



## Do We Have to Be Afraid of the Future World of Work?

Some recent studies on the impact of globalization and automation have spurred fears of major job destruction. Also, as labor markets have become increasingly flexible, the issues of unstable employment and low pay have gained public attention, particularly in the aftermath of the recent global economic crisis. “Precarity” is seen as a consequence of technological change and deteriorating economic conditions. At the same time, many employees perceive work as increasingly stressful and demanding, or even psychologically overburdening due to ever growing pressure on performance and work intensification. Against this background, what can we expect from the future – based on an assessment of past experiences, the current situation and the most plausible future developments? IZA Compact highlights major trends and different driving forces shaping the future of labor.

### There is no crisis of paid work

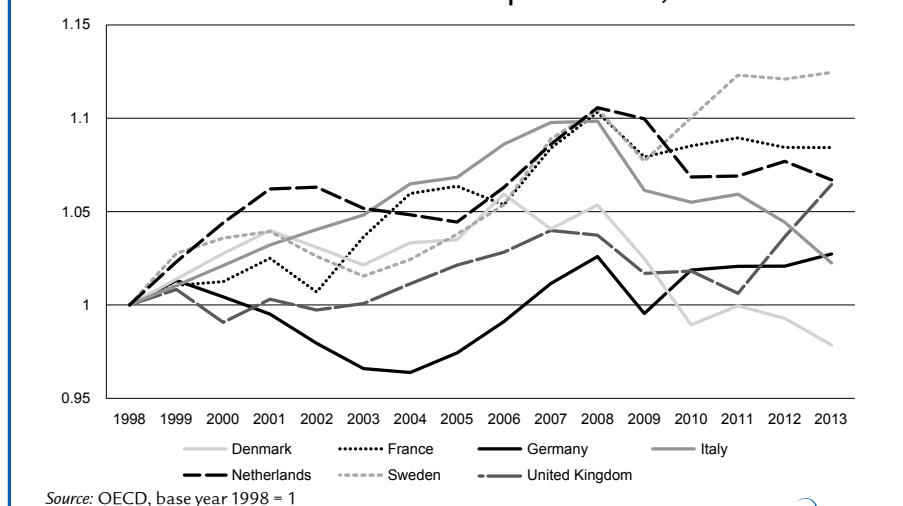
The world of work is in turmoil. But contrary to some widely shared concerns, if we take a more long-term perspective, paid work is at a historic high or at an increasing level in most developed countries. More countries and people have joined the global model of paid

employment, both in Europe and elsewhere. This can be observed in employment rates and total hours annually worked (Figure ▼). Even in the aftermath of the 2008/09 global economic crisis, we have not witnessed general and persistent declines in paid employment in developed market economies. Hence, it seems fair to say that the model of paid work is not failing as a mode to allocate income and organize economic production or, to a larger extent, societal integration in general. Diversity in employment levels across countries however, can be seen as persistent and largely due to institutional and cultural differences.

### Creative destruction is everywhere

We can never know for sure what will happen in the future. But from past and current experience, we know that jobs with unspecific skill requirements and easily replaceable workers are threatened either by offshoring to foreign locations with lower labor costs, by automation, or by a deterioration of working conditions such as pay or employment stability. Some occupations, companies and sectors shrink or disappear. This is already a well-known phenomenon of the recent decades when Europe lost many jobs in traditional industries such as

Total Hours Worked in Selected European Countries, 1998-2013



### >> In This Issue

#### IZA'S ANNUAL MIGRATION MEETING GOES TO AFRICA

Researchers, policymakers, and representatives of migrant organizations met in Dakar, Senegal, for the 12th Annual Migration Meeting (AM<sup>2</sup>) and 5th Migration Topic Week in order to obtain a deeper understanding of the causes of the ongoing migration from Africa to Europe and the policies that countries should implement. The event also included a Policy Symposium and field trips. [page 5](#)

#### IZA WORKSHOP ON INEQUALITY

The causes and consequences of rising inequality and the lack of economic mobility in many countries were discussed at a workshop held at IZA in Bonn. [page 10](#)

#### INTERVIEW WITH LÁSZLÓ ANDOR

The former EU Commissioner talks about hot EU policy topics such as labor mobility, youth unemployment, and the rise of Eurosceptic populist parties. [page 12](#)

#### OPINION: DIGITAL WORK

IZA Director Klaus F. Zimmermann looks with optimism at the digital world of work. [page 16](#)

#### IZA PRIZE 2015

The 2015 IZA Prize in Labor Economics goes to Jan Svejnar (Center on Global Economic Governance at Columbia University's School of International Public Affairs) for his major contributions to comparative economics, particularly for his research on the transition from socialist to market economies. The award ceremony was held at the annual IZA/World Bank Conference on Employment and Development in Bonn, June 4, 2015. IZA Compact will report in the next issue.



mining, ship building, agriculture or simple mass production.

However, this process might seem to be becoming faster and more radical, especially in the age of information and communication technology where opportunities of digitalization and offshoring are constantly increasing, sometimes at an unexpected speed. Thus, many see an expanding threat on a fundamental level to existing jobs and firms in developed economies and a massive imminent disruption of employment trends through the digital revolution.

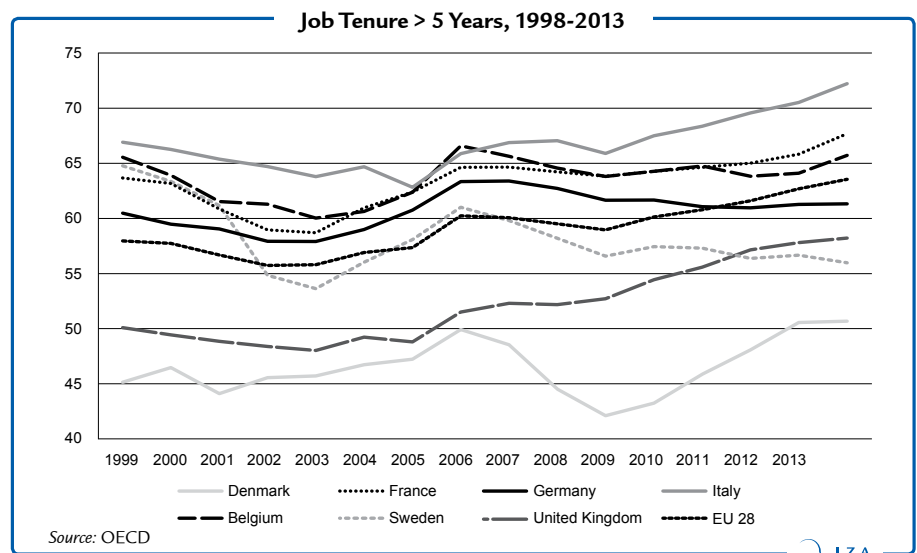
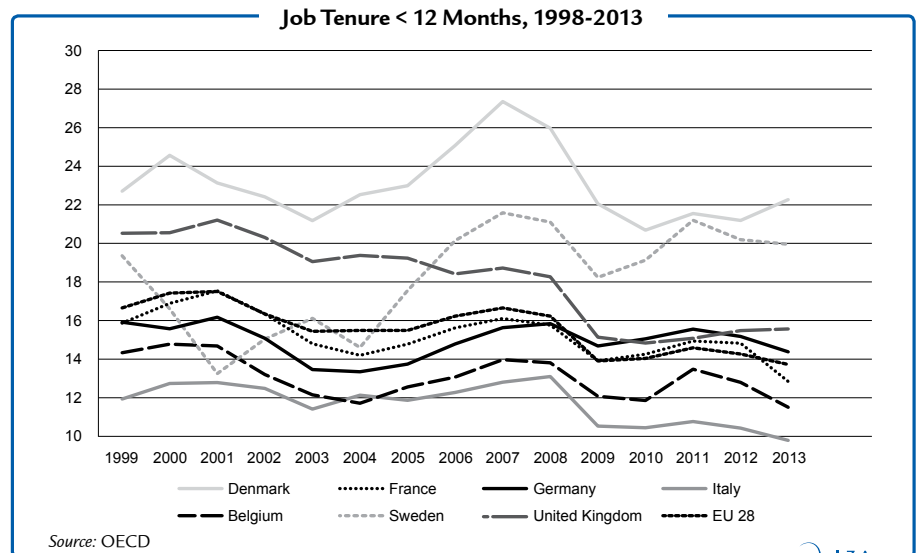
Yet, available empirical evidence is not so conclusive (yet). Comparative data on job tenure, however, do not show a general increase in the share of employees with low tenure, i.e. less than twelve months (Figure ►). Differences across countries appear to be rather persistent, with some temporal variation in the share of low-tenure employees following a cyclical pattern. The same is true for the share of workers with more than five years of tenure (Figure ►). Here, we do neither see a general decline nor an increase. Hence, it seems fair to say that there has not been a convergence to lower levels of tenure during the period of observation.

This process of the elimination of jobs on the one hand with the creation of innovative new ones on the other has long been understood as creative destruction in a Schumpeterian framing. It is not a new phenomenon, but it may become more radical in the near future.

This process of creative destruction is characterized by the fact that all market actors contribute to it – not only employers, innovators and business start-ups, but also individuals as consumers, employees or job-seekers. Hence, as a general principle, there is no guarantee for the secure continued existence of certain jobs and occupations. Time series data show that while some occupations have shrunk in the past, others have expanded significantly.

The broad picture rather shows that while some jobs are disappearing, occupations dealing with knowledge and/or people have been growing in importance over the last decades, albeit not all of them with privileged working conditions. Structural growth has occurred and is most likely to continue in areas where cognitive, analytical and interactive abilities are crucial such as research and education, health care and old-age care, hospitality and leisure, but also in different business services, consulting, management and marketing jobs.

