policy experts to discuss the current situation of diaspora groups and their engagement with both the sending and the receiving countries. After a welcome by *Corrado Giulietti* (IZA) and *Jirka Taylor* (RAND), the first contributor to the academic roundtable was *Michel Beine* (University of Luxembourg), who highlighted how diaspora communities can affect current migration flows to a country, transnational links and home countries’ cultures. *Jackie Wahba* (University of Southampton and IZA) discussed the economic impact that social networks have on migration, diaspora and also home communities. *Amelie Constant* (George Washington University, Temple University and IZA) highlighted the issues around the definitions of diasporas as well as the difficulties with mapping these groups and assessing their cultural impact on home communities. *Michael Rendall* (RAND, University of Maryland) discussed the phenomenon of negative educational selectivity by presenting the case of Mexican immigration to the United States in the last two decades and how the Mexican case contrasts with evidence of positive educational selectivity related to other immigrant groups.

Martin Kahanec (Central European University and IZA) presented his research on eastern European diaspora groups within the

EU, underlining the brain-waste phenomenon that presents a particular challenge to these communities as well as their receiving countries. *Theodora Xenogiani* (OECD and IZA) discussed the challenges faced by the OECD in its attempt at building a database monitoring migration flows and related



Jirka Taylor and Corrado Giulietti

as of migration and diaspora engagement: *Sara Gallagher* (International Diaspora Engagement Alliance), *Stephen Deul* (African Diaspora Policy Center), *Elizabeth Collett* (Migration Policy Institute) and *Stephanie Deubler* (Centre for International Migration and Development - GIZ). The panelists presented the initiatives, experiences and challenges faced by their respective organizations. Some important points emerged from the discussion, ranging from the need to better link diaspora research with policymaking, to the difficulties in establishing adequate engagement with host and home countries, and the complexity in evaluating the results of diaspora engagement.

The afternoon session was dedicated to presenting the report to the European Commission and to States’ representatives. *Marie-Ange Balbinot* (DG Home Affairs)

introduced the report stressing how much focus in recent years has been put on the study of migration flows from the point of view of host countries, but how little has been researched with regards to diaspora communities and their engagement. After the introduction, *Jennifer Rubin* (RAND Europe) underlined the growing dimensions of diasporas residing in the EU and U.S. and how this could help foster links between home and host communities at different levels.

Corrado Giulietti presented the research methods used to map diaspora groups, and outlined the tools developed by the research team to compare various characteristics of diaspora groups within and between sending and receiving countries. *Chris Giacomantonio* (RAND Europe) provided an overview of the existing policy mechanisms by which diaspora communities are engaged at both home and host society levels, and reviewed the results of an international web-based survey exercise. Finally, *Jirka Taylor* presented the report’s recommendations and policy considerations, which

Diaspora Levels in Europe and the United States



Number of foreign-born residents

■ >3,427,000

■ 757,000–3,427,000

■ 357,000–757,000

■ 113,000–357,000

Source: IZA Research Report “Mapping Diasporas in the European Union and the United States”, 2014 (forthcoming).

policies (DIOC - Database on Immigrants in OECD Countries), highlighting issues with diaspora definitions, access to official country-level information and the harmonization of data across the databases. *Elaine McGregor* (MGSoG and UNU-MERIT) closed the panel by presenting research focusing on the impact that social media have on migration, human trafficking, diaspora communities and the study of these phenomena.

The second panel included a number of practitioners and policy experts in the ar-

were offered as starting points for developing engagement strategies.

The report was positively received by the audience, who underlined its contribution in covering gaps in the literature on diaspora communities within the EU and U.S. In the open discussion that followed, some

questions were raised, echoing several of the aspects identified during the morning panels. Marie-Ange Balbinot concluded the discussion by underlying how the European Commission saw this report as the first of a series of steps that needed to be taken in order to better understand the phenomenon of diaspora communities and

to engage with them in a fruitful and constructive way.

