



Long-Term Unemployed Need More Effective Support

Over the past years, the number of long-term unemployed in Germany has stagnated at a high level. About one million people have been without a job for more than 12 months. Older age and a lack of formal vocational training are among the major risk factors that increase the probability of long-term unemployment: Almost half of all unemployed workers over the age of 55 – and 40 percent of those without vocational training – have been long-term unemployed in 2013.

Only one in four long-term unemployed individuals has taken up employment in the primary labor market. Another 25 percent has started an apprenticeship or participated in a labor market program. However, many of these people do not remain employed for an extended period of time and will sooner or later return to the employment agencies and job centers. But if they stay in employment or a labor market program for more than six weeks, they are no longer defined as long-term unemployed and will officially be counted as newly unemployed. This may lead to a gross underestimation of the actual problem of long-term unemployment.

This is why the OECD long-term unemployment figures based on survey data are better suited to assess the true scope of the problem. According to OECD statistics, Germany is among the countries with exceptionally high rates of long-term unemployment as a share of total unemployment – at 45 percent it exceeds the OECD average by ten percentage points.

In addition, the “core” of extremely long-term unemployed has grown over the past few years. The introduction of a statutory minimum wage at 8.50 euros per hour will – if the fears of many labor market economists are confirmed – particularly drive unemployed individuals without vocational training into long-term unemployment.

About 90 percent of all long-term unemployed are entitled of basic income support

(labeled “Hartz IV”). This system also covers long-term benefit recipients who are not actively seeking employment (e.g., people who care for their children), but are fit to work – or else they would not be entitled to basic income support. Therefore, the official level of one million long-term unemployed must certainly be considered the lower bound. In reality, the number of employable people with a very weak labor market attachment is substantially larger.

Long-term unemployment not only reduces employability and the likelihood to reenter the labor market, but it also generates feelings of isolation and negative health outcomes. The breakup of social networks due to job loss often comes as an unexpected shock which can turn self-confident people into insecure applicants for jobs well below their formal qualifications. Submitting hundreds of unsuccessful job applications causes demoralization, feelings of worthlessness, lack of prospects, if not depression. With this in mind, it is a good thing that Federal Labor Minister Andrea Nahles and the Federal Employment Agency are planning to deal more intensively with the issues of long-term unemployment and long-term benefit receipt.

Prevention is the best medicine

Given that the lack of vocational training is a major contributing factor to long-term unemployment, the institutions in Germany have to be further developed in this regard. Currently some 1.5 million young people aged between 25 and 35 years have no formal vocational training. This has prompted the Federal Employment Agency to plan a “late starter initiative” that is supposed to help 100,000 young individuals find an apprenticeship or trainee position within three years.

However, for many of those who belong to this target group, the obstacles for success-

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ful participation in Germany's dual training system (which combines in-company training with vocational schooling) are too high, perseverance is too low, and the fear of exams is often overwhelming. In recent years, therefore, several pilot projects were introduced that aim at what is called "partial" qualification. The idea is that certified training modules will lead, step by step, to partial qualifications, which will eventually add up to a formal vocational degree. This reduces the obstacles to dual training participation and will ideally facilitate access to vocational qualifications.

Tough cases are often neglected

Prevention alone, however, is not enough. When unemployment is imminent, swift action is needed. Today people have to register as job-seeking even before they become unemployed so that job centers can take effective measures. Job search assistance is an important and successful tool of labor market policy. Offering support and requiring active job search is a good mixture that usually prevents people from becoming long-term unemployed. Still, too many of the jobless eventually end up as long-term unemployed, making them clients of the 414 job centers in Germany.

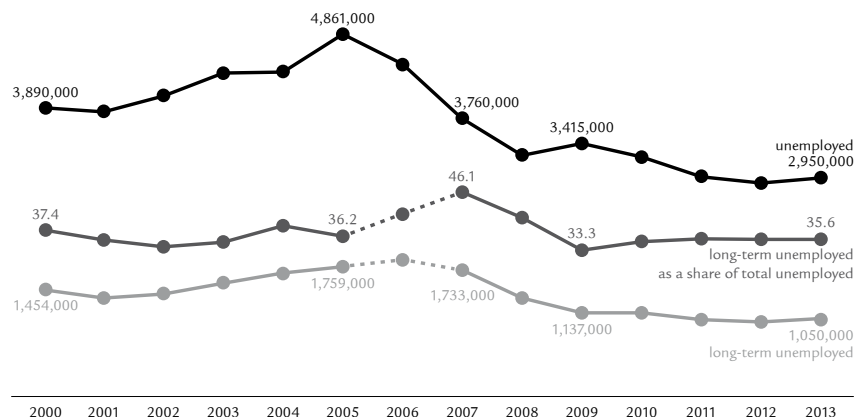
These job centers are either administered as joint institutions of the federal employment agencies and the municipalities, or organized by the municipalities independently. Evaluation research shows that job centers tend to neglect the most difficult cases of extremely long-term unemployed in terms of counseling time and effort. From the caseworkers' perspective, it makes more sense to focus on clients with higher employability – because the job placement rate has an impact on their own performance evaluation.

Successful tools for long-term unemployed

Caseworkers in job centers can choose between several instruments that have proven successful: Employer subsidies, integration benefits as temporary income subsidies, and education vouchers for certified training programs have been evaluated many times and are found to be effective tools to achieve the reemployment of long-term unemployed who still have some labor market attachment.

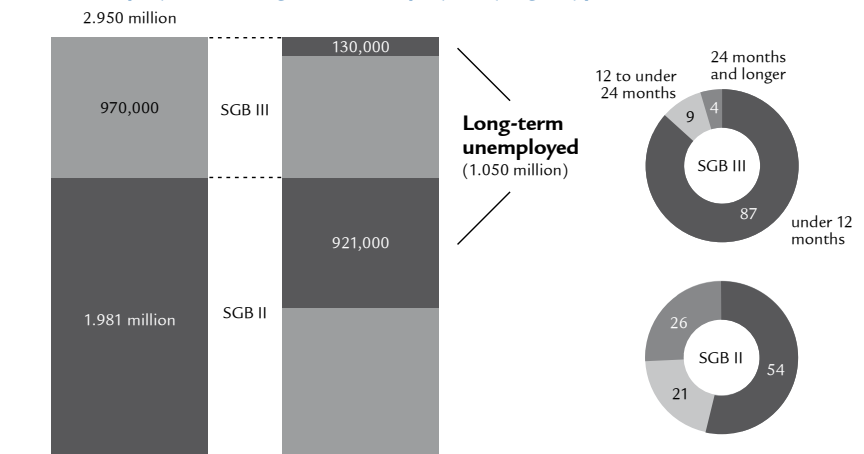
It remains to be seen how permanent these transitions back into the labor market really are. In many cases, employment relationships fail because of minor details. The experience of temporary employment agencies with long-term unemployed indi-

Unemployed and long-term unemployed, 2000–2013



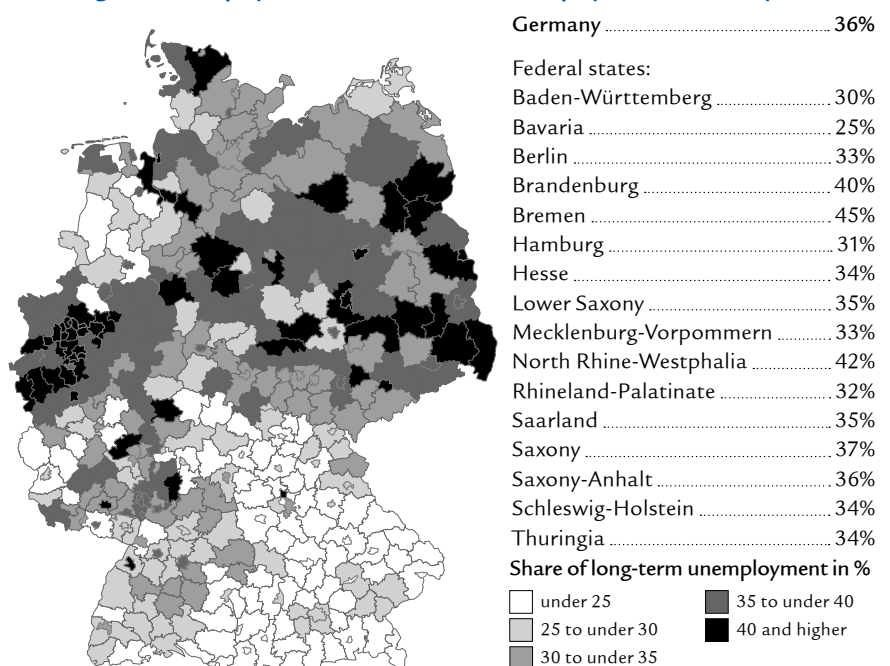
Source (data and figure): Bundesagentur für Arbeit (2014), Arbeitsmarktberichterstattung: Der Arbeitsmarkt in Deutschland – Die Arbeitsmarktsituation von langzeitarbeitslosen Menschen, Nuremberg, p. 6.