These are also areas where the risk of offshoring and/or automation appears limited for



the foreseeable future. Although this structural change is continuing, there is still need for labor-intensive work such as some (but not all) crafts, hospitality, care, research and education, management, media and IT, but also specific types of knowledge-based manufacturing with a strong human element with regard to customer care, incremental innovation and local networks of production.

Within the context of fast technological progress, the rapid spreading of technology throughout the world and worldwide global production chains, there are hardly any niches left that are stable and unchallenged. Even occupations and business models that seemed to be on the safe side, due to the specific tasks performed there or because of the local character of production and consumption, might be challenged. As can be seen in recent debates, global integration and technology can also potentially impact on areas usually seen as virtually invulnerable – such as health care, journalists and financial analysts, crafts, taxi drivers, logistics or education.

Technical assistance in care and educational occupations, but also in manufacturing, may in fact help deal with a shortage of skilled workers due to demographic change as it may contribute to higher productivity. These types of innovation will most likely not replace human work completely but can be rather seen as complementary.

As in the past, job losses are constantly being offset by new, innovative areas of economic activity, and there is no reason to expect this process to stop. In fact, earlier forecasts on massive net job losses due to technological advances have proven to be wrong. What we do not know, however, is the concrete structure of tasks and occupations in the future. It would be a daring and probably futile task to make detailed predictions here as the change of the labor market is an ongoing process with many possibilities and alternatives that we do not even see today.

Although technological progress, in particular digitalization, also affects skill labor-intensive

areas such as health care, old-age care or research and education, there is no reason to expect that the structural growth in these areas will come to a halt over the coming years. Looking into empirical data, even at the most recent period, the long-standing trends of structural or occupational change are still robust. Furthermore, not all existing jobs will disappear or change at the same pace. For the time being, we will most likely not see a fully automatized economy – and we probably never will.

### Technology and globalization are major drivers

The stability of paid work is striking, but change within the employment system is pervasive. In line with research, it is clear that major driving forces exposing employment systems to constant change are technological progress (including prominently automation), globalization and offshoring, as well as societal and demographic shifts.

Technological progress challenges all routine activities that can be replaced by machines, including computer software, robotics and more and more sophisticated appliances. These changes will likely also affect routine work at the medium knowledge level to the extent that the processes can be increasingly programmed via intelligent software and ‘smart machines’, although this will not happen overnight. New technology, especially in information and communication, also makes the global availability of big data, any kind of digitalized information and mobile working easier and cheaper.

Globalization based on the less restricted flows of capital, goods, services and people allows for the flexible relocation of production and value added steps to places where this is most profitable. In combination with technological progress, this implies a tendency towards longer and more strictly cost-sensitive supply chains. In general, globalization does not have negative effects on total employment, but puts pressure on low-skilled jobs in developed countries exposed to offshoring, and shifts work to more complex tasks and better skilled workers.

Even within occupations that continue to exist despite these changes, the character of employment might change in principle from lifelong employment to the newer, more flexible modes such as freelance, (dependent) self-employment and project-based temporary jobs at different levels of complexity and remuneration, also using digital technology where appropriate. This will likely not occur for all occupations, but at least this is a real option. Last, but not least, demographic change continues to shift the structure of the

labor force and demand for goods and services throughout this process.

Polarization or dualization of employment is a likely outcome of these developments. The major trends in the world of work do privilege some occupations and certain categories of workers, especially where technology is rather complementary than a substitute, while others face job losses or deteriorating working conditions. However, there is a role for institutions and broader sectoral or national production models in mitigating the tendency towards more polarization. As comparative studies show, this has to do with education and training, regional technology clusters, but also with collective bargaining, wage setting and regulatory public policies.

While there is no inevitable linear relationship between job quality and job quantity in general, the broad economic and societal trends push towards more heterogeneity in the labor market. Still, national institutions shape the way heterogeneous job profiles are translated into diverse employment conditions. Wage inequality is one dimension; another is the distinction between permanent and temporary or non-standard forms of employment. Both types of disparities are influenced by wage bargaining and employment regulation on the one hand and by skill demand and supply patterns on the other hand.

### Human touch is ever more crucial

Occupations that will be most relevant in the future are those where non-routine cognitive, interactive or manual work performed by human beings is important, i.e. dealing with complexity, supervising, assessing, deciding, teaching, but also care and personal interaction. In these areas, human beings are crucial and will likely remain indispensable, not only the most highly skilled, but also in lower and medium skill segments. And humans shape these jobs based on qualification, experience, motivation and collaboration. Many jobs of the future will rely on this human factor, creating the huge potential of making these jobs ‘richer’ and more intrinsically interesting or rewarding than the jobs in the past, which were often characterized by more routine and repetitive tasks.

While new technologies enable mobile working and technologically assisted interaction, we can see that communication between humans is still elementary in many respects, in particular in services tailored to individuals. Given market pressures and competitiveness considerations, there is an increasing tendency to address human creativity and motivation more systematically via organizational and human resource practices.

However, on the downside, this can be more invasive on individuals and bring about more external control, e.g. via contract-based work and stricter monitoring. Hence, as human capital will matter crucially, one can see the future of paid work as a sort of “human capitalism”, which, however, does not automatically imply particularly “human(e)” working conditions. At least, the decline of routine jobs opens up new room for genuinely human activities that can be organized in more or less “human(e)” ways.

### More diverse employment relationships

Today’s labor markets are heterogeneous. They offer a multitude of employment options along a broad continuum ranging from permanent full-time employment to part-time work, fixed-term contracts, temporary agency work, freelance, zero-hour contracts, on-call work and many others, including combinations of different forms or multiple jobs. We see from the current picture that the type of employment relationship varies greatly between occupations. This has direct implications for the working conditions that employees and self-employed or freelance workers face. Working conditions in terms of employment type, contract stability and remuneration depend on skill demand and skill supply with contracts resulting from negotiations between actors always searching for the best deal.

Clearly, firms or contractors tend to externalize economic risks and shift the burden of adaptation onto those in a weaker position. Job quality and flexibility are a question of negotiation and bargaining power within given institutional arrangements. Certainly, not everyone will be self-employed as there is still an advantage to have permanent employees in the firm that make up a stable core workforce which can develop specific skills and knowledge that cannot be bought on the spot.

However, even within firms, flexible employment practices flourish, sometimes blurring the boundaries between internal and external project partners. Flexible, performance-oriented practices are also spreading within firms, affecting the work done in formally stable employment relationships. Although there is no general tendency towards more precariousness for all workers, large and increasing heterogeneity in the labor market is likely to occur.

It would be wrong to overestimate problematic and rapid changes in some limited pockets of the labor market such as IT professions, creative occupations or the ‘sharing economy’ by assuming the extension of these challenges throughout the entire labor market. Hence,

there will not only be self-employed or freelancers in the future. But in some areas this type of employment may become more and more prominent, in particular where the skills needed are quite general and easily found in the local or global labor market. We can also expect that more people will combine different types of economic activity, i.e. dependent and self-employed work or different freelance jobs, probably also including activities in the sharing economy beyond the limited scope observed until now.

Variety will also prevail with respect to working time arrangements and the flexibility of work location. The future of work will see many different solutions leaving a great deal of space for negotiations at the micro scale as actors try to reconcile different interests and preferences. We will probably not see new and strict general rules, such as a large-scale working time reduction, but rather many diverse arrangements taking into account special preferences and situations over the life course, to be negotiated between employers and employees or within project teams and networks, within the specific national context.

#### Work can be both productive and attractive

The reconciliation between employer and individual objectives is probably one of the core issues regarding the future of work as skilled workers and their ability and willingness to be productive, creative and responsible are core assets of future economic activity, and these workers tend to become an increasingly scarce resource in Europe. In fact, the future of work will mostly be shaped by corporate practices aiming at productivity, innovation and speed for the sake of competitiveness.

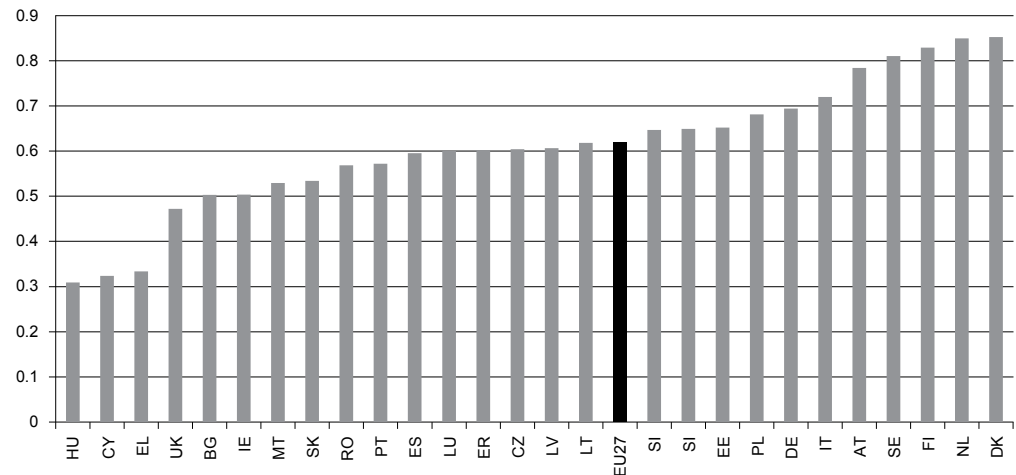
But at the same time, demands on workers cannot be increased indefinitely without creating stress and severe health problems in the long run. Physical and mental health issues have gained importance, as has the search for solutions to ensure a proper work-life balance under new economic circumstances. We know from research that job strain due to excessive

demands and limited control eventually leads to severe problems concerning employee well-being, motivation and health.

