



A Quarter Century of Transition in Europe Labor Market Lessons Learned

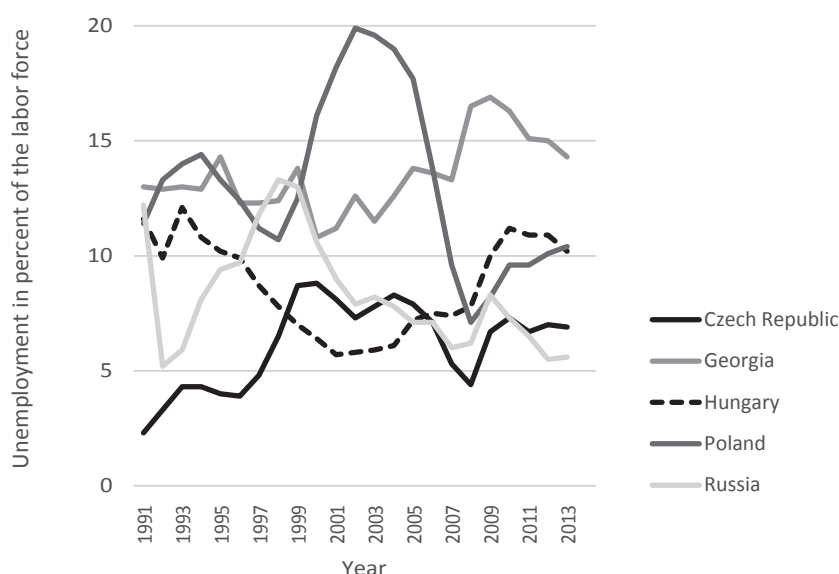
The fall of the Berlin Wall in November 1989 and the subsequent transformation from centrally planned to market economy in former socialist countries of Central and Eastern Europe (CEE) constitute what may well be considered the most important historical and economic event of the late 20th century. This set the stage for numerous reforms in the region and provided researchers with a unique laboratory to study the impact and evolution of market institutions and policies in an environment of large rapid changes and restructuring. Indeed, a special field emerged that analyzed these phenomena in the region – the economics of transition.

IZA has been at the forefront of research in this field, dedicating an own program area to the study of “Labor Markets in Transition and Emerging Economies” (see box on page 5). This IZA Compact article provides an overview of research findings drawn from numerous studies by IZA Research Fellows.

The countries of Central and Eastern Europe launched rapidly reforms aiming at creating a fully functioning market economy. As transition unfolded, the performance of the countries started to diverge. Eleven central and eastern European countries joined the European Union with eastern enlargements in 2004 (the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland, Slovakia, and Slovenia), 2007 (Bulgaria and Romania) and 2013 (Croatia). Currently five of them participate in the euro area (Estonia, Latvia, Lithuania, Slovakia, and Slovenia).

On the other hand, countries of the Commonwealth of Independent States (CIS; currently Armenia, Azerbaijan, Belarus, Kazakhstan, Kyrgyzstan, Moldova, Russian Federation, Tajikistan, Turkmenistan, and Uzbekistan, with Georgia leaving the organization in 2009 and Ukraine introducing a bill to annul its participation in 2014) have been slower in fully implementing the reforms with also having

Unemployment rates in selected transition countries (1991–2013)



Source: World Bank



» In This Issue

IZA PRIZE IN LABOR ECONOMICS

The 2015 IZA Prize was awarded to Jan Svejnar (Columbia University) for his outstanding contributions to transition economics. [page 5](#)

TECHNOLOGY AND JOBS

Economists and policymakers discussed the global implications of technological change at the IZA/World Bank Conference. [page 7](#)

RISKY BEHAVIORS

In Izmir, Turkey, international experts presented their work on the economic and social implications of various forms of risky behaviors. [page 10](#)

TRANSATLANTIC MEETING

In cooperation with the U.S.-based Society of Labor Economists (SOLE), IZA provided a forum for new research in labor economics. [page 12](#)

DEMOGRAPHIC CHALLENGE

Labor markets in aging societies were the topic of a workshop and an IZA World of Labor policy symposium with RIETI in Tokyo. [page 13](#)