Unemployed and long-term unemployed by legal type and duration, 2013



Note: SGB III refers to unemployment insurance benefits whereas SGB II benefits ("Hartz IV") are granted as basic income support regardless of previous employment.
Source (data and figure): Bundesagentur für Arbeit (2014), Arbeitsmarktberichterstattung: Der Arbeitsmarkt in Deutschland – Die Arbeitsmarktsituation von langzeitarbeitslosen Menschen, Nuremberg, p. 7.

Long-term unemployment as a share of total unemployment in Germany, 2013



Source (data and figure): Bundesagentur für Arbeit (2014), Arbeitsmarktberichterstattung: Der Arbeitsmarkt in Deutschland – Die Arbeitsmarktsituation von langzeitarbeitslosen Menschen, Nuremberg, p. 21.

viduals shows that intensive support after taking up employment is crucial for lasting success. With the “Initiative for Sustainable Employment”, the Federal Employment Agency also aims at supporting former clients after they have started to work in a new job.

Germany’s new government plan

On November 5, 2014, Federal Labor Minister *Andrea Nahles* presented a new concept entitled “Create New Opportunities – Ensure Social Participation” to reduce the number of long-term unemployed. As a first step, Nahles said she wants to “initiate a social dialogue.” The detailed bill is yet to be drafted. IZA is actively engaged in this debate and recently hosted a conference in Berlin with leading representatives from the government, academia, employer associations and unions.

The concept of the Federal Labor Ministry differentiates among the heterogeneous group of long-term unemployed in order to facilitate individual support. This approach is consistent with recommendations and proposals presented by IZA experts at previous conferences. The “Nahles concept” rests on three main pillars:

- The staffing of job centers is supposed to be strengthened by preserving 1,000 jobs under a federal program that was scheduled to expire. These employees will receive extra training for better profiling and support of the long-term unemployed in so-called “activation centers”.
- Approximately 900 million euros are to be made available between 2015 and 2019 for employer subsidies and job coaching, from which 33,000 individuals without vocational training are supposed to benefit. Roughly half of this funding (470 million euros) is drawn from the European Social Fund (ESF).
- About 150 million euros annually are planned to be invested into employer subsidies (up to 100 percent of wage costs) for 10,000 people with impaired health or small children.

Challenges for the new federal program

The Nahles concept is based on many insights from evaluation research as well as the experiences of practitioners and companies: Improved profiling, individual case management, higher intensity of client support for more custom-tailored assistance – these are certainly the right keywords.

However, a closer look reveals a number of pitfalls that could eventually jeopardize the success of the program.

1. Improved support in activation centers

Long-term unemployed individuals are supposed to receive bundled benefits to help them deal with social, psychological, and health impairments, as well as the lack of schooling and vocational degrees that impede labor market entry. Furthermore, addiction and debt counseling, flexible childcare, and guaranteeing mobility through public transport play a major role.

There is, however, a risk that these good intentions cannot be turned into action because the municipalities have to pay for the social integration services (such as addiction, debt and psychosocial counseling). It is unclear what will happen if the municipalities simply lack the necessary funds or facilities to offer these services.

Although the proposed training of placement officers under the successfully evaluated federal program “Perspectives for the 50plus generation” certainly makes sense, it must be ensured that all caseworkers who are direct contacts for the long-term unemployed in job centers receive further training. Also, the key performance indicators for caseworkers must take the concept of “activation” into account. Rather than focusing primarily on placement rates, the quality of assistance on the road to reemployment should be an integral part of individual performance evaluation. This will be a key to significant progress in the support of the long-term unemployed. One may even want to reconsider the target indicators for the basic income support system in order to ensure that the proposed activation centers have a lasting impact.

2. ESF program to reintegrate long-term benefit recipients

The new ESF program is based on the experiences with a 2013 pilot project entitled “Perspectives in Firms,” launched in the states of Rhineland-Palatinate/Saarland and North Rhine-Westphalia, and a project named “Social Labor Market/Passive-Active Transfer,” which was introduced by the state government of Baden-Wuerttemberg in 2012 as part of the state program “Good and Secure Jobs”. For these two programs, the available statistics are merely descriptive and as such not sufficient for evidence-based policy making. It is therefore all the more important to evaluate the new program right from the beginning in order to prevent undesirable developments.

There is a real danger, however, that some private employers will decline hiring particularly hard-to-place long-term unemployed despite generous subsidies. In the worst case, this could lead to 33,000 publicly subsidized jobs being created in the secondary rather than the primary labor market. This would essentially mean a backdoor reintroduction of the old job creation programs, which were abolished for good reasons.

A parallel system would emerge, comforting the long-term unemployed while effectively hindering them from participating in the primary labor market. One might even expect a superficial evaluation to conclude that the program has successfully increased employment, reduced long-term unemployment and satisfied the long-term unemployed. For this purpose, almost one billion euros would have been spent on 33,000 long-term unemployed individuals. If this were to happen, we would experience a relapse to the inefficient labor market policies of the 1990s.

3. Social participation in the labor market

The Federal Labor Ministry’s concept includes the option to create publicly subsidized jobs in the secondary labor market as a last resort. The rationale behind this approach is this: If activation efforts fail, or if the local labor market does not offer sufficient job opportunities for long-term unemployed with poor labor market attachment, those affected should still receive an opportunity to engage in social participation. Similar to the *Bürgerarbeit* (“citizen’s work”) pilot project, the idea is to achieve social engagement through the creation of regular jobs with wage subsidies (up to 100 percent) paid to the employer.

This gives rise to a number of open questions: How can we ensure that program participants will find their way into the primary labor market over the medium term? Can individuals be regarded as generally employable even if they have lived off basic income support for almost ten years? Is the key criterion for capability to work – at least three hours a day – still appropriate? What would a cost-benefit analysis of the program look like?

Program evaluation is vital

From an overall perspective, it must be welcomed that policymakers have finally decided to tackle the issue of long-term unemployment – and to take insights from labor market research into account. Long-term unemployment is not a natural phenomenon; it is a problem that can be

solved. Prevention and quick action in the early phase of unemployment must have priority. The continued use of instruments that have proven effective in the fight against long-term unemployment makes sense. However, the existing programs – and institutions – have obviously reached their limits.

Individual, custom-tailored solutions are the most promising approach. A lot can be done with respect to such impeding factors as lack of education, health problems, insufficient mobility, and family commitments. But when it comes to age as an impediment to reemployment, the scope of policymakers is limited. What they should do, nonetheless, is appeal to employers to overcome existing prejudices against older long-term unemployed.

In sum, the concept of Federal Labor Minister Andrea Nahles is a step in the right direction, but it also bears a number of risks and dangers. Long-term unemployed should be neither left alone nor locked permanently into publicly subsidized employment. Their activities should be focused on the primary labor market, not on a parallel world out of touch with the real working world. It must be ensured that access

to social integration programs (addiction, debt and psychosocial counseling) is available throughout the country, regardless of the municipality's financial situation.

For the activation concept to work, case-worker training and the caseworker-to-client ratio must be substantially improved. There is also a strong need for continuous monitoring of all activities, consistent benchmarking of job centers, and accompanying research with control groups and a cost-benefit analysis. The overarching goal must be full employment – with regular jobs also for former long-term unemployed and benefit recipients.

This article is based on:

Alexander Spemann
Zehn Jahre Hartz IV – Was hilft
Langzeitarbeitslosen wirklich?
IZA Standpunkte No. 76, 2014.

► <http://ftp.iza.org/sp76.pdf>

Further reading

Werner Eichhorst
Wie weiter am deutschen Arbeitsmarkt?
IZA Standpunkte No. 61 (2013)

Alexander Spemann
The New Role of Temporary Agency Work in Germany
IZA Discussion Paper No. 6180 (2011)

Pramod N. (Raja) Junankar
The Global Economic Crisis: Long-Term Unemployment in the OECD
IZA Discussion Paper No. 6057 (2011)

Werner Eichhorst, Klaus F. Zimmermann
And Then There Were Four... How Many (and Which) Measures of Active Labor Market Policy Do We Still Need?
Applied Economics Quarterly, 53(3): 243-272 (2007)

Sebastian Königs
The Dynamics of Social Assistance Benefit Receipt in Germany: State Dependence Before and After the "Hartz Reforms"
Research in Labor Economics, 39: 107-150 (2014)

Michael Rosholm
Do case workers help the unemployed?
IZA World of Labor 2014: 72

Robert Moffitt
Unemployment benefits and unemployment
IZA World of Labor 2014: 13

The State of European Integration

What Labor Market Experts Think

Recent developments challenge the idea of free mobility in Europe. European ideals seem to degenerate. This is, for example, indicated by the rise in Euroscepticism, the perceived threat of welfare migration, or the vote of the Swiss people to reintroduce immigration quotas. In light of these concerns, leading labor economists have recently joined forces in calling for an EU

Charter that serves as a joint commitment to "Working Without Borders."