► www.iza.org/link/iza_rand_2014

Latest Research on Chinese Labor Markets

6th IZA/CIER Workshop in Bonn

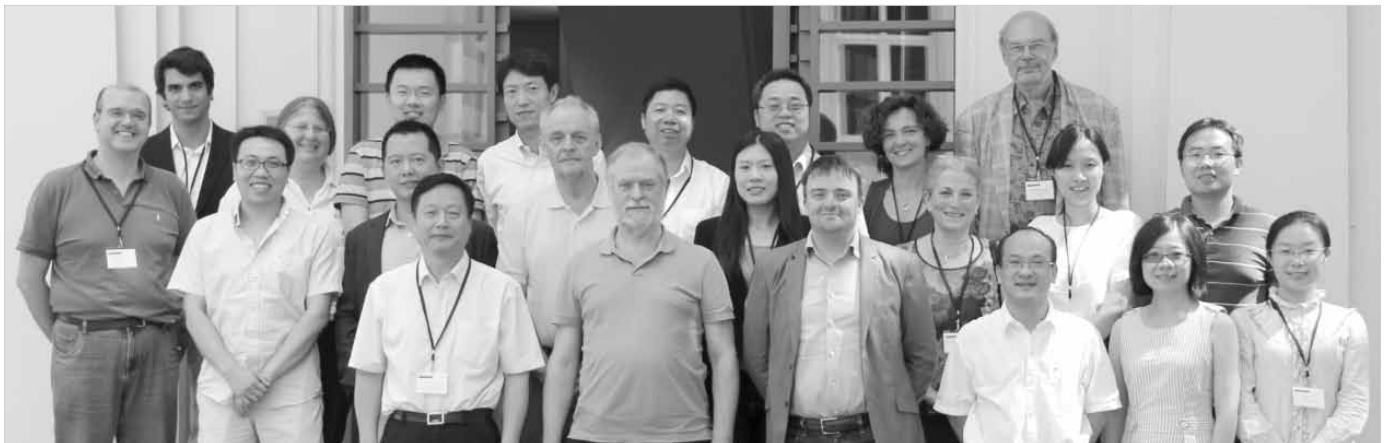
Now at its sixth edition, the annual workshop organized by IZA and the Center for Employment Research in China (CIER), Renmin University of China constitutes a traditional appointment for researchers to gather and discuss topical issues about Chinese labor markets. The two-day workshop, organized by *Corrado Giulietti* (IZA), *Klaus F. Zimmermann* (IZA and University of Bonn), *Zhong Zhao* (Renmin University of China and IZA) and *Xiangquan Zeng* (Renmin University

downsizes in firms with low wages. On the other hand, firms with higher wages are observed to increase employment as a consequence of the introduction of the policy.

The second session featured two papers related to migration and the urban/rural divide. *Sylvie Démurger* (CNRS, GATE and IZA) presented a paper investigating the consequences of migrating for work reasons on the happiness of migrants. The pa-

should account for both household and village/community level characteristics.

The papers by *Rachel Connelly* (Bowdoin College and IZA) and *Björn Gustafsson* (University of Gothenburg and IZA) covered issues of ethnicity and labor markets. The first paper looks at the labor participation decisions in a sample of individuals aged 50 to 74. As in many other developing countries, the lack of social security often leads to a high level of



of China and IZA), was held in Bonn in July. The program featured seven sessions, with topics ranging from minimum wages and informality to migration and inequality.

The papers presented by *Tony Fang* (Monash University and IZA) and by *Yi Huang* (Graduate Institute, Geneva) both focused on the relationship between minimum wages and employment. The introduction of minimum wages in China – very much like in Europe – is at the center of the political debate. Contrary to many studies based on data at the province level, the first paper uses counties as base of observation. With information at such disaggregated level, the authors find a rather substantial negative effect of minimum wages on employment, with a magnitude varying depending on the group considered (e.g. women, low-skilled, etc.). The second paper focuses more on the demand of labor – the firms. The author finds that an increase of the minimum wage determines employment