YOUTH EMPLOYMENT

A workshop in Bonn was devoted to the analysis of effective policies to prevent today's youth from becoming a lost generation. [page 15](#)

DATA INITIATIVES

To facilitate citation and reuse of data, the IDSC of IZA offers a proper data citation convention and a data repository service. [page 17](#)

OPINION

IZA Director Klaus F. Zimmermann looks at new forms of work, arguing that “standard employment” is still predominant. [page 20](#)

an inferior performance and weaker legal framework, particularly those further east, while the economic hardship is exacerbated in Ukraine by a recent political conflict. The global economic crisis of 2008 has also impacted different countries differently.

Today, 25 years later, natural questions to ask are: What were the key challenges faced by transition countries and how were they overcome? What were the main differences in the performance and why did they arise? What is unique about transition and what instead can be applied also to other countries? What lessons can be learned from the transition experience?

The experience of the transition economies is valuable for a number of reasons. First, transition was accompanied by large variations in key variables that researchers use in their analysis, such as employment and unemployment, active and passive labor market policies, unemployment insurance etc., thus providing a unique opportunity to study the effect of certain policies and institutions. Hardly any advanced market economy provides such large variations in its institutions or policies as they are usually politically difficult to change in a major way.

Secondly, countries differed in their transition strategies and policies, the speed of the reforms adopted and outcomes, thus providing valuable information for late-reformers as well as for a wider set of developing as well as developed countries. Indeed, the dramatic recession experienced in the beginning of transition together with strategies to cope with it may prove useful for both countries in the region as well as other economies. Finally, specific phenomena that are of interest also to mature market economies can be analyzed with rich data, such as performance of privatized versus state-owned firms or the consequences of worker displacement among others.

Key challenges: Labor reallocation and the role of institutions

The transition from a centrally planned to a market economy involved price liberalization, macroeconomic stabilization, restructuring and privatization of the state-owned enterprises, creation of de novo private firms, as well as substantial reallocation of labor. Although starting from a seemingly similar point of central planning, countries differed in so-called initial conditions, the magnitude and length of the transitional recession, as well as adjustment paths and strategies adopted.

As Jan Svejnar (Columbia University; 2015 IZA Prize laureate) discussed in a 2002 study, at the start of transition all countries experi-

enced a severe decline in output, with GDP declining by 13 to 25 percent in central and eastern Europe, more than 40 percent in the Baltic states, 45 percent in Russia, and almost 65 percent in Ukraine.

Jan Svejnar

Transition Economies: Performance and Challenges

Journal of Economic Perspectives, 2002, 16 (1), 3-28.

China proceeded gradually with reforms and avoided the large transition recession and output decline. While CEE countries have reversed the decline already after three to four years, some of them having output equal to or approaching its pre-transition level by the mid-1990s, Russia and Ukraine started recovering only in the late 1990s and early 2000s, with the financial crisis in Russia in 1998 slowing down the recovery.

The above-mentioned study pointed out that in 2001, ten years after the start of transition, CEE economies had even larger gaps in output relative to the OECD economies than they had in 1989, the only exception being Poland that started to close this gap. According to Svejnar, the overall performance of the transition economies in the first twelve years of transition turned out worse than expected. His suggested explanation of these differences in performance includes the implementation, development and enforcement of laws, regulations and institutions ensuring a successful market economy, what Svejnar calls the Type II reforms.

While most of the countries implemented the so-called Type I reforms oriented towards macro stabilization, price liberalization as well as privatization of small scale enterprises, only the four leading transition economies, Poland, Slovenia, Hungary and Slovakia, have implemented relatively completely the Type II reforms that included also transparent property rights, corporate governance, full-scale privatization, development and enforcement of laws, labor market regulations and institutions. In general, the CEE countries were more rapid in establishing a legal framework and institutions, as well as in reducing corruption, than the CIS countries.