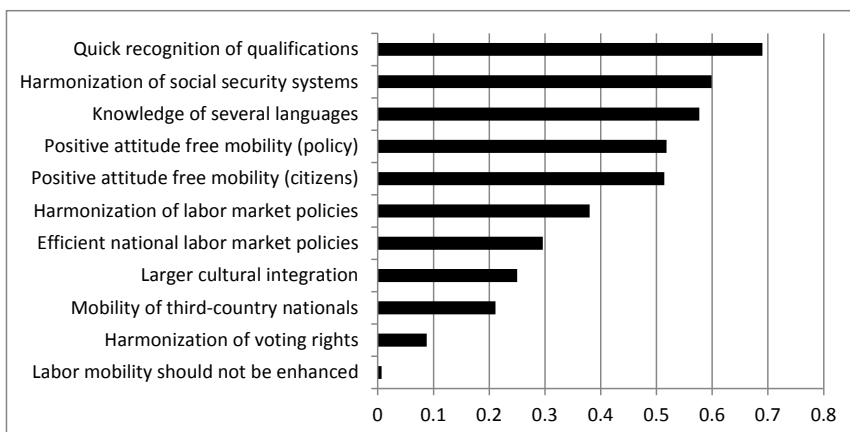
How serious are these concerns? A recent IZA Discussion Paper by Annabelle Krause, Ulf Rinne and IZA Director Klaus F. Zimmermann finds that labor market experts are worried about the state of European labor market integration, too. Although the ex-

perts are generally convinced of the merits arising from free labor mobility in Europe, results point at important aspects that hinder these benefits to fully materialize.

To assess the state of European integration, the authors conducted an online survey among the 700 European-based members of IZA's network of IZA Research Fellows and IZA Policy Fellows earlier this year. The results of the IZA Expert Opinion Survey 2014 offer a number of interesting insights.

For example, the majority of experts are satisfied with the European Union, but a sizeable 30 percent are disappointed. While about two-thirds of the respondents agree that a Single European Labor Market is important for improving economic welfare, the majority believes that Europe has not yet achieved this goal. Increased labor mobility is viewed as a crucial means to this end. The rapid recognition of qualifications, the harmonization of social security systems, and the knowledge of multiple languages are named as the three most important factors to increase labor mobility in Europe (see figure ◀).

Factors to Enhance Labor Mobility across Europe



Source: IZA Expert Opinion Survey 2014, IZA Discussion Paper No. 8383.

Finally, most experts share a rather pessimistic view on the impacts of the Great Recession: They believe that the crisis-induced economic divergence between European countries is a long-lasting phenomenon. The majority of experts think that economic reforms, but also labor market reforms, are important to deal with this situation, in particular at the European level.

A Single European Labor Market has not yet been accomplished. This is the clear message from the IZA Expert Opinion Survey 2014. The level of mobility within Eu-

rope is considered still too low to reap the benefits. Sensible policy recommendations aim, for example, at facilitating the recognition of professional qualifications and at harmonizing social security and education systems to increase mobility.

There are, however, some patterns of convergence in Europe. For instance, Germany currently serves both as a role model and as a copy-cat country. A prime example of the former is the country's vocational education system, while for the latter it is the introduction of a statutory minimum wage. If convergence continues

and mobility increases, the Single European Labor Market may become reality one day.

Annabelle Krause, Ulf Rinne,
Klaus F. Zimmermann

[How Far Away Is a Single
European Labor Market?](#)

IZA Discussion Paper No. 8383

<http://ftp.iza.org/dp8383.pdf>



Euro Area Labor Markets in the Great Recession

IZA/NBS/CELSI Conference in Bratislava, Slovakia

The diverse experience across European economies during the Great Recession has shown a great variation in how they coped with economic shocks and highlighted the role of the interaction between labor market adjustment and macroeconomic policies. This is particularly true for the member states of the Euro Area, which strongly rely on labor market flexibility given the limited fiscal and essentially non-existent monetary policy options.

In cooperation with the National Bank of Slovakia (NBS) and the Central European Labour Studies Institute (CELSI), IZA held an international scientific conference on "European Labor Markets and the Euro Area during the Great Recession: Adjustment, Transmission, Interactions" in Bratislava, Slovakia. Organized by *Klaus F. Zimmermann* (IZA and Bonn University), *Martin Kahanec* (CEU, IZA and CELSI) and *Martin Šuster* (NBS), the event took place October 20-21, 2014.

The main objective of the conference was to provide a platform for leading scholars to share and exchange cutting-edge evidence on the role of the labor market in absorbing asymmetric shocks inflicted on EU economies during the Great Recession, and the implications of various aspects of labor market adjustment for monetary policy and economic modeling.

Among the focal areas were wage flexibility, factor mobility and institutional reforms – or lack thereof – in European labor markets, and how they have shaped the ad-

justment of the Euro Area to systemic and idiosyncratic economic shocks during the recession. The conference was opened by NBS Governor *Jozef Makúch*, who stressed that labor markets have always been at the heart of central banks' monetary policies.



Martin Šuster, Jordi Galí, Klaus F. Zimmermann and Martin Kahanec

"Modern research regarding the connection of labor markets and monetary policy are extremely important to us," he said in his welcoming remarks.

In his keynote speech, IZA Director Zimmermann presented the successful model of the German labor market, which in his view was well-prepared to absorb negative economic shocks inflicted on the German economy during the Great Recession thanks to preceding labor market reforms. Zimmermann argued that reforms must be seen as a long-term process; the implementation of key reforms in Germany took ten years. He stressed that "although it is clear that there is no one-size-fits-all solution, models developed for a specific country can draw upon a number of German features."

In the second keynote, *Jordi Galí* (CREI and Universitat Pompeu Fabra) explained that the relationship between wage flexibility and employment stability may be

in contrast with textbook models when the role of the exchange rate regime is accounted for. According to Galí, "the impact of wage adjustments on employment is smaller the more the central bank seeks to stabilize the exchange rate." Accordingly, wage adjustments are particularly ineffective in a currency union or in countries with fixed exchange rates.

During the conference, the new book "Labor Migration, EU Enlargement, and the Great Recession" edited by Martin Kahanec and Klaus F. Zimmermann was launched. The book addresses some of the key topics in the contemporary debate about migration in an enlarged EU, focusing on the role of free movement of workers in attenuating asymmetric economic shocks across EU labor markets during the Great Recession. Zimmermann and *Alessio Brown* (IZA) also presented the "IZA World of Labor" project, aimed at providing decision-makers and stakeholders with hard empirical evidence on key labor market issues in order to help them develop good policies and best practices.

A number of focused sessions tackled various aspects of the interaction between monetary policies and labor markets. *Piotr Lewandowski* (Institute for Structural Research) found that labor market outcomes vary across European countries, but Germany differs from the rest with regard to the relative importance of wage and employment adjustments. *Gaetano D'Adamo* (University of Valencia) discussed

the role of institutions in explaining wage determination in the Euro Area.

Michał Rubaszek (National Bank of Poland) talked about how the duality rate increased the reaction of unemployment to output fluctuations and at the same time decreased unemployment persistence. *Lien Laureys* (Bank of England) analyzed how human capital depreciation during unemployment affected the short-term trade-off between unemployment and inflation. *Andreas Wörgötter* (OECD and IZA) provided fruitful insights from small Euro Area labor markets, and *Zuzana Siebertová* (Slovak Council for Budget Policy) analyzed marginal labor supply elasticities in Slovakia.

Benedicta Marzinotto (University of Udine) explained that EMU has exercised a disciplining effect on the countries and sectors where there is a relative high share of workers endowed with specific skills. *Gregory Verdugo* (Banque de France and IZA) argued that it is important for the Euro Area to avoid deflationary pressures during periods in which wages have to be adjusted. The analysis by *Ronald Bachmann* (RWI and IZA) showed that more transitions from employment to unemployment were the main factor behind the rise in unemployment during the early phase of the crisis.

Robert Beyer (Goethe University) highlighted that the adjustment process through

cross-border worker mobility in Europe is different from the U.S. due to differences in language, cultural factors and institutional differences. *Patrick Puhani* (Leibniz University of Hannover and IZA) added that migration in Europe has reacted strongly to changes in labor market conditions during the crisis.

See the online conference program on the IZA website:

► www.iza.org/link/bratislava2014

Evaluation of Labor Market Policies and Social Programs

Fifth IZA/IFAU Conference in Uppsala, Sweden

The social security systems of modern welfare states are subject to constant reform processes in order to adapt to the development of society. Consequently, the effects of social and labor market programs must also be constantly reassessed. At the same time, new challenges arise due to changes in society that may cause different effects of the same policies. Therefore, thorough scientific evaluation of the impact of policy programs is becoming ever more important for policymaking. This is why IZA has always been very active in the field of evaluation research, which constantly improves its methodology and instruments while covering a widening array of topics.