per finds that migrants who have to leave their children in rural areas report lower happiness than those who can bring their children along in the cities. Often the decision of leaving children behind in rural areas is dictated by the existence of institutional barriers which limit access to welfare and public services for migrants in urban areas. The author discussed scenarios in which such constraints are eliminated, and showed the potential consequent rise in the well-being of migrants. The paper by *Guochang Zhao* (Southwest University of Finance and Economics, Chengdu) explores the determinants of the schooling gap between urban and rural students. While several complex reasons behind such determinants are found in the analysis, the author emphasized that parental background – in particular education – and the amount of public local resources spent on education are two of the most important factors. This results suggests that a policy aiming to reduce the urban/rural gap in education

labor market participation even among the elderly. However, individuals from ethnic minorities are found to be systematically more likely to participate than the majority group – the Han. Based on their decomposition analysis, the authors conclude that most of such gap in participation can be attributed to cultural differences between the majority and the minority groups. When looking at earnings, however, it is less clear which group is better off. This is the conclusion of the second paper, which found that while many minority groups report lower wages than the majority, some ethnic groups are actually observed to earn higher wages.

The first day concluded with a session on the interaction between health and consumption. *Kai Liu* (Norwegian School of Economics and IZA) exploited the introduction of a universal health insurance policy to explore the consequences of a health shock on consumption behavior. He found that the presence of the policy allows households to keep

their investment on children's education. The author concludes that one of the positive spillovers of health insurance coverage is precisely to prevent consumption from large drops/distracted. This analysis was complemented by the presentation of *Liqiu Zhao* (Renmin University of China) who, exploiting the same universal reform, analyzes whether health insurance coverage is associated with a reduction in the remittances sent home by migrants. This is taken as evidence that a public transfer (insurance) crowds out a private transfer (remittances).

The first session on the second day covered the topic of informality and how informality issues compare across countries. *Xiaoman Li* (Capital University of Economics and Business, Beijing) used data from the RUMiC survey to assess whether the choice of informal employment (mainly work as self-employed or with own-account business) is determined by a choice or is the result of the presence of institutional constraints which prevent individuals from participating in the formal sector. The results suggest that while the choice of working in the informal sector is a last resort for females, this is not the case for males. *Hartmut Lehmann* (University

of Bologna and IZA) presented the case of informality in Ukraine, showing that risk attitudes are an important factor in shaping the informal employment decision.

Dennis T. Yang (University of Virginia and IZA), *Massimiliano Tani* (IZA) and *Xiangbo Liu* (Renmin University of China) presented work related to labor outcomes inequality. The first paper explores the role of offshoring in determining wage inequality. The author presented highlights from his theoretical model and then outlined the results from the empirical model in which foreign direct investments are correlated with wage changes. The paper concludes that FDI processing exports is one of the main determinants of the increase in college premium in China. This result has important reflections for China's interventions in terms of firm ownership, since restrictions on FDI might eventually result on a lower demand for high-skilled Chinese labor. The second paper explores whether housing expropriation produces positive or negative labor outcomes in a sample of individuals from several provinces in China. Expropriation generates an unexpected change in the household registration status of in-

dividuals, with some acquiring the urban hukou (the residence system in China). The author showed that such an unforeseen event is associated with sizeable effects in terms of outcomes such as participation and employment. The third paper explores how educational policy affects schooling choices and unemployment. The author's results suggest that scholarship and subsidies incentivize the investment in college education and are associated with lower unemployment for college graduates.

The final session was devoted to the presentation of data on China. *Zhong Zhao* provided an update about the China Matched Employer-Employee Longitudinal Survey carried out by the Renmin University of China. *Corrado Giulietti* outlined the main features of the Rural-to-Urban Migration in China (RUMiC) data, highlighting the public availability of two waves and the possibility of carrying out longitudinal studies.