Hence, human resources policies and organizational innovations that help reconcile

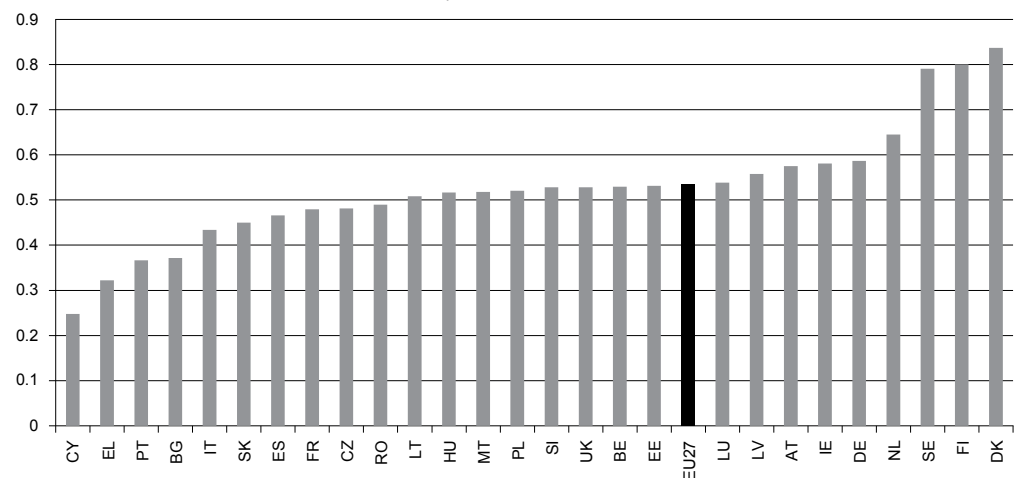
this tends to be a privileged situation for those whose skills are scarce. Finally, while allowing for differences and diversity, firms also need to observe overall fairness in the treatment of all of their workers.

#### Workplace Not Directly Under Control of Boss



Source: Eurofound, EWCS 2010, question q46e.

#### Team Members Decide by Themselves on the Division of Tasks



Source: Eurofound, EWCS 2010, question 57a.

productivity and attractiveness of the workplace will contribute substantially to the success of firms when competition on markets (including the market for talent) is strong. To attract qualified people, work needs to be attractive in terms of the fairness of effort and reward as well as the willingness of employers to negotiate flexibly with potential and incumbent workers on their working conditions, including working time patterns, mobile working, individualized career paths, targets to be achieved, building upon existing experiences and general trends observed.

This gives considerable scope for flexible, negotiated solutions at the company, department or individual level. However, as of yet,

#### Management, hierarchy and governance


Creativity and cooperation are crucial in many occupations. In a rapidly changing environment, there is a premium for quick and efficient delivery. Strict monitoring and control, often using data continuously being collected and monitored, may raise productivity in terms of reaching certain targets in the short run, but will probably not work in the long run when it comes to stimulation and support of innovation.

At the same time, we see tendencies towards the outsourcing of creativity and innovation and attempts at a more industrialized model of the creation of ideas. This is a quite logical



development in a market-driven economy but potentially implies an even heavier hand on individual workers. However, research has shown consistently that autonomy and intrinsic motivation within work tasks are core elements of job satisfaction, in particular in skilled, non-routine work. Employees need appropriate control over work processes and resources to cope with job demands, deal with high work intensity and avoid negative stress, job strain and eventual health problems leading to sickness absence or disability. Research shows that work intensity and productivity are clearly related with autonomy if stress is to be avoided.

### High speed and stress at work

In a more general sense, richer jobs in terms of the characteristics tend to be perceived as more rewarding than classical hierarchical progression. If skills, motivation and experience at the individual level matter most, individuals have to be respected regarding their individuality, particular strengths, but also weaknesses. Autonomy, trust and professionalism based on skills and experience is therefore important and more productive than rigid hierarchical control and close permanent monitoring. Regarding the relevance of autonomy-friendly work environments and employee well-being or the avoidance of job strain, we can observe major differences across sectors and occupations, but notably also between European countries (Figures, p. 4 .

Working conditions seem to be most employee-friendly, autonomy-oriented in Scandinavian countries – Finland, Sweden and Denmark – as well as in the Netherlands with regard to working time, autonomy and the avoidance of stress and job strain. These countries also have not only the most

autonomy-friendly, but also the most learning-oriented work environments. Of course, there are notable differences by sector, occupations and the skills structure of workers in different types of work organization, but there is also a strong national influence on the way work is organized. All in all, these countries tend to have models of work that are, on average, better prepared for the future than elsewhere. Other countries have substantial untapped potentials in ‘modernizing’ work arrangements to meet future requirements.

### The new world of work: Demanding, but also rewarding

The future world of work will certainly be demanding, maybe more than in the past, for individuals, but it will also offer many opportunities. All jobs are potentially subject to change and can become obsolete. Hence, there is no absolute security of employment, but rather a permanent situation of trial, probation and assessment. Future jobs can be long-term and permanent, of course, but there is no guarantee for that. Furthermore, future work will be fluid, unlimited in many cases, in its interaction or integration with the rest of life, with a stronger emphasis on subjective involvement, requiring self-organization, professionalism, articulation and communication. This is particularly relevant for knowledge- and project-based work.

To be able to cope with these demands, education and training matter, not only formally, but also informally, such as those skills acquired during practical experience in non-routine work like this. These jobs are potentially rewarding as they allow for a personal shaping of tasks according to talent, taste or style. However, while full engagement

and identification are seen as desirable and competitive assets, this raises psychological issues in terms of stress, potential exhaustion and mental health. The demands of the new world of work will require a more in-depth discussion of these issues.

### No need to be afraid

The changes we have discussed are more incremental than disruptive. This means that we can expect that actors have some time and capacity to adapt and negotiate solutions. Clearly, we will not really face a situation of massive joblessness in developed market economies beyond the cyclical and partially structural unemployment currently observed.

Although the future world of work will certainly be different from what we know today, there is no reason to be afraid. As history has shown, human creativity and inventiveness are strong and will always find ways to cope with new situations, including creating new job profiles in the future. We have been living with technological progress, globalization and structural change for decades – and will continue to do so in the future. There is no big master plan, but a great deal of micro-level action, with public policies setting a more or less favorable framework for market actors.

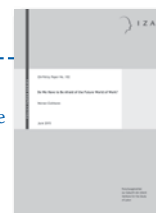
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## 12th Annual Migration Meeting in Dakar, Senegal Combining Research, Policy, and Hands-on Learning

Migration from Africa to Europe or the United States, and taboo topics such as slavery and forced migration, occupied a large part of the 12th Annual Migration Meeting (AM<sup>2</sup>) and 5th Migration Topic Week that took place in Africa for the first time. AM<sup>2</sup> is the flagship of the Migration Area at IZA, led by *Amelie F. Constant* (George Washington University and Temple University).

The event was held on April 19-25, 2015, at L'Institut de Recherche pour le Développement (IRD) in Dakar, Senegal. The country has been plagued by forced and clandestine migration for centuries. Senegal is also a major destination and transit country, and a country whose hero in popular culture is the



migrant. The meeting was co-sponsored and hosted by the Consortium pour la Recherche Économique et Sociale (CRES) and University Cheikh Anta Diop of Dakar.

The aim of AM<sup>2</sup> was to bring together researchers, policymakers, and representatives of

migrant organizations in order to obtain a deeper understanding of the political and economic issues at hand: What are the causes of the ongoing migration from Africa to Europe? What immediate action can be taken to prevent thousands of deaths in the Mediterranean Sea? What long-term policies should countries

implement to improve the lives of migrants and non-migrants?

The tragic death of several hundred young African migrants on the day before AM<sup>2</sup> began made the meeting all the more relevant and pertinent. Both Amelie Constant and Abdoulaye Diagne (Director of CRES) acknowledged the heartbreaking, unjustified and untimely loss of lives in their welcoming address.

### Slave trade and forced migration

The academic part of the meeting was devoted to understanding the driving forces of migration, and the impact of migration on the sending and receiving countries. Central to understanding the economic development of Africa, as well as the causes of the current migration from Africa to Europe, is its marred history of more than 400 years of slave trade and forced migration.



Graziella Bertocchi

This year's Julian Simon Lecture was delivered by Graziella Bertocchi (University of Modena and Reggio Emilia; IZA), who gave an

overview of the historical origins of the slave trade in Africa, and its consequences for economic development today. One of the drivers of slave trade was an increase in the demand for firearms in Africa, which were imported from the new world in exchange for slaves that could work on plantations. The legacy of the slave trade in Africa can be seen until today. Slave trade prevented the formation of national identities and of social cohesion, which subsequently led to more conflicts between countries. Moreover, because most slaves were men, the slave trade caused a gender imbalance, and reinforced polygyny in many countries. Areas with high polygyny, in turn, were most vulnerable to the spread of HIV since the 1980s.

### Effects of remittances

An important pillar of economic development in Africa and elsewhere are remittances. In Senegal, remittances account for over 10 percent of GDP, and they help funding schools and hospitals (see interview with Mamadou Dansokho, p. 8). Four papers were devoted to remittances, their determinants and impact on the receiving country and people. Fatou Cissé (CRES) analyzed how remittances affect families' time allocation vis-à-vis their children. Comparing households with and without remittance receipts, as well as the same households before and after the receipt, she showed that remittances increase the level of school-

ing, but only for boys. Moreover, remittances decrease the amount of non-paid household activity of the children left behind.