New experience with unemployment

Since open unemployment was absent in centrally planned economies, there was an unprecedented increase in unemployment to double digit-levels already in the beginning of transition, particularly in countries of Central and Eastern Europe (with the

exception of the Czech Republic). The high unemployment figures reflected not only large inflows into unemployment as firms laid off workers but also remarkably small outflows from unemployment due to difficulties in finding new jobs.

Tito Boeri/Katherine Terrell

Institutional Determinants of Labor Reallocation in Transition

Journal of Economic Perspectives, 2002, 16 (1), 51-76.

(Long-term) unemployment became one of the key challenges of transition. In general, the overall success of the transformation process depended on how well the economy addressed the problem of reallocating labor. As transition progressed, countries experienced different patterns of unemployment, with an increase in the Czech Republic in the second half of the 1990s, decreases in Poland, Hungary, Slovenia and Slovakia, and gradual increases in the Baltic states and the CIS.

The countries also had to rapidly develop the regulations and legal framework for providing and administering unemployment insurance, income support and active and passive labor market programs, to create employment offices staffed with personnel that could assist the unemployed and that also needed to be trained.

Overall, this represented an unprecedented phenomenon of rapid and radical reforms and institution-building that no other OECD country had experience with. While the design of the unemployment insurance schemes was influenced by Western standards, it had several errors and shortcomings. Initially benefits were rather generous, which could in turn aggravate disincentives to work. To minimize such disincentives, unemployment benefits decreased over time. In particular, the real value of the benefits declined in the context of high inflation. Moreover, they were often only weakly related to past contributions, and job-seekers without previous employment records could be entitled to benefits.

In addition, the duration of unemployment assistance was relatively long. For example, in Poland the benefits initially were open-ended, which induced large inflows into unemployment including persons coming from inactivity. Several reforms were undertaken soon that tightened eligibility to benefits and reduced their maximum duration. Subsequently, there was a decline in the proportion of registered unemployed receiving unemployment benefits and an increase in long-term unemployment. Both

micro and macroeconomic evidence suggests that these early reforms that cut unemployment benefits did not generate significant flows from unemployment to employment, with the exception of the Czech Republic, where unemployment was already low.

Overall, the early experience of Central European transition economies suggests that when unemployment is already high and there is a lack of vacancies, the reduction of unemployment benefits would not generate flows from unemployment to employment. The generosity of unemployment benefits had only a moderate effect on the lengthening of an unemployment spell. The remarkably low initial unemployment in the Czech Republic was due to a rapid increase in vacancies, large outflows from unemployment to these jobs as a result of an efficient matching process, and a possible role of active labor market policies in increasing this matching efficiency.

Country differences in performance

As transition progressed, two groups of countries emerged. The first consisted of CEE countries that during the 1990s experienced U-shaped patterns of GDP and employment, rapid structural change accompanied by high and stagnant unemployment. While employment adjustment became the main strategy in these countries, in the beginning of the transition wage adjustment was more pronounced in the CIS countries. Real wages declined substantially, productivity declined and wage arrears became common in the latter. In the initial stages of transition these countries faced relatively little decline in employment, much larger decline in output which was L-shaped, and relatively small reallocation of labor.

What can explain these differences in performance? With regard to the institutional determinants of these adjustment patterns, the role of trade unions, firms' tax-based income policies, minimum wages and employment protection legislation is marginal, while it is non-employment benefits (including unemployment benefits, early retirement schemes, disability pensions etc.) that are crucial. Since the tightening of unemployment benefits barely affected the outflows from unemployment to jobs, these benefits obviously did not generate strong work disincentives. What they did, however, was setting floors to wages. Higher unemployment and other social security benefits in CEE countries than in the CIS, which were also more favorable to low-income earners, implied floors to wages and prevented their decline. These wage floors also induced more job destruction, particularly of low-

skilled and low productivity workers, as firms could not decrease their wages much.

At the same time, generous non-employment benefits also raised reservation wages of the unemployed and induced long-term unemployment. As a result, the countries of Central and Eastern Europe experienced faster structural change but also high and more stagnant unemployment already at the start of transition. This also led them to enjoy growth sooner. In contrast, in Russia and other CIS countries, the adjustment was via prices, as very low unemployment benefits did not preclude wage declines or even accumulating wage arrears.