The presented papers are downloadable:

► www.iza.org/conference_files/CIER2014

Learning from the Best

IZA Summer School in Labor Economics



For the 17th time, IZA held its European Summer School in Labor Economics. From May 12-18, 2014, the summer school brought together distinguished lecturers and a large number of PhD students to familiarize the young researchers with up-to-date topics and methods in labor economics. The students also had the opportunity to present their work in a formal presentation or poster session and to discuss ideas with established researchers in a relaxed and open atmosphere. This year's edition hosted

36 students of 17 different nationalities based in universities from 16 different countries at Lake Ammersee in Bavaria/Germany. As in previous years, roughly half of the participants were female.

The lectures were delivered by IZA Research Fellows *Mirjam van Praag* (Copenhagen Business School) and *Richard Blundell* (University College London). Van Praag's lecture was devoted to "Entrepreneurship and Human Capital". The topics included the questions what type of per-

son decides to become an entrepreneur, what determines entrepreneurial success, and whether economic policy can help boost entrepreneurial activity. IZA Prize laureate *Blundell* introduced students to "Advances in Modelling Labor Supply", exploring new approaches to the analysis of life-cycle and family labor supply, the interplay between human capital investments and labor supply decisions, and the influence of tax and transfer systems on people's labor market choices. In addition to the lectures and presentations, advisory board member *Uwe Sunde* (University of Munich) introduced the summer school participants to the broad set of activities of the European Association of Labour Economists (EALE).

On the final day of the summer school, the students attended a workshop on "Communicating Your Research Effectively" given by *Mark Fallak*, who manages corporate communications at IZA. During the workshop, the students learned key competencies for communicating with non-scientific audiences, interacting with the media and presenting their work in TV or radio interviews. They also had a hands-on opportunity to write a press release on their own work.

Yegor Gaidar Foundation Award for Alexander Muravyev

Alexander Muravyev, Deputy Director of the IZA program area “Labor markets in emerging and transition economies” and Associate Professor at St. Petersburg State University, has received the Yegor Gaidar Foundation Award for the paper “Investor Protection and the Value of Shares: Evidence from Statutory Rules Governing Variations of Shareholders’ Class Rights in an Emerging Market”, published in 2013 in the Journal of Law, Economics and Organization.

The award, named after the late leading Russian economist and former prime minister Yegor Gaidar, is given to young Russian economists under the age of 40 for the publication of a paper in a highly ranked international journal. In 2014, Muravyev was the only recipient of the award. The prize

was established in 2012 as a Russian equivalent to national and international awards for young economists such as the Gossen Prize and Yrjö Jahnsson Award.

As one of the leading Russian labor economists, Alexander Muravyev shows with this award that he can straddle two research areas that are fundamental for understanding the adjustment processes that take place in emerging and transition economies: labor economics and corporate governance issues, both of which involve the establishment of and experimentation with key economic institutions. The latter focus of his research is important for the IZA program on labor markets in emerging and transition economies as it will contribute to a large planned project on wage and employment policies in post-Soviet econo-

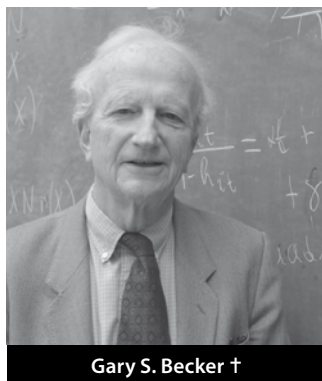


Alexander Muravyev

mies that will link corporate governance issues to the evolution of internal labor markets.

IZA Fellow and Nobel Laureate Gary Becker Dies at 83

With sadness we report on the passing of IZA Research Fellow Gary S. Becker, one of the most influential labor economists of our time. Gary Becker was University Professor at the Department of Economics and Sociology, University of Chicago. His most recent research focused on habits and addictions, formation of preferences, human capital, and population growth. He won the Nobel Prize 1992 in Eco-



Gary S. Becker †

nomics for having extended the domain of microeconomic analysis to a wide range of human behavior and interaction, including nonmarket behavior. He joined the IZA network as a Research Fellow in 2001 and served on the IZA Prize Committee for several years.