How remittances can affect credit markets in rural areas in Senegal was discussed by Linguère Mbaye (IZA). In theory, remittances can lead families to ask for more or fewer loans. In practice, families that receive remittances may need to borrow less. In that case, remittances could simply replace loans. Alternatively, Mbaye argues that the presence of a migrant can operate like collateral, making the likelihood of obtaining a loan higher. Maëlan Le Goff (Banque de France) analyzed the determinants of remittances using a sample of immigrants in Italy. She uncovered an important gender difference in remittance behavior, whereby



women migrants generally remit more, especially when female discrimination in their country of origin is high.

A novel link between remittances and relative concerns was explored by Alpaslan Akay (University of Gothenburg and IZA). Using a sample of rural-to-urban migrants in China, he demonstrated that the well-being of households in the sending villages is lower when their neighbors' income is higher. However, the opposite holds true for remittances: one's own well-being increases when a neighbor receives remittances.

A further channel through which migration affects development is return migration. Migrants return to their home country with a new set of skills and new ideas, which are often beneficial for their home countries. Sandrine Mesplé-Somps (IRD-DIAL) studied the impact of return migration on social norms using female genital mutilation (FGM) as a proxy. She showed that towns in Mali whose migrants returned from Europe had fewer incidences of FGM than towns from which most migrants went to other African countries. Paolo Abarcar (University of Michigan) provided new and surprising evidence on the labor market success of migrants after returning to the home country. Abarcar conducted a field experiment in the Philippines in which he sent out 8,000 fictitious CVs. He random-

ized the information on whether the person was a return migrant or not, and compared the call-back rates for both groups. His results showed that return migrants had significantly lower call-back rates than never-migrants, indicating that return migrants face a penalty in the labor market.

### Migrant (self-)selection

Key to understanding migrant outcomes is deciphering the selection of migrants. Employing a sample of university graduates in Germany, Matthias Parey (University of Essex and IZA) provided new evidence on their selection. Graduates from the best universities, and in general the best graduates within a cohort, tend to migrate to countries with high income

inequality. Graduates from lower-ranked universities, on the other hand, move to countries with higher equality. These results confirm the predictions of the Roy model, which has often been rejected for the selection of low-skilled migrants.

Theories of migrant self-selection commonly consider all migrations as equal when analyzing the determinants of migration flows. Studying emigrants from South America, Gilles Spielvogel (Université Paris 1) proved this assumption to be too simplistic. Emigration to other South American countries and emigration further away have very different determinants. When both flows are analyzed jointly, these determinants would cancel each other out and could be seen as unimportant.

Virtually all high-income countries have migration policies in place that regulate who is allowed to immigrate and what happens to migrants who have illegally crossed the border. One such policy is E-Verify in the US, a law that requires employers to verify the legal status of immigrant workers. Madeline Zavodny (Agnes Scott College and IZA) exploited the gradual implementation of E-verify across U.S. states to see whether the law affected the location choices of unauthorized immigrants. She finds strong evidence for deterrence: states that introduced the law saw a rapid decline in unauthorized migration.

## Migration policies compared

There are many different types of migration policies – point systems, minimum income rules, or quotas – but their effectiveness is unclear. Most countries have only one policy in place, and the effect of another policy on the same country is unknown. *Mette Foged* (University of Copenhagen) exploited the fact that Denmark had three work permit schemes at the same time to compare the impact of each regime on the labor market performance of migrants. She found the point system to be less effective than previously thought, while pay limit schemes help select very high-skilled migrants. Moreover, the introduction of job search periods, allowing migrants to stay for six months in the country after losing their job, significantly improved the performance of migrants.

Migration policies can differentially affect the labor force participation of women and minorities. *Erik Vickstrom* (U.S. Census Bureau and IZA) compared Senegalese migrants in Italy, Spain, and France, and showed that women who migrated under family reunification schemes had significantly lower probabilities of working than those who entered through other schemes. No such difference was found for men.



M. Dansokho, A. Constant, K.F. Zimmermann, S. J. Diop

Migration policies are typically the result of a political process. *Tommaso Frattini* (University of Milan and IZA) highlighted the role of the media in the making of migration policies. He analyzed the voting behavior of US congressmen for bills on migration and trade policies, and how congressmen respond to the preferences of their voters. The votes of politicians that received a greater media exposure in their constituency were closer to the preferences of their voters. This effect was found for migration policies, but not for trade policies. *Sanjay Jain* (University of Cambridge) developed a theory that showed how cultural concerns lead to inefficiently high barriers to migration. While free mobility would be optimal for world welfare, high-income countries have a cultural cost of welcoming migrants, and therefore opt for restrictions. Moreover, these restrictions typically favor permanent migrants over temporary ones.

## Immigrant integration

A series of papers studied various facets of the integration of immigrants, which remains a challenge for many countries. *Massimiliano Tani* (IZA) examined the importance of degree recognition on the labor market success of Australian immigrants. Based on longitudinal data, he showed that the recognition of foreign degrees by a certified agency leads

to higher wages, and a better education-occupation match. “Untypical” migration countries receive many more immigrants than the “typical” ones. Iran, for example, has seen an inflow of over three million migrants from Afghanistan. *Maryam Naghsh Nejad* (IZA) studied their integration by comparing the second generation Afghan immigrants with Iranian natives. She finds a large disparity in school attendance and overall educational attainment. Afghan immigrants are facing a significant disadvantage even in the second generation.

Many migrants rely on informal networks to find jobs in the receiving country. But do these connections pay off? Using data on Canadian immigrants, *Deepti Goel* (Delhi School of Economics and IZA) showed that the wage dif-

ference between a first job outside the network and a job from inside the network is smaller among people who have a high likelihood of receiving an offer through the network. These findings can be explained by the higher effectiveness of weak ties, which are less likely to generate offers, but each offer is linked to a higher wage premium. An additional challenge immigrant children face in their cognitive development vis-à-vis native children is their exposure to multiple languages: bilingual children may be at a disadvantage early in life because learning an additional language is more challenging than learning one. Based on Scottish early childhood data, *Joanna Clifton-Sprigg* (University of Edinburgh) focused on a growing group of second-generation immigrants and analyzed differences in their cognitive development between ages 3 and 5. She showed that bilingual children at age 3 have indeed lower cognitive skills than monolingual children, but they fully catch up by the age of 5.

*Vincenzo Caponi* (CREST and IZA) provided a new explanation for some puzzling facts regarding the fertility and human capital of immigrants. He showed that highly educated Mexican women in the US have higher fertility rates than US women and Mexican stayers, and that highly educated Mexican women have low participation rates in the US than in

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## International Handbook on the Economics of Migration

*Amelie F. Constant*

*Klaus F. Zimmermann*

Edward Elgar 2015,

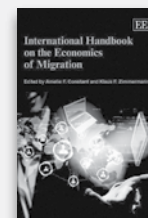
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Mexico. In a theoretical model, these outcomes can be explained by a combination of migration incentives and the loss of human capital due to migration. Highly educated women have a higher incentive to migrate than women with a low education. But due to cultural and technological differences, their human capital is rewarded less in the receiving country. This increases the opportunity cost of working, making child-rearing relatively more attractive.

## Migration and health

There is a growing concern that the emigration of health professionals from poor countries (“medical brain drain”) has a detrimental effect on the health of those left behind. Moreover, training doctors is very costly, and there is fear that countries lose out if doctors are trained at home and emigrate afterwards. The paper by *Caglar Özden* (World Bank and IZA) challenged the traditional definition of brain drain and demonstrated that medical brain drain is in part a myth. Looking at detailed data on African-born doctors in the U.S., he showed that only one-third of all African doctors in the U.S. were actually trained in their home countries. Two-thirds were either trained in the U.S. or in another country and subsequently moved to the U.S.

The “healthy immigrant paradox” – the observation that immigrants upon arrival are healthier than comparable natives – was researched by *Shoshana Neuman* (Bar-Ilan University and IZA). Using Israel’s unique policy towards Jewish potential immigrants, she compared immigrants to Europe and Israel. Unlike Europe, which has a selective migration policy regarding the health of incoming migrants, Israel places virtually no health restrictions on Jewish immigrants who want to settle there. The author provided a straightforward explanation: the healthy immigrant effect is driven by selective migration policies. While the paradox exists in Europe, Israel’s non-selective health policy leads to a “sick immigrant effect” – migrants to Israel are on average less healthy than comparable natives.



IZA Director *Klaus F. Zimmermann* (University of Bonn) presented the first results of a new project on poisoned drinking water and household behavior in rural Bangladesh. While a substantial fraction of tube wells – the main source of drinking water for many families – has been found to have high levels of arsenic, people are still drinking it. Zimmermann's research showed that drinking poisoned water had severe negative consequences for the mental health of people. The project will examine remedies. Migrant households also have a reduced level of subjective well-being.

### Macro effects of migration

In the macro economy, migration can have significant direct effects on wages, employment, and prices. *Andrei Zlate* (Federal Reserve Bank of Boston) studied to what extent migration, along with off-shoring, contributed to the significant job polarization in the U.S. over the last 30 years. The central finding of his study is that low-skilled immigration greased the wheels of the U.S. economy. While off-shoring hurt workers in the middle of the income distribution, it increased the wages of high-skilled as well as the demand for low-skilled workers. However, through the massive influx of low-skilled immigrants, wages for low-skilled

workers remained low, which incentivized low-skilled natives to invest more in education. Overall, this skill upgrade led to productivity gains for the U.S. economy.

Economists have long suspected that migration facilitates trade by reducing transaction costs. Due to the simultaneity of trade and migration, it was difficult to establish a credible causal link between both. *Christopher Parsons* (Oxford University and IZA) filled this



gap with a paper that used the arrival of the Vietnamese boat people as a natural experiment. After the end of the Vietnam War, more than one million Vietnamese were settled in the U.S., and their allocation was quasi-random across U.S. states. Parsons shows that after the lifting of the U.S.-Vietnam trade embargo almost 20 years later, states with a larger number of Vietnamese immigrants had a stronger increase in trade with Vietnam.