The 5th joint IZA/IFAU Conference was hosted by the Swedish Institute for Evaluation of Labour Market and Education Policy (IFAU) in Uppsala, Sweden. Organized by *Patrick Arni* (IZA), *Marco Caliendo* (University of Potsdam and IZA), *Per Johansson* (IFAU and IZA), *Erik Mellander* (IFAU), *Gerard van den Berg* (University of Mannheim and IZA), and *Johan Vikström* (IFAU), the event was held on October 9-10, 2014.

The constant adjustment of social security systems is particularly apparent in the United States, where it is also subject to extensive evaluation research. In her keynote speech, *Hilary Hoynes* (University of California, Berkeley) presented new evidence on long-term changes of the American welfare state. A paradigm shift that occurred in the early 1990s led to a massive cut in direct social security payments while work incentives in the form of Earned Income Tax Credits (EITC) were greatly expanded. Many assessments of the EITC show that its incentives have been very

successful at promoting employment and reducing financial inequality. As *Hoynes* pointed out, recent research has also determined that supporting families with the EITC improves health and cognitive skills, particularly for children. However, *Hoynes* considers it a serious shortcoming of the U.S. system that it provides little basic support to unemployed individuals living in extreme poverty. Nonetheless, given that for low-skilled, low-income individuals in Europe financial incentives to work are still underdeveloped, Europeans can certainly learn from the American experience with the EITC.

Among the key features of the IZA/IFAU conferences are the presentation and controversial discussion of cutting-edge methodological trends within the discipline. A well-known difficulty in evaluation research is finding a control group which is comparable to people who are affected by a specific policy. *Arindrajit Dube* (University of Massachusetts Amherst and IZA) presented a way to generate “synthetic” control groups out of different case studies. Applying it to the impact of minimum wages in several U.S. states, *Dube* demonstrated the value of this methodological procedure. Based on his analysis of the control groups, he concluded that on average the minimum wage had no quantifiable effect in various U.S. states.

A particular methodological challenge is the estimation of the long-term effects of labor market programs, especially when participants enter programs at different points during their respective unemployment stints. In this case, a dynamic selection occurs, as individuals who are un-

employed for a longer period of time are more likely to participate in a program. *Johan Vikström* (IFAU Uppsala) introduced a non-parametric estimation method that takes this aspect into account. In his presentation, *Sylvain Chabé-Ferret* (Toulouse School of Economics) discussed the question of whether using information on individual labor market outcomes of the time prior to participation in labor market initiatives can be helpful in obtaining unbiased estimates of the impact of such programs. Based on theory and simulations, he showed that using such information can be problematic as short-term shocks (e.g., changes at the workplace) may have influenced the labor market outcomes.

In order to evaluate the impact of welfare programs as precisely as possible, it is necessary to also consider changes in the political environment. *Chris Riddell* (Cornell University) showed that the long-term effects of the Canadian Self-Sufficiency Project have been greatly shaped by other policy reforms. The program offered, similar to the EITC, generous financial incentives for social benefit recipients to reenter the workforce. However, British Columbia had introduced several other reforms at the same time the Self-Sufficiency Project was launched, which increased the pressure of reintegration into the labor market. These other programs overlapped with the analyzed project and thus left the impression that the long-term impact was virtually zero; without the other programs, though, the balance probably would have been positive.

Jonathan Cribb (Institute for Fiscal Studies, London) also studied both the EITC and comparable British programs. His study

concludes that the pilot programs ERA and IWC have indeed supported single-parent households in Great Britain in re-entering the labor market or working more hours, as well as in terms of their long-term participation in the workforce.

Another focus of the conference was on the dynamics and mechanisms of active labor market policies in several European countries. Marco Caliendo questioned whether the use of additional psychological information about the personality of

families. *Daniel Hallberg* (Swedish Social Insurance Inspectorate ISF) presented the results of a study that examined the health effects of an early retirement program in Sweden. Individuals who were offered early retirement (all of them former members of the Swedish military) proved to be healthier afterwards than the control group without access to the program. In subsequent years, for example, doctor visits and medical expenses were lower than for the control group.

Sandra Vriend (VU University Amsterdam) concentrated on the interaction between different social security programs in times of economic shocks. Her simulations for the Netherlands particularly highlighted the importance of the transitions between unemployment insurance benefits and disability insurance benefits. *David Pedulla* (University of Texas at Austin) provided new evidence on the question how non-standard employment – especially temporary and part-time work – affects future job prospects. The results of his study,



applicants improves assessments of the effects of labor market policies. His study shows that this is indeed the case for certain aspects, and that there is a significant link between personality characteristics and individual labor market history.

In her study, *Astrid Kiil* (KORA – Danish Institute for Local and Regional Government Research) looked at the impact of hiring subsidies in the public sector. Her results for Denmark suggest that these subsidies are highly used – with some public employers even employing more subsidized than non-subsidized personnel, which is certainly an undesirable effect. The presentation by *Christer Gerdes* (SOFI, Stockholm University and IZA) focused on the role of information for choosing job coaches during the search for employment. In Sweden, job seekers are free in their choice of job coach. Gerdes finds that quality ratings for coaches especially influence the decisions of educated women and immigrants.

Family policy was another core theme of this year's evaluation conference, with a special focus on the impact analysis of parental leave policies and retirement behavior. In a case study on Iceland, *Herdís Steingrimsdóttir* (Copenhagen Business School) questioned whether the duration of parental leave available to fathers affected family stability. She concluded that the availability of ample parental leave for fathers reduces the divorce likelihood for

A study by *Lisa Laun* (IFAU) examined a recent Swedish program which provides exactly the opposite incentive for older employees – namely to remain in the workforce longer. According to her analysis, the tax credit program, which is similar to the EITC, has indeed caused individuals to retire later, although at high costs. It thus remains unclear whether the program ultimately makes sense economically.

Labor market programs that offer financial incentives to establish particular target groups more firmly in the labor market are very popular in Sweden. Among the main target groups are migrants with poor language skills. But despite a substantial premium offered to those who improved their language skills, the paper by *Olof Åslund* (IFAU and IZA) found a mildly positive impact on hiring prospects only for certain groups, particularly for younger people in urban areas (mainly Stockholm). *Caroline Hall* (IFAU) examined a job search assistance program that went along with a reduction in unemployment benefit for program participants. She found a substantial “threat effect” known from previous studies: members of the target group increasingly accept job offers in order to prevent participation in the program.

A more macroeconomic perspective on the effects of labor market policies and economic trends was provided in another three conference presentations.

which analyzed the callback rates for thousands of job applications submitted in the United States, suggest a substantial stigma effect for workers with non-standard employment histories, who experience about the same penalty as someone who has been unemployed for a year.

Stéphane Carcillo (OECD and IZA) was able to report positive results of a French policy program in his presentation. In response to the recession, the French government decided to offer hiring subsidies for people in the low-wage sector in 2009. If companies with fewer than 10 employees hired a new worker, the state raised their wage to 1.6 times the minimum wage. The analysis showed that these subsidies indeed generated more employment contracts, especially for young people, even in such a short period of time. Most strikingly, the net effect was also positive, i.e., additional jobs were actually created, rather than just replacing non-subsidized with subsidized positions.

This year's IZA/IFAU conference once again highlighted the topical and political relevance of labor market policy evaluation research. These impact analyses are indispensable for the design, assessment and reform of policy programs.

► www.iza.org/link/eval2014

(Non-)Cognitive Skills and Economic Development

IZA/OECD/World Bank Workshop in Bertinoro, Italy

In the last decades, there has been a growing interest in the role of cognitive and non-cognitive skills and their interplay in the labor market and behavioral outcomes. For developed economies, the literature has established that cognitive and non-cognitive skills are equally important for many dimensions of social performance. More recently, the focus has broadened to include less developed countries and a wider spectrum of labor market outcomes, including informal employment.

In October 2014, a workshop focusing on the role of cognitive and non-cognitive skills in the labor markets of developing, emerging, and developed economies was organized by IZA, OECD and the World Bank. The program committee consisted of *Hartmut Lehmann* (University of Bologna and IZA), *David A. Robalino* (World

Bank and IZA), *Stefano Scarpetta* (OECD and IZA), *Alexander Muravyev* (Higher School of Economics and IZA) and *Lingguère Mously Mbaye* (IZA).

ous dimensions of behavior, the gap in the ability to cooperate stands out, with trust levels being higher in the north than in the south. Interestingly, the ability to cooperate turned out to be unrelated to individual characteristics connected to self-interest. The origins of such differences remain an interesting topic for future research.

The first session included country studies on the importance of cognitive and non-cognitive skills in developing and transition economies using data new from the STEP (Skills Toward Employment and Productivity) survey, a multi-country study led by the World Bank.