James J. Heckman
Private Notes on Gary Becker
IZA Discussion Paper No 8200
<http://ftp.iza.org/dp8200.pdf>

James J. Heckman
Introduction to A Theory of the Allocation of Time by Gary Becker
IZA Discussion Paper No 8424
<http://ftp.iza.org/dp8424.pdf>



“Gary Becker was one of the greatest economic minds, and a dear friend, who has done so much for our field. He also was a strong supporter of IZA from the beginning. He will always be with us through his work and in our memories.”

Klaus F. Zimmermann
(IZA Director and University of Bonn)

“Gary Becker was the consummate intellectual economist, caring about thinking about behavior more than anybody else in the business. He combined everything an economist should be – he epitomized what is best about economics.”

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

“Gary Becker challenged every economist he encountered – colleagues, students, seminar speakers, and journalists – to understand human behavior through the lens of optimization and market equilibrium. [...] His legacy is written in the pages of every journal, newspaper, and blog that features labor economics. He will be deeply missed.”

Lawrence Katz
(SOLE President,
Harvard University)

John M. Abowd
(President-elect,
Cornell University)

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Martin Kahanec: “Europe Must Do More for Roma Integration”



Martin Kahanec

Our interview series provides a look behind the scenes of one of the world’s most vibrant economics research institutes. In this issue, *Martin Kahanec* answers questions about his career, his research, and his IZA experience. Martin is an Associate Professor at CEU in Budapest, founder and Scientific Director of CELSI in Bratislava, and Deputy Program Director “Migration” at IZA. He is currently also a Visiting Research Fellow at Harvard University’s Labor and Worklife Program. His main research interests are labor and population economics, ethnicity, migration, and reforms in Central Eastern European labor markets.

► www.iza.org/home/kahanec

IZA Compact: *Martin, out of all the jobs you could have done, why did you choose to become a labor economist?*

Martin Kahanec: It took me a while before I settled on this. I actually remember myself during my undergrad studies wondering why anyone would wish to study labor. My Master thesis was on financial institutions and I started my Ph.D. with modelling growth. At some point I realized that my true inspiration stems from the struggles of vulnerable groups in the society, and that my growth models can actually be adapted to the study of labor market specialization and outcomes of such groups. I added empirics, *et voilà*.

What spurred your interest in the economics of migration?

It all started with my discontent with the struggle of Roma in European labor markets and my trying to better understand it. Similarly to the Roma, migrants often suffer from all kinds of barriers to their social and labor market integration, some of which I have ventured to explain. I became intrigued by the abysmal gap between beliefs and attitudes presented in public discourses about this topic and available evidence based on hard data. The heated policy debate surrounding EU’s eastern enlargements and the free movement of labor added to my motivation. I became convinced that generating and disseminating evidence about ethnic minorities and migrants, and their labor market realities, is a good thing to do.

Are you personally optimistic about the future of European integration?

The EU needs to come back to its roots and better understand its fundamental goals and values. I consider European integration ever more important in view of the recent economic turbulences but also the unfortunate events in Ukraine and more generally shifting global political and economic poles. This, for example, relates to a better understanding of the enabling role of internal mobility and migration between the EU and the rest of the world, also when it comes to dealing with economic shocks and succeeding in the global competition for talent. But this is not a trivial challenge: we need integration and coordination, but at the same time we must also ensure that responsibility and accountability are not diluted.

Tell us more about the Roma situation in Europe. What causes their integration problems?

Roma are the largest and one of the most poorly integrated minority groups in Europe. They are a very dispersed and heterogeneous

ethnic group, which has faced significant hardship in interaction with non-Roma majorities. A triple vicious circle is at play here: socio-economic disadvantages reinforce each other. They lead to negative attitudes and perceptions by the majority populations, which in turn result in ill-chosen policies. Segmentation along ethnic lines is perpetuated through (statistical) discrimination. Education measured by years of schooling is exceptionally low among Roma. Consequently, Roma employment rates in most countries are less than half the European average.

Are European policymakers sufficiently aware of the problem?