An entire day of the Migration Topic Week was devoted to a Policy Symposium, which brought together high-profile policymakers, dignitaries, academics, and representatives of migrant organizations (see next page).

### Hands-on field trips

Two unforgettable field trips, which provided “hands-on” experience with migration from Africa then and now, were also part of the

Migration Topic Week. A half-day excursion led participants to the Ile de Gorée, one of the main areas of slave stations, slave trade and forced embarkment of Africans to the Americas. A guided tour at the House of Slaves gave insights into the 400-year marred history of slave trade from West Africa, and its negative consequences on the economy and

society that are still visible today. Participants experienced the inhumane conditions that men, women and children slaves had to endure before being forced to walk through the “gate of no return.”

St. Louis, the capital of Senegal under French colonialism, by the delta of the river Senegal, was also an area of heavy slave trading and shipping. In addition, the first emigrants to

## Interview: Costs, Benefits and Consequences of Migration for Senegal

During the Annual Migration Meeting, Professor *Mamadou Dansokho* (University Cheikh Anta Diop of Dakar and CRES) answered questions on migration and economic development in West Africa.



Mamadou Dansokho

*In your opinion, what are the major costs and benefits from migration for Senegal?*

Senegal has a long history of emigration to Europe. The first wave of emigrants left the country after the Second World War, while the most important wave occurred in the 1970s, when many people from the North and South East of Senegal moved to Europe. These emigrants have been instrumental for their hometowns until today. Through remittances, they not only support families, but they help building and maintaining hospitals, and thus invest in the education and health of the people left behind.

But emigration also comes at a cost. Many emigrants have relatively low education levels. At the same time, they serve as role models for young people. Instead of aspiring to go to university, many young people think that education is not important because they can do better by moving abroad. Thus, many young people no longer believe in the benefits of higher education, and even of work. This is an enormous economic cost.

But there is also a social cost for the Senegalese abroad and the societies they live in. Children of the second immigrant generation find it increasingly difficult to integrate in the society. Take the example of France. Many young Africans only know poor areas in the Banlieue. There is a great emptiness in the young generation,

a lack of identity, which makes them vulnerable to fundamentalism.

*What can West Africa and Europe do to stop the refugee tragedy in the Mediterranean Sea?*

It's a drama. Africa and Europe certainly look back on a difficult common history. But one has to realize the cynicism of today's world. European societies are very rich, and they know well the situation in most African countries. Without economic development, the only hope for young Africans is to move abroad. And while we live in a globalized world, it only goes so far. We have been asked to sign agreements which ensure free movement of goods and services, but which exclude the free movement of people.

At the same time, young people who want to pursue their higher education in Europe, especially in France, face difficulties. They are often brilliant minds, but the bureaucratic hurdles to enroll in a French university are enormous. Many young people are now more oriented toward the U.S., and even China, because university access there is easier, and the universities are more integrative.

Also, even though civil rights are important in Europe, Europe has no harmonized rights for immigrants. African immigrants often feel marginalized, which can breed fundamentalism. Europe needs to improve the rights for immigrants. At the same time, if the goal is to control emigration from Africa, more funds will need to be provided for economic development in Africa.

► <http://wp.me/p3cqoR-15p>



Europe migrated from this northern part of the country. The field trip to St. Louis brought AM<sup>2</sup> participants closer to today's harsh realities of African migration to Europe – poorer areas of St. Louis are nowadays among the main departure points for Senegalese emigrants. While much is written in the media about irregular migration from Africa to Europe, and while researchers study the issue, it is still a shocking eye-opener to see the plight of these migrants and their families up close. Touring St. Louis and going to the Fishermen's Island by "chaloupes" (fishing boats or pirogues that are typically used for crossing the Mediterranean Sea) participants obtained exquisite insights and a first-hand impression of what it feels like to cross the sea in a small boat with 100 or more other people, and to understand what drives people to pay smugglers to go to Europe.

AM<sup>2</sup> participants also had the chance to visit an elementary school and talk with the principal and other students about their tough life and the brutal reality that children often cannot afford going to school. Despite the dangerous crossing, and despite the often miserable situation of irregular migrants in Europe, the principal finds it increasingly difficult to offer his pupils a perspective. On the upside, remittances from more established migrants in Europe help maintain the school, and provide people with some training, which could improve the livelihoods of many families in the community, and prevent people from leaving. A local community organization,

funded by emigrants and other graduates of the local school to help develop the local community facilitated meetings with actual return migrants, who clandestinely left Senegal and landed as refugees in Spain and were eventually sent back to Senegal. AM<sup>2</sup> participants had the fortune to talk with these young migrants. The first migrant, a young fisherman, did not see any perspective in life, and without the consent of his family he left one day for Mauritania, from where he went on to the Canary Islands. Spotted by the coast guard in Gran Canaria, the boat was brought to a refugee camp run by the Red Cross. For more than one year, he and the others waited for their case to be handled. After his family learned about his wretched condition, they paid for his flight back to Senegal. Since his return, he has had no job, and he told the group that he would try to go again as soon as the opportunity arises.

The second meeting was with a family whose sons also left clandestinely for Europe and one of them died in 2005 while crossing over to the Canary Islands. His brother, who had successfully made it to Gran Canaria a few days earlier, shared his own experience of the crossing, and of finding out that his brother did not make it. Until today, it is not clear what happened to his brother and no body has been found to provide closure to the family. The return migrant confirmed that he left for economic reasons and never intended to stay abroad for long. He worked for three years as a street seller in Madrid, before being sent back by the Spanish

### Quotes from the participants

- "It was a very memorable and inspiring meeting."*  
— Mette Foged
- "I am very grateful to the organizers for mixing together the scientific, policy and human aspects of what we study, an experience we won't forget."*  
— Vincenzo Caponi
- "It was an unforgettable conference!"*  
— Graziella Bertocchi
- "This was the most inspiring conference in which I've participated in the six years since I finished grad school, due to the mix of research with policy and the social interaction in St. Louis."*  
— Andrei Zlate
- "The round table on migration policy was a great idea and perfectly organized so as to share and discuss knowledge and policies with Senegalese stakeholders."*  
— Yvain Bon

authorities. Back in town, he is struggling to find a job and make ends meet. Despite his negative experience, and despite the fact that his brother died, he told the group that he would try again, and nothing could stop him. The mother of both sons told the group that she did not even know that her sons were planning to leave. Both had been working as fishermen to support their large family. "The desire to emigrate spreads like a disease among young men in the neighborhood," said the mother. What is worse, there is no provision for the returnees to incorporate into the economic life.

► [www.iza.org/link/AM2Dakar](http://www.iza.org/link/AM2Dakar)

## Policy Symposium Debates the Current African Migration to Europe

Within the 12th Annual Migration Meeting (AM<sup>2</sup>), a Policy Symposium brought together dignitaries, policymakers, academics, and representatives of migrant organizations who discussed how it can be avoided that thousands of young migrants lose their lives on their passage to Europe, and how migration can help Africa to thrive economically. The meeting took place at the Terrou-Bi Hotel in the grand ballroom filled to capacity with more than 150 people present.

migration for developing countries. Diop underlined the importance of IZA's contributions in the migration area and expressed his appreciation for IZA's initiative to be in Dakar: "We feel privileged to host your conference and engage in this important dialogue."

In Senegal, diaspora plays a key role for the country's economy. Remittances amount to 10 percent of GDP; they go into financing roads, schools and other infrastructure all over the

- a project of successful repatriation of the Senegalese abroad,
- safeguarding the Senegalese youth in the country as they represent the future and the hope of the nation.

The four panelists agreed that immediate action is needed to stop the tragic deadly accidents in the sea. Europe and Africa need to enter a deeper cooperation in order to maximize the benefits of migration for both continents. As an effective solution, IZA Director Zimmermann suggested a system of circular migration conditional on jobs, which gives migrants the legal right to enter Europe and work for the agreed upon time, before returning to their home country.

Professors Mamadou Dansokho (CRES), Abdoulaye Diagne (CRES) and Pape Demba Fall (IFAN), gave a deeper insight into how migration is shaping the Senegalese economy. Perhaps surprisingly, Senegal is also a major destination for immigrants from other parts of West Africa and nearby countries because Senegal is doing much better than its neighbors and is off the low-income countries list. Dansokho extensively



Abdoulaye Diagne, Souleymane Jules Diop, Klaus F. Zimmermann, Yvain Bon

His Excellency Souleymane Jules Diop (Secretary of the State of Affairs of the Senegalese Abroad), IZA Director Klaus F. Zimmermann, CRES Director Abdoulaye Diagne and Yvain Bon (Representative of IOM, West Africa) highlighted the vast economic potential of

country. The President of Senegal has asked for, is committed to and finances these active policies:

- the protection and assistance of the Senegalese abroad,



Yvain Bon, Pape Demba Fall, Ndioro Ndiaye, Godlove Kamwa, Miniane Diouf, Sory Kaba, Penda Mbow

discussed the pros and cons of Chinese FDI in Senegal. His research shows how migration and investment can go hand in hand. Diagne's paper highlighted the positive role of the Senegalese diaspora in alleviating poverty.

Rural areas are no longer as vulnerable to natural disasters and bad harvests because diaspora networks act as an insurance, and provide more funds to local communities when they are hit by a weather shock. Demba Fall showed that internal migration is equally important for the development of the country as is international migration. Senegal is seeing massive urbanization, which has transformed rural and urban areas, and increased inequality within the country. At the same time, many Senegalese have escaped poverty by moving from rural to urban areas.