The "jobless growth" phenomenon

During the 2000s before the global economic crisis in 2008, the transition economies enjoyed rather solid growth, declining unemployment as well as long-term and youth unemployment, particularly in Central and Eastern Europe. While part of this decline may be due to the out-migration after accession to the European Union, the decline is present also in other transition economies, and some researchers suggest that it would have happened anyway as a result of previous policies.

Hartmut Lehmann
Alexander Muravyev

How Important Are Labor Market
Institutions for Labor Market Performance in
Transition Countries?

Economics of Transition, 2012, 20 (2), 235-269.
See also IZA Discussion Paper No. 4673:

► <http://ftp.iza.org/dp4673.pdf>

However, differences between regions persisted or became even larger. While eight new EU members reached the pre-transition output level in 2001, it took until 2005 for the CIS countries, and until 2007 for the Southeast European countries. Despite this solid GDP growth, employment was not growing – and unemployment not declining – in the CEE countries until the beginning of the 2000s. This phenomenon of "jobless growth" was changed by the high growth in vacancies and emerging skill shortages in the new EU members in the pre-crisis 2000s.

In contrast, the CIS countries faced a similar phenomenon between the late 1990s and 2008, with employment remaining flat in Kyrgyzstan, Russia and Ukraine, or even decreasing in Armenia, Georgia and Moldova. Moreover, considerable heterogeneity exists within the country groups. For example, Poland exceeded its pre-transition GDP already in the mid-1990s, while CIS countries are becoming increasingly more diverse in terms of performance and labor market developments with resource rich countries

such as Russia and Kazakhstan having modest unemployment and high employment rate and low income countries such as Moldova and Tajikistan having high unemployment and very low employment rates.

New data on labor market institutions and policies in countries of Central and Eastern Europe and Central Asia over 1995–2008 confirm that institutions matter and that deregulation improves labor market performance. Moreover, they document significant differences in the development of institutions across countries. Contrary to the beginning of transition, changes in institutions and policies have been modest in countries of Central and Eastern Europe during this period, while countries of the former Soviet Union have considerably liberalized their labor markets, which has resulted in the least stringent labor market regulations in the whole transition region. There was a fall in employment protection legislation index (the largest drop in the CIS), declining union density, a declining tax wedge on labor (the largest decline again happening in the CIS), and a decline in the duration of unemployment benefits only in the CIS.

Combined with the smallest unemployment compensation and expenditures on active labor market policies, the CIS countries were thus becoming increasingly least regularized in the late transition. Interestingly, when estimating the impact of unemployment benefits and their duration on labor market outcomes, the authors find insignificant effects. Thus, in late transition, unemployment benefits do not seem to affect unemployment any longer.

Demand side:

Employment adjustment within firms, privatization and performance

Under central planning, firms were often facing so-called soft budget constraints, and labor hoarding was common. Still, some countries, such as Poland or Hungary, had some elements of a market economy already before the start of transition. In his 1999 study, Jan Svejnar summarizes labor demand studies available by that date and concludes that unlike the Czech and Slovak firms, Polish and Hungarian firms cut employment as a response to declining sales already before the transition.

Jan Svejnar

Labor Markets in the Transitional Central
and East European Economies

In: Orley Ashenfelter and David Card (eds.),
Handbook of Labor Economics, 1999, 3 (42),
2809-2857.

During the transition, all firms in analyzed Central and Eastern European countries

started adjusting their employment to sales and output changes, and the respective labor demand elasticities approached those observed in mature market economies. In contrast, firms in Russia did not start adjusting their employment to output by mid 1990s, confirming a different (i.e. wage) adjustment strategy and slower transition path there. In addition, also wages that were set centrally under communism started to depend on firms' performance (revenue per worker) during transition, suggesting a potential for rent sharing.