I think that the social and labor market integration of Roma is not only a moral but also an economic imperative. Although the European Commission and many other international and civil society organizations are raising awareness of the situation, the lack of progress is stunning. The key reason is the missing political will and courage especially at national and subnational levels to systematically address the issue using policy interventions.

What should such interventions look like?

Integration programs need to be targeted, but participatory and non-segregating. Voluntary participation and transparent, strictly applied rules build up trust, social relationships and a positive perception of the initiative by the parties involved. Long-term commitment and active involvement of all key stakeholders is very important for success. Policies preventing the residential and social segregation need to receive highest priority. They must also address intergenerational transmission of poverty and human capital disadvantages. Success of integration initiatives is impossible without equal treatment in the labor market. And importantly, the scale and scope of policy intervention need to be commensurate with the challenge.

Your findings are summed up in an IZA World of Labor article. What is your take on the WoL project?

IZA’s World of Labor is a brilliant idea and a noble endeavor. I firmly believe that the role of scientists goes beyond generating knowledge in an ivory tower – it involves the dissemination of this knowledge and a dialogue with all stakeholders. Having labor scholars write about key labor issues on which they have established themselves as leading experts, doing this in a determinedly structured and accessible way, and disseminating their policy lessons via prolific channels – hats off!

You are a “high-skilled circular migrant” yourself – with current academic positions in Budapest, Bratislava, Bonn and Boston. How do you manage all of that?

There are, of course, many practical challenges involved, but I am very pragmatic about this and I simply get things done wherever I am. Clearly, this would not be possible without the endless support of my family and wife, who fortunately is also an academic and understands this sort of life well. Professionally, there is a pivotal mission to contribute to society’s understanding of some of the key socio-economic challenges, to enable policymakers to make informed choices. And my 4xB affiliations (isn’t it funny?) are helping me on this mission in various complementary ways.

From the IZA Newsroom

Using employee recognition to boost productivity

Good bosses know that recognition and words of appreciation are key tools to motivate employees and increase productivity. But what is the most effective way? Is it better to praise all employees, or just the top performers? A new IZA Discussion Paper suggests that the happy medium may be the best choice.

For their study, *Christiane Bradler, Robert Dur, Susanne Neckermann and Arjan Non* conducted a field experiment with more than 300 students to investigate how exclusive or inclusive recognition optimally should be. The participants were paid 25 euros for a three-hour task of entering survey results into a database. Eight of them shared a room, but they all worked independently.

After two hours of work, thank-you cards were unexpectedly given out – either to all eight students, or to the top three performers, or only to the single most productive worker so far. This surprise recognition had no material value but clearly showed appreciation of the work effort.



Compared to a control group, all treated increased their productivity by an average of at least 5 percent for the remaining hour. If all eight students received a thank-you card, they subsequently performed 5.2 percent better. If only the most productive worker was picked out, average effort in the group rose by 5.6 percent. The best outcome was

found in groups with three recognized workers, where overall performance increased by 7.3 percent.

Most strikingly, this increase in work effort is driven by those who did not receive a card. Even though they were made aware that there was no chance to receive a card later if they worked harder, their performance improved by more than 10 percent. In contrast, those who received a card raised their effort by only 3.3 percent.

According to the authors of the study, these results can be largely explained with a desire for conformity: Upon learning that one does not belong to the best three performers in a group of eight, non-recipients apparently feel inclined to improve performance so as to adhere to the apparent group norm. But reciprocity also seems to play a role. This would explain why recipients of recognition in treatments with scarce recognition did not reduce their performance.

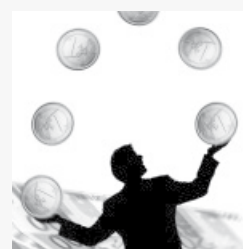
In conclusion, the authors suggest that recognition is a cost-effective tool to stimulate performance in a workplace setting, and that exclusivity may motivate relatively poor performers to catch up. However, if recognition becomes too scarce, its effectiveness diminishes. The optimal level, of course, depends on the organizational setting – particularly whether or not it is desirable from a management point of view to provide information to employees about the work norm prevalent in the group.