For Colombia, *Noel Muller* (World Bank) showed that, compared to socio-emotional skills, cognitive skills such as reading proficiency are a stronger predictor of

lation is not enough to achieve high and inclusive growth, as skills need to be put into productive use at work. Quintini's study explores the role played in the labor market by skill proficiency in the areas of literacy, numeracy and problem-solving in technology-rich environments. It also shows how skills use, not only proficiency, affects a number of key labor market phenomena, such as the gender wage gap.

Guido Schwerdt (University of Konstanz and IZA) showed that higher cognitive skills are systematically related to higher wages in all PIAAC countries. However, there is substantial cross-country heterogeneity in returns to skills. For example, returns to skills are systematically lower in countries with higher union density, stricter employment protection, and larger public-sector shares. The results may be viewed as a building block



Bank and IZA), *Stefano Scarpetta* (OECD and IZA), *Alexander Muravyev* (Higher School of Economics and IZA) and *Lingguère Mously Mbaye* (IZA).

The workshop brought together more than 20 active researchers from all over the world and involved 17 presentations and a keynote lecture. The workshop took place in the Bishop's Fortress of Bertinoro, which since 1994 hosts the conference center of the University of Bologna.

In an invited lecture, *Marco Casari* (University of Bologna and IZA) focused on the role of non-cognitive factors in explaining the persistent divide between the North and South of Italy, which manifests itself in most socio-economic measures. Based on a sophisticated experimental setup involving more than 600 residents of two northern and two southern Italian cities, the study highlighted considerable differences in economic behavior. Across vari-

favorable labor outcomes (such as earnings and formal jobs). Socio-emotional skills appear to play a stronger role for labor participation decisions, but have weaker effects on wages.

Zlatko Nikoloski (London School of Economics) presented the results for Uzbekistan and Tajikistan. There is a strong link between employability and cognitive and non-cognitive skills in these countries. Skills further influence the type of employment and are associated with higher wage rates. There is also a strong and robust link between skills and job satisfaction: people with better skills obtained better (and well paid) jobs, which they tend to enjoy more.

The next session featured two papers based on the PIAAC (Programme for the International Assessment of Adult Competencies) survey, conducted under the auspices of the OECD. *Glenda Quintini* (OECD) pointed out that a skilled popu-

towards a better understanding of the sources and mechanisms that relate individuals' skills to productivity and labor-market outcomes.

The session on skills and gender included two papers from developing countries, Bangladesh and India. *Christophe Jalil Nordman* (IRD and IZA) looked at how cognitive and non-cognitive skills explain the gender wage gap in the formal sector of Bangladesh. He finds that personality traits have little or weak explanatory power in determining mean wages. However, the personality traits matter for wages of female employees, and in certain parts of the wage distribution. Cognitive skills as measured by reading and numeracy also seem to confer benefits to men and women differently, with returns varying across the wage distribution. As a result, cognitive skills and personality traits reduce the unexplained gender gap, especially for high-paid workers.

Yuvraj Pathak (World Bank) analyzed the long-term impacts of reservation of local political seats for women on children's learning outcomes in rural Andhra Pradesh. The reservation policy for female leaders had the largest impact on learning outcomes of primary school children when they were exposed to reservation very early in life. These results can be explained by improved health and nutrition in utero and during the first years of life.

The first presentation in the session on skills and education, given by *Peter Savelyev* (Vanderbilt University), showed strong effects of personality traits and education on health and health-related outcomes. The effects of education and personality skills differ by gender and outcome, demonstrating substantial heterogeneity in the role of multiple human skills in generating health. The variance in health outcomes explained by personality traits is comparable to the variance explained by all observable determinants taken together including education, IQ, early health, and family background.

Bidisha Barooah (Delhi School of Economics) discussed the effect of the national school meal program in India on students' attention in class. School meals appear to lead to an improvement in attention. The effect is mostly seen in the more difficult tasks and in schools where students are likely to miss bringing packed lunch from home.

The session on non-cognitive skills programs and their evaluation consisted of two presentations. *Carla Calero* (Inter-American Development Bank) reported on the labor market effects of a small-scale, innovative labor training program in Brazil that uses expressive arts and theater as a pedagogical tool. There are positive short-run employment and earnings impacts five months after the program finalized; no impacts are found for shorter periods. There is no evidence of significant program impacts on other outcomes, including personality-related traits, suggesting that these traits may not be malleable for young adults in the short run.

Pedro S. Martins (Queen Mary, University of London and IZA) focused on the effects of an original and large private-sector program aimed at improving student achievement and eroding early school leaving at Portuguese state schools. The program first screens students to focus only on those more likely to perform poorly, and then conducts a number of

small-group sessions aimed at improving the non-cognitive skills (e.g. study skills, motivation, self-esteem) of the selected students. The program reduced grade retention by at least 10 percentage points and did so in a very cost effective way.

The session on skills in early childhood and over the life course featured three papers. *Stefanie Schurer* (University of Sydney and IZA) presented her analysis of the dynamics of locus of control, a very specific non-cognitive skill. In particular, internal locus of control measures the belief that one can control the important outcomes of one's life. Thus, individuals with external (internal) control tendencies tend to attribute failures to others (themselves). The study shows that childhood control tendencies are not very representative for adulthood control perceptions due to a shift of the norm. Among adults, only one-quarter to one-third change their control tendencies over longer stretches of 12-18 years – with roughly equal proportions of negative and positive changes.

Joanna Clifton-Sprigg (University of Edinburgh) compared the early childhood development of children with native parents, one foreign parent and two foreign parents. These groups of families differ in terms of activities they engage in and views related to children's upbringing. Mixed family and native children perform differently in exercises related to linguistic ability, but their overall cognitive and non-cognitive skills are similar. Overall, mixed families appear to be better off on average than natives but families with two foreign parents are considerably worse off.

Elena Crivellaro (OECD) showed strong effects of early cognitive abilities on later cognitive outcomes in European countries. Early cognitive abilities have a milder effect on health status later in life, which appears to be strongly related to health conditions early in life.

The next session focused on skills, employers, and the self-employed. David Robalino showed that social emotional skills (such as openness, consciousness, and agreeableness) appear to be important determinants of labor market participation. Openness and risk taking also influence entrance into self-employment. Those who enter have weaker reading and technical skills but might have an advantage in numeracy. It is difficult to find skills that, systematically, predict success among the self-employed; they have to do with problem solving and numeracy.

Stijn Broecke (OECD) studied the phenomenon of employer learning. When workers enter the labor market, their wages initially reflect easily observable characteristics of productivity, such as education. As workers accumulate experience, employers learn about initially unobserved elements of productivity (e.g. information-processing skills). Such employer learning is found by Broecke in some, albeit not all, OECD countries. There is little evidence that certain education or labor market institutions might be systematically related to the presence of employer learning. Employer learning may arise in different countries for different reasons; it is more the complex interactions between different institutions and policies that might matter.

The final session of the workshop dealt with skills, occupational and employment status choice. *Miriam Gensowski* (University of Copenhagen and IZA) proposed occupational persistence as a new explanation for educational inequality. It means intergenerational dependence in occupations when children take up occupations similar to their parents. Such persistence may be driven by skill similarities as well as by non-skill factors, including information, salience of familiar jobs, cultural capital, network, and identity/role models. If occupational persistence is an important determinant of educational attainment, then potential alternative policies to remediate inequality, such as vocational counseling and occupation-targeted policies, may be warranted.

Hartmut Lehmann looked at the link between informal employment and individual risk attitudes. A person who takes risks in general and career matters is more likely to be informally employed than a person stating to be relative risk averse. In the determination of selection into labor market status, risk plays as important a role as age or household income, while gender, education, job history and marital status play a larger role.

The successful workshop was another product of the continued fruitful collaboration between IZA, the OECD and the World Bank on new approaches to study the labor markets in developing and developed economies.

The presented papers are available for download from the IZA website:

► www.iza.org/link/bertinoro2014

Bringing Together European and American Labor Market Research

IZA/SOLE Transatlantic Meeting in Buch/Ammersee, Germany

Organized by *Dan A. Black* (University of Chicago) and IZA Director *Klaus F. Zimmermann* (University of Bonn), the 13th IZA/SOLE Transatlantic Meeting of Labor Economists took place in Buch/Ammersee in July. The program covered a broad range of important and policy relevant issues in labor economics.

In the first session on disability insurance (DI), *Anne C. Gielen* (Erasmus University Rotterdam and IZA) presented an evaluation of the Dutch DI reform, identifying the health impact of stricter eligibility criteria and reduced generosity. She found an increase in hospitalization rates and mortality for women subject with low pre-disability earnings. As a consequence, every dollar reduction in DI is almost completely offset by additional health care costs. This implies that policy makers considering a DI reform should carefully bal-

process and, more generally, on providing alternatives to potential beneficiaries on the margin between work and program participation that would prevent them from coming into contact with the SSDI program in the first place.