The Symposium concluded with a round table of six experts on migration from Senegal: *Penda Mbow* (Minister Adviser to the President of the

Republic of Senegal for the Francophonie), *Ndioro Ndiaye* (President of the Alliance for Migration, Leadership et Development (AMLD) and Former Minister for Women's, Children's and Family Affairs of the Republic of Senegal), *Yvain Bon* (IOM, West Africa), *Pape Demba Fall* (Development expert at IFAN, University Cheikh Anta Diop, Dakar), *Sory Kaba* (Directeur Général des Sénégalais de l'Extérieur), and *Miniane Diouf* (Representative of the Migration and Development Project in Africa).

In an opening statement Ndioro Ndiaye called for a new dialogue between the sending countries, transit countries, and the receiving countries in Europe, which has to be grounded on an equal partnership between countries. It is not wise for Europe to close its borders. After all, what Europe needs is skilled and talented workers, of which there is plenty in Africa.

Penda Mbow highlighted the difficult situation many women are facing in Senegal. At home,

they have little access to higher education, while at the same time emigration is more difficult for women than for men. The progress of women's rights has slowed down considerably, and faces cultural and religious barriers. It will be crucial for the development of the country to improve women's rights, and especially to grant women access to higher education.

The panelists expressed the following demands to policymakers:

- The loss of lives in the Mediterranean, equivalent to the loss of the young generation, has to stop immediately. Any delay costs lives.
- The legal situation of migrants in Europe should be improved. Migrants need reliable rights to thrive at their destination.
- Diasporas can be key to maximizing the gains from migration for Senegal. Diaspora associations should help Senegalese abroad to integrate, find work, and feel part of the society.
- Diaspora associations should also encourage remittances and foreign direct investment, which should be channeled into projects that significantly improve the livelihoods of people.

► [www.iza.org/link/AM2Dakar](http://www.iza.org/link/AM2Dakar)

## IZA Workshop on the Causes and Consequences of Inequality

Inequality has been rising in many countries over the last decades, making it a hot topic in current academic and public debates. In some countries like the US, the UK and Germany, real wages have been stagnating in the median and bottom percentiles and growing at the top. In other countries, where productivity growth has been sluggish, the picture is the opposite with stagnation at the top of the distribution and real wage decline at the bottom. In both cases, these dynamics have resulted in an increasing gap between top and bottom incomes, and the process seems to have accelerated with the Great Recession. Not only the income distribution is more unequal today than it was 40 years ago, but also the extent to which income differences are transmitted through generations has not declined. In other words, there seems to be lack of economic mobility in many countries.

Against this background, international researchers met in Bonn on March 20-21, 2015, for the IZA Workshop on Inequality, which was co-funded by the Fritz Thyssen Foundation, to present and discuss cutting-edge research on causes and con-

sequences of inequality with an emphasis on the labor market. The workshop was organized by *Lorenzo Cappellari* (Università Cattolica Milano and IZA), *Solomon Polachek* (Binghamton University, New York and IZA) and *Konstantinos Tatsiramos* (University of Nottingham and IZA). A selection of the presented papers will be considered for a forthcoming special issue of *Research in Labor Economics*.

There are two main messages coming out from the workshop. The first is that trade unions are less and less effective in protecting the incomes of low-wage earners. One reason is that union membership and union coverage are shifting towards retired workers and old workplaces, while low-wage earners tend to be young workers in small firms. This is why policy tools such as a legally set minimum wage are gaining relevance throughout the world. The second message is that wage differentials depend on the matching between workers' skills and the tasks that their jobs entail.

*Anders Björklund* (SOFI, Stockholm University and IZA) presented a comparative

assessment of four approaches for measuring the impacts of families on inequality of outcomes: (i) intergenerational elasticities, (ii) causal studies of parental background, (iii) sibling correlations, and (iv) equality of opportunity. The four approaches typically yield different findings and are little integrated between themselves. They underline the importance of going beyond a single estimate of intergenerational elasticity of incomes, and they show that there is a lot of heterogeneity in income transmission across the distribution of incomes. These approaches tend to deliver different estimates for the impact of family on inequality, with studies based on sibling correlations finding larger impact. This is due to their ability to account for all income generating factors that are shared by siblings in a family, both observed and unobserved. This comes at the cost of a limited ability of sibling studies in pointing out specific factors as targets of poverty-reducing policies. Studies focusing on equality of opportunity typically distinguish between effort and circumstances as sources of tolerable and non-tolerable inequalities, respectively. However, it is dif-

difficult to draw a sharp distinction between the two sources, and additional information such as school qualities or skills measures need to be integrated into this approach.

In his contribution, *Daniele Checchi* (University of Milan and IZA) provided an empirical investigation of income inequality and equality of opportunities in Europe. One of the key points is that standard income inequality and inequality of opportunities do not necessarily offer the same type of country rankings – especially when comparing formerly non-market economies with coordinated market economies, like Nordic ones. Inequality of opportunity measures do not exhibit significant variations over time, as income inequality measures do, suggesting that they reflect embedded features of national socio-economic systems. Institutions do play a role in shaping the varying degrees of equal opportunities across countries, in particular educational systems, labor market institutions and parental leave opportunities during child caring.

*Peter Gottschalk* (Boston College and IZA) explored the effect of maternal labor supply on labor market outcomes of their children when they grow up. Answering the question is challenging because of both endogeneity issues and data limitations. He finds no significant earnings effect of maternal labor supply, but some effect on labor force participation. Also, the intergenerational transmission of incomes seems unaffected.

*Thomas Lemieux* (University of British Columbia, Vancouver and IZA) looked at the links between wage inequality and task prices, which are difficult to measure because changing task prices are often blurred by endogenous selection into tasks. In the model presented, wage levels depend upon tasks and task prices, while tasks depend on workers' skills. This implies that wage inequality depends on both the level and dispersion of task prices.

Using detailed data on task contents of jobs, the findings suggest that automation has reduced average wages and increased their dispersion. The study advances the current literature on routine jobs and wage inequality by showing that changes in task prices due to changing content of tasks are an important ingredient of changes in the overall wage distribution.



*Stephen Machin* (University College London and IZA) investigated the connections between rising wage inequality, stagnation of average real wages and the decline of unions. The rise of wage inequality observed in many countries (e.g. US, UK, Germany) was concurrent with the stagnation of average wages, defined as the absence of real wage growth. This phenomenon is worrying from a welfare perspective especially because stagnation occurred in the bottom and middle quantiles of the wage distribution, but not at the top. This happens in an era of demise of unions where new workers do not unionize, implying a decoupling between average wages and productivity.

Intergenerational income associations (how much children's income is associated with the income of their parents) are important measures because they can be informative about the degree of income mobility, with higher intergenerational income association implying lower mobility. *Bhashkar Mazumder* (Federal Reserve

Bank of Chicago) discussed alternative approaches to the estimation of intergenerational income associations (elasticities vs. rank correlations) casting the discussion in the framework of recent US evidence from tax records, which shows lower estimates of both compared with previous findings. This would imply more intergenerational income mobility than commonly thought. The author reconciled these discrepancies

by showing that the tax records that have been used do not have the right structure needed for the estimation of intergenerational associations, namely a sufficient length of income strings on children and fathers centered around the early 40s, an age range where life-cycle biases are typically considered negligible. Using longer panel data from household surveys (PSID), Mazumder showed that the data limitations of the tax records used in recent papers can explain a big part of discrepancies in results. He also stressed the conceptual advantages of rank-based measures over elasticities. The main conclusion is that available tax data do not provide the adequate structure of information for estimating intergenerational income associations.

The workshop program with additional presented papers is available online:

► [www.iza.org/link/inequality2015](http://www.iza.org/link/inequality2015)

## IZA Fellow Alan Barrett Appointed to Become ESRI Director

The Council of the Economic and Social Research Institute (ESRI, Dublin) has announced that *Alan Barrett* will succeed Frances Ruane later this year as the Director of the Institute. Alan Barrett is currently the Head of the Economic Analysis Division at the ESRI. He is also an Adjunct Professor at the Department of Economics, Trin-



ity College Dublin, and is a member of the Irish Fiscal Advisory Council.

Alan is one of the very first IZA Research Fellows, having joined the IZA network right after the institute was established in 1998. He has contributed 30 IZA discussion papers to date,

generating a total of over 90,000 downloads, and co-authored an IZA research report on the Active Inclusion of Migrants. He also serves as Editor of the *IZA Journal of European Labor Studies*.

"Alan Barrett combines academic excellence with a vision for concrete policy-making. He will become a strong Irish voice in the European policy debate," said IZA Director *Klaus F. Zimmermann*.



## “Labor Mobility Should Be Seen as an Opportunity”

In an interview with IZA Compact, former EU Commissioner *László Andor* comments on hot EU policy topics such as labor mobility, youth unemployment, and Euroscepticism. Andor was Commissioner for Employment, Social Affairs and Inclusion in the Barroso II administration of the European Commission between February 2010 and October 2014. He joined the IZA network as a Policy Fellow in April 2015.



László Andor

*The European Union is often perceived as a bureaucracy remote from real life, mostly occupied with absurd regulatory laws, and unable to really improve EU citizen's lives. What are some examples of pressing problems – and their solutions proposed by the EU – that could not have been handled on the national level?*

In the area of employment and social affairs, the EU has a limited set of policy coordination, legislative and financial instruments. There have been many examples of all three types at the time of the Barroso II Commission, when we responded to pressing problems. However, these are not necessarily the short-term problems, where the Commission could be expected to micro-manage the situation.

For example, creating an EU framework for national Roma integration strategies (in 2011) was a response to a pressing, structural problem. We know there is no overnight solution to the exclusion of Roma in Central and Eastern Europe, the Balkans, but also in Western countries. However, there is a clear added value of EU action in this area in terms of coordination, dissemination and support of good practice.