Privatization, one of the most important transition reforms, has attracted a lot of attention in the literature. Most countries have privatized a large number of firms rather quickly, which led various studies to question the efficiency of such mass privatization methods. Nevertheless, privatization is found to improve firms' performance, in particular if privatized to foreign owners. The effect of privatization to domestic owners varied across regions with small but positive effects in the CEE, and insignificant or negative effects in the CIS. Apart for the importance of good management and corporate governance and access to foreign markets that foreign owners bring in, Svejnar's Type II reforms may be an explanation. While CEE countries have adopted EU rules and regulations and joined the EU, CIS countries proceeded slower with developing and enforcing market friendly laws, regulations and institutions. In China, where privatization processes have been slow and constraints were imposed by government on foreign firms, the available evidence suggests a positive effect of privatization to domestic owners on the performance of firms.

A great worry has been (and still is) that privatization leads to reductions in employment and wages. The available evidence from the transition countries, however, does not show any large negative effects on either employment or earnings. Recent research on transition economies – ranging from most successful, such as Hungary, to least successful, such as Russia and Ukraine, with Romania in the middle – based on large new panel datasets and advanced econometric evaluation methods suggests that privatizing to foreign owners rather than to domestic owners brings better outcomes for workers in terms of employment and wages. The channel behind this positive effect for foreign ownership is a dominance of a so-called scale effect, that is, foreign-owned firms produce competitive goods and expand their market share and output, while accompanying productivity gains translate into higher levels of both employment and wages. As a result of potentially better management, corporate governance and business envi-

ronment, both employment and wages are larger in foreign-owned firms.

John S. Earle

Impact of Privatization on
Employment and Earnings

IZA World of Labor, October 2014: 93.

► dx.doi.org/10.15185/izawol.93

Current challenges: Is transition over?

A divide is emerging between the higher-income European transition economies and low-income economies, especially those of Central Asia: While labor markets in European transition economies resemble those in developed European economies in both positive (e.g. productivity growth) and negative (e.g. persistent unemployment) respects, labor markets in low-income CIS countries seem to become similar to those in other low-income countries, typically with a dominant informal sector, underemployment and low-productivity employment.

Indeed, recent research suggests that informal employment is not negligible in the former Soviet Union countries. In Russia, for example, informality (depending on the definition) can reach almost 20 percent. Male, single, younger workers and those with lower education are more likely to engage in it. The choice of informal employment, however, may not necessarily be involuntary. Indeed, studies surveyed suggest an informality wage premium in Georgia, in particular for the highly skilled, and in Ukraine for those who choose informality, i.e. the voluntary informal salaried employees and informal self-employed. In Russia there is an earnings premium for entrepreneurs at the higher quantiles of the wage distribution.

Continuous enterprise restructuring in transition and emerging economies is often accompanied by workers' displacement that becomes even more important during the economic crises, such as the recent Great Recession. Therefore, understanding which workers are displaced and how they fare thereafter is another important policy challenge. A crucial transition-specific issue here is related to skills. If workers displaced are disproportionately those with obsolete skills that are of no relevance to a market economy, these workers will experience most difficulties in finding new employment, and policy interventions such as training and retraining are of particular relevance. The findings from early transition Estonia and Slovenia and late transition Ukraine and Russia as well as China seem to confirm this. In Estonia, Ukraine and Russia, the main costs of job loss are in terms of

long non-employment spells. Wage losses upon reemployment are small or insignificant and do not last long, suggesting that firm-specific human capital is often of little relevance and obsolete since acquired under central planning.

Hartmut Lehmann

Worker Displacement in Transition
Economies and in China

IZA World of Labor, May 2014: 20.

► dx.doi.org/10.15185/izawol.20

This is consistent with findings that wage returns to experience decreased or became zero during the transition, that is, labor market experience obtained under central planning was not rewarded any longer in a market economy. Indeed, for example, in Russia both displaced from state-owned firms and workers with low human capital experience much lower reemployment probability. In contrast, in Slovenia and China, reemployed displaced workers faced wage penalties. Displaced workers are also more likely to end up in informal and temporary jobs, have lower levels of happiness and higher levels of depression.

The global economic crisis of 2008 hit the transition countries differently and brought about new challenges. While unemployment increased again to double-digit levels in several new EU member states, in particular in the Baltic countries reaching its peak in 2010, the increase in Russia was negligible to slightly more than 8 percent in 2009 with a continuous decrease thereafter. Emigration, skill mismatches and shortages, increasing demographic pressures, better enforcement of laws and regulations, finally ongoing political conflict in Ukraine and its economic consequences, are all high on policy-makers' agenda.