Peter Bergman (Columbia University) analyzed the long-term effects of a court-ordered desegregation on education outcomes. Schools in higher income neighborhoods are mandated to accept a fixed number of minority students chosen by a lottery. As a result, college enrollment among students who were offered to transfer increased by seven percent. In his presentation on ability peer effects in university education, *Ulf Zölitz* (Maastricht University and IZA) showed that students on average benefit from better-ability peers, whereas low-ability students are harmed by high-ability peers.

examined by *Sankar Mukhopadhyay* (University of Nevada, Reno), who found that for white women one unit increase in BMI reduces wages by about one percent. On average obese women earn about eight percent less than non-obese women. Different possible channels could be lower marginal productivity, higher healthcare expenditure, and employer or consumer discrimination. Given that the BMI effect differs across the wage distribution and declines at the top, discrimination seems to be an important factor in higher-paid jobs.

Ylenia Brilli (Catholic University Milan) analyzed the effects of maternal employment and non-parental child care on child cognitive development, taking into account mother's time allocation between leisure and child care. She found that the elasticity of child's ability with respect

to maternal time is higher than with respect to non-parental child care. Policy simulation suggests that only a policy improving non-parental child care productivity has positive effects on both child development and maternal labor supply.

Efraim Sadka (Tel Aviv University and IZA) reexamined the existence of a negative

correlation between earning ability and family size justifying subsidizing children via child allowances. Employing a benchmark setting where the quality-quantity paradigm holds, he found no evidence supporting this argument.

Kathleen Mullen (RAND and IZA) presented the first causal evidence that longer Social Security Disability Insurance (SSDI) benefits application processing times decrease post-decision employment rates among SSDI applicants. They find that longer processing times significantly reduce the employment and earnings of both initially allowed and initially denied SSDI applicants in the years following determination. Denied applicants spend approximately one full year (11.6 months) applying for SSDI benefits. Given that less than half of denied applicants participate in the labor force, these effects are sizeable. Policy makers might be better off focusing their efforts on reducing the work disincentives during the SSDI application

Xuan Chen (Renmin University of China) found that enrolling in the Job Corps program in the United States increases weekly earnings and employment by at least \$24.61 and 4.3 percentage points, respectively, and decreases yearly dependence on public welfare benefits by at least \$84.29.

Jeffrey A. Smith (University of Michigan and IZA) presented a paper on the effects of college quality and student ability on academic outcome, finding strong evidence that college quality increases the probability of degree completion, and similarly strong evidence that student ability increases it as well. In contrast to predictions by the mismatch hypothesis, there seems to be no evidence of the interactive effects of college quality and student ability on the outcomes examined in the paper.

The causal effect of obesity (as measured by the Body Mass Index) on wages was

examined by *Sankar Mukhopadhyay* (University of Nevada, Reno), who found that for white women one unit increase in BMI reduces wages by about one percent. On average obese women earn about eight percent less than non-obese women. Different possible channels could be lower marginal productivity, higher healthcare expenditure, and employer or consumer discrimination. Given that the BMI effect differs across the wage distribution and declines at the top, discrimination seems to be an important factor in higher-paid jobs.

Laura Hospido (Bank of Spain and IZA) documented the evolution of male daily-earnings inequality in Spain from 1988 to 2010. Inequality was strongly countercyclical: it increased around the 1993 recession, experienced a substantial decrease during the 1997-2007 expansion, and then a sharp increase during the recent recession. This evolution went in parallel with the cyclicity of employment in the lower-middle part of the wage distribution. The findings highlight the importance of the housing boom and bust in this evolution, suggesting that demand shocks in the construction sector had large effects on aggregate labor market outcomes.



Kai Liu (Norwegian School of Economics and IZA) examined how much the labor demand curve shifts in response to supply shifts, exploiting exogenous shocks to the supply of skilled labor through two education reforms in Norway. The main reform is the establishment of several new regional colleges in different cities at different times through the 1970s. The second reform is the compulsory school reform as a shock to the supply of middle-skilled workers. While the college reform had a large, gradual and persistent impact on the productivity of skilled workers, there was no significant effect of the compulsory school reform on productivity for any type of labor.

Núria Rodríguez-Planas (Queens College, CUNY and IZA) explored the role of cultural attitudes towards women in determining math educational gender gaps using the epidemiological approach. She estimated whether the math gender gap for each immigrant group living in a particular host country (and exposed to the same host country's laws and institutions) is explained by measures of gender equality in the parents' country of ancestry. The higher the degree of gender equality in the country of ancestry, the higher the performance of second-generation immigrant girls relative to boys. The paper suggests that policies aimed at changing beliefs can prove effective at reducing the gender gap in mathematics.

Barbara Hofmann (MEA, University of Mannheim) examined whether the business cycle at college graduation affects fertility decisions among university graduates in the years after graduation. Using German survey data covering over 30 years, she found that the business cycle

affects female fertility but not male fertility. Graduating in a downturn increases the transition rate to the first pregnancy among women significantly. The effect is strongest two to four years after graduation and then decreases over time. Additional regressions suggest a higher average number of children born to women who graduated in a recession.

Hugo Reis (Banco de Portugal) studied the determinants of girls' schooling choices in a rural area of Pakistan where drop-out rates are considerably high for older girls. The results suggest that monetary incentives, such as the conditional cash transfer (CCT), are a good mechanism to increase girls' school enrollment, but not necessarily the most cost-effective. From a policy perspective, a school building program and the availability of free daycare centers would have a greater impact on school enrollment at similar cost.

Sarah Bohn (Public Policy Institute of California) provided evidence on the causal effect of border enforcement on the spatial distribution of Mexican immigrants to the United States. According to her estimates, if border enforcement had not changed from 1994-2011, the shares of Mexican immigrants in California and Texas would each be eight percentage points larger, with all other states' shares lower or unchanged.

Maryam Naghsh Nejad (IZA) presented a paper on the effects of relative institutionalized gender inequality (proxied by women's rights) in origin relative to destination on the gender gap in high-skilled migration flows between countries (developed and developing). The study finds a non-linear relationship, suggesting that when

women's rights levels are higher in the destination country, high-skilled women are more likely to migrate (compared to men) unless the low levels of women's rights in the country of origin increases the cost of migration for women.

Ana Nuevo-Chiquero (University of Sheffield) employed a laboratory setup to test the relationship between personality and labor market outcomes and whether this relationship is through productivity. In a real-effort task more neurotic subjects perform worse, while more conscientious individuals perform better. These findings are in line with previous survey studies and suggest that at least part of the effect of personality on labor market outcomes operates through productivity.

The conference ended with a paper by *Pablo Acosta* (World Bank and IZA) on labor market returns to cognitive skills and personality traits in urban Colombia. On average, cognitive skills (a scaled reading proficiency score) are a stronger predictor of labor earnings than personality traits. However, when controlling for various education levels or job characteristics, the study finds that both cognitive and non-cognitive skills are equally important in terms of labor market outcomes.

These and other papers presented at the conference are downloadable from the IZA website:

► www.iza.org/link/tam2014

Third IZA@DC Young Scholar Program

For the third year in a row, IZA joined forces with the Georgetown University Economics Department and its Georgetown Center of Economic Research (GCER) in running the highly successful IZA@DC Young Scholar Program. The main objective is to expose Ph.D. students from outside of the U.S. to the world's leading labor economists through a week of presentations, and to give them the opportunity to create networks with local researchers from the Washington, DC metro area.

The program organizers *Frank Vella* (Georgetown University and IZA), *Annabelle Krause* (IZA) and *Nuria Rodríguez-Planas* (Queens College of CUNY and IZA) selected ten students from eight different countries to

come to Washington for an intensive program consisting of lectures, meetings with senior researchers, and own presentations in the last week of September.

Each day of the week, one leading labor economist presented their frontier research and discussed it with the students. On the first day, *Justin Wolfers* (University of Michigan and IZA) demonstrated that polls of voter expectations consistently yield more accurate forecasts than polls of voter intentions and showed that one can use expectations polls to extract accurate election forecasts even from extremely skewed samples. The next day, *Kevin Lang* (Boston University and IZA) explained the misuse of ordinal scales. He showed that, with-

out auxiliary assumptions, it is impossible to rank groups by average happiness using survey data with a few potential responses. The categories represent intervals along some contiguous distribution. The implied CDFs of these distributions will (almost) always cross when estimated using large samples. Therefore some monotonic transformation of the utility function will reverse the ranking.

Giuseppe Moscarini (Yale University and NBER) presented evidence on employment reallocation through the lens of a business-cycle job ladder model. In this model, workers always agree on a ranking of employers, and search for better jobs from both employment and unemployment.

Higher-ranked employers attract and retain more workers, so are larger. Moscarini showed that the model fits well the time series of gross worker flows by establishment size in the U.S., recently made available by the BLS' Job Openings and Labor Turnover Survey (JOLTS) program. This implies that "true" hiring effort by size matters. Finally, he focused on the Great Recession, and finds evidence that the job ladder stopped working then, and has yet to resume.

and more generous resources. Benefit-to-cost ratios for the ECO-C intervention are also extremely high.