Another pressing problem was the unresolved debate on the posting of workers, where a large number of controversial cases triggered industrial conflict and undermined confidence in the single market. We brought in an enforcement directive (in 2012) which in my view will improve the situation on the ground in the coming years.

Concerning financial instruments, we had to save the EU fund for the most deprived during the MFF negotiations (concluded in 2013). Some wanted to abolish it, while the crisis just increased the need for food aid and other services to the poor. Instead of closing down, we transformed this fund and now it can also provide activating services to marginalized people including the homeless. The feedback to this action shows that the national level could not have solved this, and there is a clear added value of the EU support and guidance.

*What are the biggest current challenges for Europe in the area of employment, and how should the EU tackle them?*

Employment policy in the EU is shared – and often lost somewhere – between the Member States and the EU level. The biggest challenge is to restore the capacity of reaching full employment in the EU, which is practically impossible under the Maastricht design of the monetary union.

Before EMU, and in particular before the Stability and Growth Pact, European countries used fiscal and monetary policy, as well

as exchange rate policy, to reduce or ease unemployment when necessary. At the time of the recent crisis, European countries outside the euro area like the UK or Poland have still had the capacity to do so.

Of course, competitive currency devaluation would be almost as bad as competitive internal devaluation. But the point is that in the inherited EMU model nothing compensates the Member States for the loss of macroeconomic adjustment instruments. This means that national labor markets and welfare systems are expected to bear a disproportionate burden from the adjustment to various types of shocks, including financial sector failure.

This creates – and even perpetuates – excessive unemployment on the Eurozone periphery, and results in various forms of human capital loss, like long-term unemployment, youth inactivity and emigration. This problem cannot be tackled without completing the EMU, and in my view this necessitates automatic stabilizers, i.e. some kind of fiscal capacity.

*From your experience over the past years, what can the EU do to alleviate persistently high unemployment in some countries since the global crisis?*

What I learned is that the financial and economic polarization very easily causes political polarization in the EU, and decision making can be paralyzed. Even if it is obvious what needs to be done, national interest – or what is perceived as such – can block progress and it becomes very difficult to repair a broken system.

For example, it is obvious (especially from an EU-US comparison) that the recession would need to be countered through demand side intervention. But it is very difficult to roll out such instruments because of path dependency and the lack of consideration of the Eurozone as one macroeconomic unit.

The EU, especially with the dominance of intergovernmental method, cannot optimize macroeconomic outcome for the Eurozone as a whole, and thus the outcome is not optimal for individual countries either. Even if it has been recognized that macroeconomic imbalances have to be dealt with, it is a lot more difficult to provide guidance to surplus countries than to deficit countries. Consequently, the dearth of investment continues, growth is not coming back easily, and unemployment is not falling as fast as it should.

*Dramatic rates of youth unemployment in crisis-stricken EU countries have led to what has been termed a “lost generation”. What can be done on the EU and national levels to improve their situation?*

Youth unemployment in the EU was already high before the crisis, but indeed it responded very strongly to the economic downturn (in and after 2008). However, the youth unemployment rate does not give us the full picture about the young generation. You also have to monitor inactivity, the so-called NEETs. And on top of that, the EU has shown enormous diversity, and lately divergence. This means that national efforts are insufficient, even if the endeavor to help the youth is there. There is no silver bullet to remedy this situation, but it is clear that there are three key areas for action.

“In the inherited EMU model nothing compensates the Member States for the loss of macroeconomic adjustment instruments.”

“Financial and economic polarization very easily causes political polarization in the EU.”

## Interview with László Andor

First, EMU reform has to continue to ensure that young people are not caught up in such economic bubbles like they were in Spain and Ireland. And if there is a problem, the EMU needs a counter-cyclical stabilization capacity. Secondly, education policies have to improve the content of training and continue reducing drop-outs. Third, employment policies have to reform labor markets to reduce segmentation and boost the capacity of employment services for better matching and mobility. Well organized and managed school-to-work transition is crucial – at least that is what the examples of Germany, Austria or the Netherlands tell us. This is why we concentrated so much effort on the Youth Guarantee initiative.

*What is your current take on the Youth Guarantee initiated during your term? How can it be delivered most effectively in countries with particularly severe youth unemployment?*

The Youth Guarantee (YG) is a very important new component of the European Social Model. The EU level initiative was designed on the basis of existing models (Finland and Austria), by sharing between the member states main principles and benchmarks, but leaving their freedom to design the actual schemes, and recognizing the diversity of situations on the ground.

The capacity to deliver the YG is uneven, and that is why the EU financial support is crucial, especially for the most disadvantaged regions. It is also good that the pre-financing rate has been increased recently to facilitate faster disbursement. The Court of Auditors recently published its assessment of the YG, calling for reinforced implementation, and I can only agree with that.

However, it is important to highlight that the actual fall in youth unemployment rates largely depends on the macroeconomic conditions, and not just the progress with the reforms involved in the YG. For example, Finland and Austria both have had such models in place for years, but the youth unemployment rate has been much lower in Austria than in Finland (due to the overall macroeconomic situation).

Secondly, we have been asking the Member States to prioritize the NEETs, which means that in some cases the results can be seen first through falling NEET rates and just secondly through falling youth unemployment rates. The YG allows for both supply and demand side interventions. In the first round, which I still observed from the Commission, member states allocated a higher than expected share to demand side measures, like hiring subsidies. Since they know best their own local circumstances, this should not be seen as a problem. However, as the recovery gets some speed, I expect a shift towards more supply side interventions. In many cases we saw that purely giving a first work experience to young people through the YG improved their labor market chances significantly.

Finally, it turned out that recommendations, technical support and guidance from the Commission play a major role, so it should be maintained and even reinforced if possible.

*Mobility, a core element of European integration, is often seen as the most straightforward answer to high unemployment*

*in some regions. But if young people leave their home country, wouldn't this cause massive brain drain?*

Indeed, mobility should be seen as an opportunity, whether we speak about student mobility or labor mobility. Hypothetically, labor mobility may result in, or contribute to brain drain, and this has been studied by the Commission. Overall, there is less risk of a brain drain if mobility is more circular. In that case, there is even a potential for brain gain from mobility, when migrant workers return to their countries with more skills, experience and savings.

Secondly, the risk of brain drain is lower if highly skilled people are not overrepresented among the migrants. Looking at the current situation through these two lenses, the picture is the following: In East-West mobility, highly skilled people are not typically overrepresented, but we still need to wait until migration becomes massively circular. And, in some specific sectors, like health care, the shortage of professionals is a threat to normal functioning.

On the other hand, in South-North mobility, the volumes are more modest but increasing, and while there is a greater likelihood of circularity, the highly skilled ones are strongly overrepresented. Altogether this means that at the current stage labor mobility does play a role in overcoming short-term imbalances, but we do not know what exactly this means to long-term imbalances in the EU. The impact on the long-term growth potential of peripheral countries and their social security systems has to be further analyzed.

*Why are populist parties – most of them Eurosceptic and anti-immigrant – on the rise in many EU countries? Should the EU develop a more positive, “caring” profile to counter this trend?*

Yes, the EU should become more caring, but at the same time give assurance about protection from free-riding or abuse. A more caring EU would not mean that you can just transfer from one welfare system to another, but you should be able to work without restrictions and discrimination. No migrant workers should face the risk of losing the social safety net, and this needs to be coordinated fairly between member states which maintain their own welfare systems.

When we have a closer look at the contemporary anti-immigrant sentiment in some Member States, I smell a big dose of opportunism and manipulation in that. Migrant workers, even if they contribute a lot to the prosperity of their host country, can be caught up in a controversy which originates elsewhere. For example, EU-scepticism in Finland and Germany has been fueled by the reluctance to bail-out deficit countries in the Eurozone.

However, the arrival of poorer migrants can be exploited if someone wanted to show that the poorer countries represent a burden on the richer ones. In Denmark, a welfare chauvinist party managed to create hysteria around EU migration mainly in order to put pressure on the Prime Minister, while knowing that they were demanding measures that are not lawful within the EU single market, of which Denmark is a major beneficiary.

“Giving a first work experience to young people improved their labor market chances significantly.”

“There is less risk of a brain drain if mobility is more circular.”

(continues on next page)

## Interview with László Andor

(continued from previous page)

In the UK, as well as in Switzerland, you can observe that anti-immigrant political forces are stronger in regions that have received relatively fewer migrants. This fact may be connected with the question of fairly sharing the prosperity that is created by immigration into these countries. This fair sharing is largely an internal issue, and national governments have to look at how to guarantee by the improvement of taxation or public services.

On the other hand, some local problems in the context of migration should be addressed in a focused manner, and the EU should provide support. The European Social Fund is there for all countries to help integrating migrants, covering education as well as the labor market. If this is insufficient, a separate fund to support assistance to and integration of EU migrants can be established.

While overall we cannot say that migrants would represent a burden on receiving countries, the micro-regions and municipalities where temporary costs arise should be better supported. The EU should also be more forceful to ensure that cohesion countries use the available instruments better to create jobs and improve social conditions locally, and thus reduce the so-called push factors of migration. Some legislative improvements, like in the area of portability of unemployment insurance, can be considered too, beyond the more focused use of EU funds.

*Some Eurosceptic movements claim that labor market reforms and austerity policies imposed by the EU and the ECB worsen the economic and social situation. Do you see the need for a shift towards alternative policies at the European level?*

There has been a policy shift at the European level since 2012. I am very much in favor of this shift, which in my view should be faster and more comprehensive. You don't need to be a Eurosceptic to see that in the 2010-11 period the Merkozy paradigm of crisis response, coupled with the premature monetary tightening by Trichet, deepened the economic and the social crises, and almost resulted in the collapse of the single currency.