► <http://ftp.iza.org/dp8311.pdf>

High mortality on payday: Don't get too excited about your money!

Payday is supposed to be a cause for celebration. When the salary finally arrives, bills can be paid, and financial stress should be eased. But if there is still some money left, be careful how to spend it: As a recent IZA discussion paper shows, too much excitement could be deadly!

In their study, *Elvira Andersson, Petter Lundborg and Johan Vikström* find an enormous increase in mortality on payday. Analyzing data on Swedish public sector employees – accounting for 22% of the country's labor force – they discover a 23% increase in total mortality on the day that salary payments arrive.



The effect is especially pronounced for young workers aged 18 to 35. Their mortality rates on payday increase by as much as 164%. Overall, the results are driven by low-income earners, who are more likely to face liquidity constraints, which means that some extra spending money really makes a difference.

But contrary to what one may assume, wild partying on payday is not the reason for this excess mortality. Instead, the extra deaths are caused mainly by circulatory problems due to an increase in “general economic activity” – including shopping, traveling or eating out. When these activities are too exciting (watching your favorite football team) or unhealthy in other ways (greasy food), they lead to a higher risk of heart attacks and strokes.

Since paydays vary among Sweden's public sector employees, the authors were able to rule out that their results are based on date-specific effects. Moreover, the rise in mortality is not offset by a subsequent decline, so it really consists of additional premature deaths. When extending the findings to include the entire Swedish working-age population, payday seems to cause approximately 96 premature deaths per year.

► <http://ftp.iza.org/dp8389.pdf>

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Evidence-Ignoring Family Policy in Germany

The German federal government recently introduced the *Betreuungsgeld*, a family benefit paid to parents who keep their one- and two-year-old children at home rather than sending them to public childcare. In August 2014, monthly benefit payments were raised to 150 euros per family.

While this subsidy was celebrated by some politicians as granting „recognition, support and freedom of choice“ to parents of young children, sober economic analysis has long proven that the actual effects differ diametrically from the intended purpose. As studies on parental home-care benefits in Norway and the German state of Thuringia have shown, well-meaning is not always well-done.

Published as IZA Discussion Papers, these studies have triggered a heated public debate in Germany. The most recent evaluation of the Germany's new *Betreuungsgeld* on the federal level, presented by the German Youth Institute, underscores the concerns voiced by IZA researchers long ago.

Economic incentives are powerful – the *Betreuungsgeld* is a case in point. It shows that the “wrong” incentives also lead to rational responses. The subsidy makes public childcare unattractive compared to the subsidized private option. As a result, it is mainly women who leave the labor force and stay home to look after their children, including older pre-school children not targeted by the policy. Even worse, the subsidy is particularly attractive for problem groups of the labor market, such as low-skilled, low-wage workers and single parents, whose labor market participation is already low – and whose children would benefit the most from early childhood education.

Given the overwhelming empirical evidence on the negative effects, why do policymakers keep defend-

ing the *Betreuungsgeld*? This shows that family policy in Germany is still dominated by clientelism and party politics. Policymakers should finally acknowledge the key social policy concerns: Disadvantaged children need the earliest possible support, and female labor market participation must be strengthened. But the vast body of scientific evidence is negligently, if not deliberately, ignored. Facts and evidence-based arguments are used selectively at best in the current debate.

Last year's comprehensive evaluation of German family policy was a call for action that has so far gone unheard. At first, it seemed that the findings would be silently shelved by the ministries. Now that they have been published after all, they are still met with inactivity. This deplorable lack of evidence-based policymaking results in a continuing waste of tax-payer money. The sheer scope of government programs supporting family and marriage in Germany, amounting to over 200 billion euros in public spending every year, is no indication of a successful family policy.

What politicians must realize is that allocating money to new programs alone is no proof that their policy goals will be met. All programs must live up to the scrutiny of independent science. Failure to take this into account signifies a backward-oriented approach to policymaking. The tiring debate on the *Betreuungsgeld* is a prime example.




Klaus F. Zimmermann



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