Kennan analyzed the implications of the empirical fact that skilled workers move much more than unskilled workers. For this purpose, he presented a model in which efficiency differences are labor-augmenting, and free trade in product markets leads to factor price equalization, so that wages are equal across countries when measured in

Before the senior speakers' presentations, the students had the chance to meet with them personally in order to discuss their own research and to ask questions about important issues in academia, such as the publication process or the job market.

Besides the presentations by the senior economists, the students also presented their own work and discussed it with their colleagues. The student sessions were chaired by senior researchers, including Nuria Rodríguez-Planas and IZA fellows *Amelie F. Constant* (George Washington University and Temple University), *John Earle* (George Mason University), and *Martin Ravallion* (Georgetown University).

Another integral part of the program are individual talks with local IZA research fellows. The students were asked in advance to contact IZA fellows in the DC metro area with whom they would like to discuss their research. On average, the students arranged three visits with fellows at such institutions as the World Bank, Brookings Institution, U.S. Bureau of Labor Statistics, Inter-American Development Bank, George Washington University and Georgetown University.

The participants of this year's IZA@DC Young Scholar Program benefitted greatly from the program. They met some of the top scholars in the field, started future collaborations with local researchers and received many useful comments and advice for their own research.



The last two speakers were *Caroline Hoxby* (Stanford University and NBER) and *John Kennan* (University of Wisconsin-Madison and IZA). Hoxby presented evidence from a randomized controlled trial to evaluate the ECO-C intervention that provides students with semi-customized information on the application process and college's net costs. The intervention also provides students with no-paperwork application fee waivers. While the intervention only costs about \$6 dollars per student, it was successful in getting high-achieving, low-income students to apply and be admitted to more colleges, especially those with high graduation rates

efficiency units. Relaxation of immigration restrictions increases the effective supply of labor on the world market, and differential migration implies that there may be an increase in the ratio of skilled to unskilled labor; but skill levels are relatively low in less productive countries, and the data indicate that the net effect is that free migration in fact decreases the ratio of skilled to unskilled labor on the world market. The effects on wages depend on elasticities of substitution, but these effects are in any case surprisingly small, while the income gains for migrants (net of migration costs) are very large.

IZA Policy Seminar with Heinrich Alt on Long-Term Unemployment

In addition to the regular IZA research seminar series, the newly established IZA policy seminar series provides a forum for the fruitful exchange between economic science and political practice. It provides researchers with insights into the agenda and the work of decision-makers. At the same time the seminar series gives repre-

sentatives from policymaking, business and public administration the opportunity to discuss pressing economic and social policy issues with experts in labor economics.

Kicking off the policy seminar series, the first presenter was *Heinrich Alt*, board

member of the Federal Employment Agency (BA). He talked about new routes for job centers to improve the qualifications and job prospects of long-term unemployed. "We should no longer accept the persistently high rates of long-term unemployment in Germany," he said. "What we need is more custom-tailored

solutions rather than a one-size-fits-all approach to the problem."

According to Alt, the existing instruments of labor market activation policy no longer suffice for hard-to-place individuals who have been detached from the labor market for a long time. But policymakers and employment agencies alone cannot solve this problem.

Employers should rethink their hiring strategies and implement reintegration programs to give long-term unemployed a chance to grow into a new job. At the same time, those 43 million Germans who are currently in employment could assume more responsibility for their long-term unemployed peers, e.g. as "mentors" who offer them support and guidance.

► www.iza.org/link/policyseminar



Alexander Spemann, Heinrich Alt and Klaus F. Zimmermann

From the IZA Newsroom

Learning from the older brother? Sibling spillover effects in school achievement

How much a younger sibling's school achievement is affected by his/her older sibling's achievement at school is an important question to answer as it helps us understand whether investments in children may have multiplier effects through their impact on younger children. *Cheti Nicoletti* and *Birgitta Rabe* are the first to investigate this "sibling spillover effect" in a new IZA paper.

The older sibling's achievement may have a direct effect on the younger sibling's school grades if 1) the older sibling teaches the younger sibling or helps with homework; 2) the younger sibling imitates the older sibling, for example in their work style, or conversely tries to be different, for example to avoid competition; 3) the older sibling passes on important information about educational choices or school and teachers to the younger sibling.

When trying to assess the extent of any sibling spillover effects, it is important to distinguish the direct influence of the older to the



younger sibling from any similarities in their exam grades that are caused by the fact that they come from the same family and are likely to go to the same school. Nicoletti and Rabe do this by combining several techniques known to economists.

The study shows that there is a small direct effect from the older sibling's

test scores to the younger sibling's exam marks. More precisely, for each GCSE exam grade improvement of the older sibling – for example from a B to an A – the younger sibling's exam marks would go up by just 4% of a grade. This effect is about equivalent to the impact of increasing yearly spending per pupil in the younger sibling's school by £670.

The spillover effect is larger for siblings in families eligible for free school meals, living in deprived neighbourhoods and speaking a language other than English at home. This means that children from more deprived backgrounds benefit more from a high attaining older sibling than children from more affluent backgrounds.

It may be that the effect arises through information sharing about educational choices and schools/teachers. Information on this is likely harder to come by in poorer families, and the benefit to younger children therefore high.

The findings of the study indicate that siblings can play an important role in conveying education-related information in families where parents have less access to such information. This suggests that investments into children from deprived families can have considerable multiplier effects on younger siblings.

► <http://ftp.iza.org/dp8615.pdf>

The coach matters: Evidence from the Bundesliga

What difference does the quality of a single person at the top make for the overall performance of an organization? How dependent are large companies on their CEOs? Are the top people really the ones leading the firm or just mascots with limited powers?

These questions are not easy to answer since CEOs work only for a very small number of different firms in their lifetime. This limits the scope to measure their contribution to organizational success, because observing the



same manager in different organizations (thus using different sets of resources and working with different people) is crucial to measuring a manager's contribution to overall success.

In a new IZA Discussion Paper, *Sandra Hentschel*, *Gerd Mühlheuß* and *Dirk Sliwka* study the impact of managers on the success of professional soccer teams using data from the German "Bundesliga". The authors exploit the high turnover of managers between teams to disentangle the managers' contributions. Furthermore, team performance is publicly observable on a weekly basis.

The researchers find that teams employing a manager at the 75% ability percentile gain on average 0.25 points per game more than those employing a manager at the 25% ability percentile, which corresponds to a sizeable difference of 18% of the average number of points awarded per game.

For example, in comparison to a moderately able manager, a team coached by Jürgen Klopp (the current coach of Borussia Dortmund) would have achieved 0.46 points more per game, leading to 15.64 more points per season. On the other hand, a team coached by Benno Möhlmann (the current manager of FSV Frankfurt) would have acquired 0.33 points less per game or 11.22 points per season.

► <http://ftp.iza.org/dp8560.pdf>

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IZA Prize in Labor Economics 2014 | Laureate: Gary S. Fields

This year's IZA Prize in Labor Economics goes to Gary S. Fields (Cornell University). The Award Ceremony will be held during the ASSA meetings in Boston on January 4, 2015. IZA Compact reprints the Award Statement of the IZA Prize Committee:

The 2014 IZA Prize in Labor Economics is awarded to U.S. economist Gary S. Fields (Cornell University) for his outstanding contributions on the importance of efficient labor markets and stable employment for poverty reduction and the economic development in low- and middle-income countries. Fields established indicators such as poverty, inequality and income mobility as primary measures of economic development, revolutionizing traditional economic thinking about measuring development. He made fundamental contributions to our understanding of how labor markets function in developing countries.

Fields' groundbreaking book "Working Hard, Working Poor: A Global Journey" (2012) illustrates that the global poverty is a problem of the quality of employment; not, as widely believed, a matter of high unemployment rates, which are often lower in low- and middle-income countries than in high-income countries. A key problem is the lack of social insurance systems. Given that many jobs in developing countries are unstable and earnings are extremely low, people are unable to overcome the status of "working poor" and thus remain in poverty even when employed. Fields' policy recommendations aim at increasing the level and security of wages for employees and self-employed by incentivizing investments in the private sector, growth and international trade, and by providing the necessary skills and business know-how to stimulate labor demand. In this respect, Fields also shows the shortcomings of previous development aid, which had not sufficiently targeted labor market needs.

Gary Fields has worked on labor markets in developing economies since the beginning of his career and played a crucial role in renewing the then-established understanding of economic development. In his early studies ("Who Benefits from Economic Development?", *American Economic Review*, 1977; "Poverty, Inequality and Development", 1980), he already made the case for approaching economic development using earnings structures, the distribution of productive activities and other less aggregated factors. Fields formulated the core question for development economists as: who benefits how much from economic development and why? He emphasized the use of poverty and inequality measures as primary indicators of the progress of development. Fields' approach was challenging and novel at that time. The conventional approach in economic research had been to ask whether a specific type of distributional pattern promotes or hinders growth. Fields turned

this approach upside down and called on economists to analyze how the rate and type of growth helps or hinders distributional goals.