Since 2012, the so-called Four Presidents' report, and the interventions of Mario Draghi, the Eurozone has been recovering, aggregate demand increased, and even unemployment started to fall. But it seems not enough has been done, or not in time, to eliminate the chance of deflation and further stagnation. The (Juncker) Investment Plan comes from good intentions but the jury is still out to see the real impact and potential.

And, if growth is delayed, it is more difficult to reform the labor markets. We have promoted reforms to make labor markets more dynamic and inclusive, but if macroeconomic policies do not deliver at the same time, labor reforms face more resistance because their short-term costs hurt more. When reform initiatives are rolled out under financial market pressure or even panic, there is less time for social dialogue – and this is another threat to the sustainability and public acceptance of the reform.

**“Anti-immigrant political forces are stronger in regions that have received relatively fewer migrants.”**

In reality, Eurosceptics do not advocate a policy shift. They either insist on muddling through (rejecting solidarity), or they advocate the break-up of the single currency (or the downsizing of the Eurozone). I don't share or support either of these visions. I believe more risk sharing is the key to the better functioning, greater legitimacy and sustainability of the EMU, and we should move to that direction as fast as possible.

*There seems to be political tension between the need for labor market reforms and budget consolidation on the one hand, and the need to stabilize the macro environment on the other. Can these be reconciled?*

Before reconciliation, we need to look at these two objectives separately. What kind of labor market reform and what kind of budget consolidation we speak about. First of all, it is important not to reduce labor market reform to greater flexibility, i.e. less employment protection. Occasionally, when this is part of a broader effort to abolish segmentation and equalize employment opportunities, the reduction of protection can be a part of a package, but the emphasis needs to be on more investment in human capital, more secure school-to-work transition, and better matching instruments and institutions.

A dynamic and inclusive labor market contributes to better economic performance and social cohesion at the same time. Some of the reforms that create a dynamic and inclusive labor market do imply a cost, and indeed it is more difficult to cover these costs at a time of fiscal consolidation. However, fiscal consolidation in itself has to be very carefully calibrated. The composition, the speed and the sequencing of consolidation measures all require attention and wisdom.

We have seen cases where measures were too much expenditure side (UK) or too much revenue side (France). We also have seen countries, like Germany for example, that have gone too fast and too far with fiscal consolidation, irrespective of the macroeconomic situation of the Eurozone. Reconciliation as such

is more a question in deficit countries or crisis countries, where the short-term cost of structural reform can add to the pain of fiscal adjustment.

Two conclusions can follow from this. One: even if consolidation is urgent in some cases, one has to give priority to expenditures that serve investment in

human capital, and try to save those. Otherwise we simply cut the long-term growth potential for some short-term gains. Two: adjustment in the Eurozone has to be coordinated and symmetrical. If surplus countries also take their adjustment duties seriously, and aggregate demand is better sustained in the monetary union, reforms are easier to implement in the deficit countries – and the whole community wins from that.

The economic governance mechanism of the EU has been moving to this direction, and the new interpretation of the fiscal rules that was introduced in early 2015 is also an important step. But, if you ask whether I think the system is perfect now, my answer is clearly no. ■



## IZA World of Labor: “Who Owns the Robots Rules the World”

A new generation of serfs could be created if employers don't take more action to create shared ownership of companies and technologies, warns *Richard Freeman* (Harvard University; 2007 IZA Prize Laureate) in a new IZA World of Labor article. His suggested solution also addresses the rising income inequality: Workers must own part of the investment gained from robots. This will enable workers to benefit from the technologies that threaten to replace them:



Richard Freeman

“Without ownership stakes, workers will become serfs working on behalf of the robots’ overlords who own the companies and corporate capital. [...] If human workers own a stake in the capital gained from the technologies that are changing the world of work, they will be provided with a steady stream of income and more inclined to accept increasing robotization of the workplace.”

The article sets out five key recommendations for creating employee ownership:

- Spreading employee ownership across the whole company by including robots and intellectual property in the company valuation
- Increase the proportions of workers’ income through capital ownership rather than direct employment
- Create employee ownership trusts to manage ownership
- Support more stock options as part of an employee’s pay package, or allow workers to buy shares at lower rates
- Government support for the creation of employee ownership

The IZA World of Labor article argues that the establishment of shared ownership of robots and new technologies will also help businesses maximize on the benefits of robot technologies. If workers are comfortable with them and become a highly skilled workforce alongside machines, this will also result in better performance rates and increased productivity.

Freeman concludes: “Each country will have to choose the way that best fits to spread worker ownership and capital so as to give a stream of earnings that are changing the world of work. With appropriate policies, the higher productivity due to robots can improve worker well-being, by raising incomes and creating more leisure time. To benefit from this, workers need to own the capital of companies rather than rely on government redistribution policies.”

► <http://wol.iza.org/articles/who-owns-the-robots-rules-the-world>

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IZA World of Labor provides decision-makers with relevant and succinct information based on sound empirical evidence to help in formulating good policies and best practices. It provides expert know-how in an innovative structure, and a clear and accessible style.

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## Reducing Violence and Crime in Liberia: New Research Supported by DFID and IZA

Cities are home to more than half the population of developing countries. Many cities struggle to deal with large-scale urban violence, crime, and drugs, especially among poor young men. In post-conflict and fragile states, poor young men are also targets for mobilization into election intimidation, rioting, and rebellion.

In Liberia, which saw two civil wars between 1989 and 2003, development experts and policymakers are seeking evidence on the most effective ways to reduce crime and violence among high-risk young men. Two of the most common policy prescriptions – job creation and policing – aim to reduce crime and violence by either changing the incentives facing young men or punishing them.

An alternative approach seeks to rehabilitate high-risk men, using therapy and counseling to foster “character skills” such as self-control and a noncriminal self-image. It has been unclear, however, whether character and self-image are malleable in adults, especially “hard core” criminals or drug users.



Researchers from Columbia University, Harvard Medical School, and the U.S. Consumer Financial Protection Bureau partnered with Innovations for Poverty Action (IPA) to test and evaluate innovative approaches for reducing crime and violence in Liberia’s capital, Monrovia. They recruited the highest risk men – those engaged in regular crime, drugs, and violence.

The study was conducted within the GLM|LIC program funded by the UK Department for International Development (DFID) and coordinated by IZA. The main program, the Sustainable Transformation of Youth in Liberia (STYL), was an 8-week program of cognitive behavior therapy developed by a local community organization. The therapy, led by reformed street youth and ex-combatants, aimed to foster self-control and a new self-image as a member of the community. The study also tested unconditional cash transfers to the high-risk men, with and without therapy.

The evaluation found that even these highest-risk young men largely invested

and saved the unconditional cash transfer. Almost none was spent on drugs, alcohol, or other temptations. Yet the money only produced short-run improvements in investment and income.

The therapy program, however, while not affecting income, led to persistent falls in crime, drug use, and violence – especially in the group receiving cash in addition to therapy. Researchers concluded that self-control and self-image are malleable, and that cognitive behavior therapy can help reduce less organized, impulsive, and expressive forms of violence and crime.

► <http://wp.me/p3cqoR-15B>

More about the GLM|LIC program:

► <http://glm-lic.iza.org/>

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## The Digital World of Work

Our world is in constant flux. The “Internet of Things”, “Industry 4.0” or the “Sharing Economy” – all these concepts have already become reality in many areas of our daily lives, not least so in the working world. Perhaps these developments are merely precursors of even more radical changes yet to come. Could we in fact be witnessing a genuine “digital revolution”?

Future trends in the working world have always been a subject of much speculation. But past experience should caution us not to overestimate the speed at which our lives are changing. Two decades ago, predictions were already made about the rapid dominance of the digital world, foreshadowing the “end of work”. None of this has come true so far. Nevertheless, technological progress certainly has an immensely creative force.

With this in mind, I expect that digitalization will indeed bring about tremendous change. But rather than less work, different forms of work will evolve. For example, we are already seeing that formal qualifications no longer guarantee a successful career and a prosperous future. Not only telemarketers, cooks and logistics workers can be replaced by machines, robots and computers. Even taxi drivers, pilots and judges might become partly or completely redundant over the next twenty years. Any occupation that relies heavily on precision and routine tasks is potentially threatened by machines, which are superior to humans in this respect.

On the other hand, new occupational profiles will emerge and gain importance in areas characterized by a strong demand for creativity, social intelligence and entrepreneurial spirit. From today’s perspective,

we would include doctors, teachers and psychologists in this category – as well as forest rangers and fitness trainers. We cannot realistically foresee what other occupational profiles might emerge alongside these existing ones.

But not just the occupations per se are changing. It also seems plausible to me that our current forms of employment will be complemented by a new type of “self-employee”. These workers would be available virtually anywhere, reflecting the key features of tomorrow’s labor force – interconnected working, thinking and acting. This trend coincides with a general shift of entrepreneurial risks onto employees.

Many employment relationships are no longer characterized by specific instructions how to do one’s work, but rather by general target agreements. At the same time, strict hierarchies are dissolving and performance pay is gaining importance. This is why entrepreneurial thinking will become a key skill.

“There will always be innovation, new products and services.”

In sum, we are facing major disruptions that will be highly demanding on the individual. A look at the past, however, should give us reason to be optimistic. If there is one thing that the entire history of labor has taught us, it is this: There will always be innovation, new products and new services that meet the changing demands and expectations of buyers and users. Technological progress shortens product life cycles and renders entire industries unprofitable. It requires us, ever and again, to adapt the way we work. But it also stimulates the demand for new things, thus creating new jobs that have been destroyed elsewhere.



Read also: Klaus F. Zimmermann, “The Big Trade-Off in the World of Labor”, IZA Policy Paper No. 100, <http://ftp.iza.org/pp100.pdf>



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