In 2002 he published the equally successful book "Distribution and Development: A New Look at the Developing World". Given the extensive amount of data made available in the meantime, Fields was able to consider an additional factor next to poverty and inequality to measure economic development: income mobility.

In addition to development economics, Fields has worked on topics such as pensions, social insurance and welfare, and workplace organization. His contributions in these fields are also highly regarded and significant.



Gary S. Fields

Gary Fields is Professor of Economics and the John P. Windmuller Professor of International and Comparative Labor at Cornell University, USA. He has been an Ivy League teacher and professor for more than forty years. After receiving his Ph.D. in economics from the University of Michigan, he became an assistant professor at Yale University at age 25 and an associate professor at age 29. Two years later, he took up a tenured professorship at Cornell University. He published more than 150 books and scientific articles mainly in the area of development economics. Fields also has extensive consulting experience for such organizations as the World Bank, the Inter-American Development Bank, the International Labor Organization (ILO), the United Nations and various national governments. Fields joined the IZA network as a Research Fellow in 2007 and has been cooperating closely with IZA ever since.

The 2014 IZA Prize in Labor Economics honors the outstanding contributions of a unique scholar, who has fundamentally shaped our understanding of labor markets in the developing world, helping policymakers tackle one of today's most pressing tasks – the reduction of global poverty and inequality.

November 2014

George A. Akerlof
Rebecca M. Blank
Corrado Giulietti

Richard Portes
Klaus F. Zimmermann

Selected publications by Gary S. Fields:

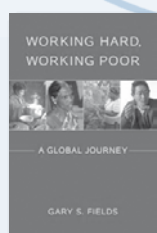
Gary S. Fields

**Working Hard, Working Poor:
A Global Journey**

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Self-employment and poverty in developing countries

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Challenges and policy lessons for the growth-employment-poverty nexus in developing countries

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Arnaud Chevalier: “Education Resources Must Be Spent Wisely”

In this edition of the IZA Compact interview series, Arnaud Chevalier answers questions about his career and his current research. Arnaud is a Senior Research Associate at IZA, on leave from Royal Holloway, University of London until August 2016. His principal interests are in education, health and economics of the family.



Arnaud Chevalier

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IZA Compact: *Arnaud, you wrote an IZA World of Labor article on “How to attract foreign students”. What is your main message?*

Arnaud Chevalier: Aging and shrinking societies need to attract skilled migrants. One way of doing this is by attracting and retaining international students. Despite concerns about “brain drain”, empirical evidence suggests that student migration can positively affect economic growth in both sending and receiving countries. So ultimately, everyone can benefit: migrating students and those who remain at home, as well as home and host societies. But migrants themselves reap most of the gains, through higher earnings.

Does this correspond to your own personal experience?

Indeed, I was an ERASMUS student myself. Without such a student exchange program I may have never chosen to go abroad – I barely spoke English at the time. But I even ended up staying in England to start my academic career there. My research was originally focused on the labor market for graduates. Then I went on to study the returns to education more generally. And now my own career has taken me to Germany...

...where we celebrate the 25th anniversary of the collapse of the Berlin Wall this month – an event that also inspired your research.

That’s right. The fall of the Berlin Wall had colossal repercussions in the economic development of the region but also, and maybe less obviously, on its demography. East Germany over a very short period experienced a 50% drop in fertility, mainly due to economic uncertainty. No other country in peacetime has experienced such a substantial fall in birth rates. From a research perspective, I found this a unique “natural experiment” to analyze whether individuals born at different points of the economic cycle have different outcomes, and for what reasons.

How did you research these questions?

In a joint paper with Olivier Marie we looked at the cohort of children born in East Germany between August 1990 (conceived just after the collapse of the wall) and December 1993 as the “Children of the Wall”. We provided evidence on parental selection based on the average criminal activity of these children as they grew up, their educational attainment, and detailed individual level data on parental skills.

What did you find with respect to crime?

We found that the Children of the Wall exhibit arrest rates at least 40% higher than older cohorts and their West German peers. This is true for all crime types and for both boys and

girls. We were particularly struck by the fact that these differences in the frequency of police contact start appearing as early as age six. Usually a numerically smaller cohort is associated with positive outcomes, so this indicates a strong negative parental selection.

Did the data on educational attainment confirm these findings?

Yes, the Children of the Wall also have worse educational outcomes. Compared to their class peers who were conceived just before the end of the communist regime, they have lower test scores and are over-represented among low achievers. They are 33% more likely to have repeated a grade by age 12 and 9% more likely to have been put into a lower educational track.

What is the explanation?

These outcomes are mainly driven by negative parental characteristics. Women who gave birth in East Germany just after the wall fell were on average younger, less educated, less likely to be in a relationship and less economically active. Importantly, they also provided less educational input to their children even if they are not poorer. The children rate their relationship with their mothers and the quality of parental support much less favorably than their peers. Both these children and their mothers are also far more risk-taking than comparable individuals.

Couldn’t it be that these children were “traumatized” being born in disruptive times?

This is unlikely because then they would behave differently than their older siblings, which is not the case. We instead conclude that the negative outcomes observed for this cohort are explained by the lower average parenting skills of those who decided to have children despite high economic uncertainty. A possible reason is that the fertility decision of these women does not react as strongly to changes in the economic environment: Less educated mothers are less likely to reduce their fertility when they perceive a bad economic environment.

What are the policy implications?

Parental selection may be one of the best predictors of the future outcome of a cohort, and this most likely works through quality of parenting. This suggests that provision of public services should not only be based on the size of an incoming cohort, but more attention should be paid on its composition. Also, interventions need to start from a very young age, and targeting could probably be improved by more commonly including non-cognitive characteristics such as risk attitudes.

Germany (particularly the West) still has some catching up to do with regard to public childcare provision... What is your experience?

Actually our two daughters are both in public childcare; the older one even goes to a bilingual kindergarten. But I am aware that demand for childcare still exceeds supply, particularly in Cologne, where we live. So I realize we are lucky!

- IZA World of Labor: <http://dx.doi.org/10.15185/izawol.36>
- IZA Newsroom: <http://wp.me/p3cqoR-Qq>

Europe's Refugee Tragedy

In a bold statement before the European Parliament, the EU Commission's new President Jean-Claude Juncker stressed that European core values must also be respected when it comes to asylum policy. His words are remarkable in light of the embarrassing performance that Europe has shown on this issue so far. The lack of a coherent refugee policy is dramatically reflected in over 20,000 deaths at the EU's external borders since the early 1990s, as well as in the living conditions of some 1.5 million displaced people who have sought asylum in the EU over the past five years. The result is not only a humanitarian but also an economic disaster.

From now on, the newly established EU migration commissioner will be in charge of refugee policy, which was previously divided between five different DGs. While new heads, consolidated responsibilities and strong speeches do not necessarily indicate a genuine change in policy, now is the chance to finally establish a European migration strategy that is no longer based on defense and national self-interest, but on the principle of shared responsibility.

According to the UNHCR, the number of refugees, asylum-seekers and internally displaced people worldwide has exceeded 50 million – and is expected to rise further. Many of those who come from countries bordering the Mediterranean are bound for Europe.

We certainly cannot absorb all of them. But to meet this challenge, the EU needs a fundamentally new way of thinking. The current practice has neither kept people from embarking on a dangerous journey towards Europe, nor has it achieved a fair and appropriate distribution of refugees within the Union.

The first step must be to agree on a transparent quota system guaranteeing a balanced distribution of

asylum-seekers across EU member countries. Countries like Sweden and Germany have accepted above-average numbers of asylum applications over the past years, while France and the UK have been rather reluctant. The definition of a "fair share" must account for the economic strength of each country.

Another aspect is becoming increasingly important: Many of those who come to us for humanitarian reasons are endowed with valuable "human capital". They have good skills and professional qualifications, and – as Germany's President Joachim Gauck put it – they are "highly mobile, flexible, multilingual, motivated and willing to take risks." But until recently, they have been effectively barred from seeking employment. In line with what IZA experts have long demanded, Germany has now eased the restrictions on labor market access for refugees. This gives them a chance to earn their own living, to develop their professional skills further, and to achieve social integration. The next logical step is to allow qualified refugees to enter into the regular immigration process.

The new EU Commissioner for Migration and Home Affairs, Dimitris Avramopoulos, is well advised to further develop the EU Blue Card Directive along these lines. After all, his declared goal is to "allow Europe to become an attractive destination for highly skilled individuals."

In tandem with these initiatives, we also need development partnerships for the labor markets of the sending regions in order to create medium-term prospects for refugees in their home countries. We should not forget that many of them wish to go back home someday.




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