The answer to the question whether transition is over, according to Jan Svejnar, depends on how one defines the terminal point. Depending on the definition, the transition is over when the communist parties have lost their power, when the private sector accounts for the majority in GDP, when economic activities are coordinated by market forces, when problems and issues in transition economies resemble those in other countries in the world with similar level of development, or when countries join the European Union and generate sustainable rates of economic growth. However, as Svejnar noted in 2002, most people did not feel then – and this probably still holds for many today – that they are living in a fully functioning market economy. Much still remains to be done, particularly in the countries further East. ■

Contributions of the IZA Program Area

“Labor Markets in Emerging and Transition Economies”

Over the past 15 years, the IZA research program on “labor markets in emerging and transition economies” has contributed to the international research effort in transition economics in several important areas.



Hartmut Lehmann

A large project led by IZA Program Director *Hartmut Lehmann* (University of Bologna) and Deputy Director *Alexander Muravyev* (HSE Campus in St. Petersburg) on the “political economy of labor market reform in transition economies” focused on fundamental questions related to reforms of labor market institutions and the conditions of their acceptability in a politically democratic environment. In particular, the project analyzed the dynamics of labor market institutions, many of which had to be created from scratch in transition economies, and their effect on labor market performance.

Transition from a centrally planned to a market economy involves labor reallocation on a large scale, resulting in higher labor productivity but also large costs for laid off workers. The IZA program area, therefore, took a close look at the costs of worker displacement in transition economies, covering Estonia, Russia, Ukraine and China.

Informal employment is widespread in the less developed world and still poorly understood in spite of research undertaken for decades. In cooperation with the Higher School of Economics in Moscow, IZA initiated a research agenda that extended the analysis of informal employment to transition economies, thus contributing to a better grasp of this phenomenon in general.

Apart from strongly policy-oriented research, the IZA program area has also engaged in basic research. Transition implies abrupt and large changes in institutions, firm structure and the macroeconomic environment. Hence, the analysis of individuals acting in a transition context might improve the understanding of incentives, preferences and behavioral patterns of economic agents in general. Four important fields stand out. First, employment and wage policies within firms over the entire transition cycle, with a special focus on gender issues, were analyzed. Second, it was investigated how cognitive and non-cognitive skills impact on the labor market histories of workers in Ukraine. The third focus was on the analysis of risk attitudes in labor



Alexander Muravyev

market adjustment, comparing Germany and Ukraine, a highly developed capitalist economy and a “laggard” transition economy. And finally, the IZA program has initiated a new project that looks at the link between wage and employment policies of firms and their financial decisions, exploiting quasi-experimental settings of the transition process.

Many of these research initiatives rely on data of exceptional quality. IZA has contributed to the production of such data in a major way. The best-known dataset conceived and implemented in the IZA research program is certainly the Ukrainian Longitudinal Monitoring Survey (ULMS), a large panel dataset with currently four waves (2003, 2004, 2007 and 2012). The 2007 and 2012 waves have a module on risk and time preferences. The 2012 wave has a section on cognitive and non-cognitive skills. In addition, supplements to the Russian Longitudinal Monitoring Survey (RLMS) on worker displacement and informal employment were initiated.

A second major data collection effort has been the production of a hand-collected dataset of aggregate data on labor market outcomes and labor market institutions, covering virtually all transition economies including the countries of Central Asia. With the purpose of analyzing the interplay between labor and finance on the micro-level, IZA experts spent considerable effort on collecting data on large Russian and Ukrainian companies. They also collected personnel data of two Russian firms and one Ukrainian firm, where the data of one Russian firm cover the entire transition period (1990 to 2010).

In these research and data initiatives, IZA has collaborated with a number of renowned institutions worldwide, including the William Davidson Institute of the University of Michigan, Heriot-Watt University, Brunel University, London School of Economics, University of Bonn, University of Bologna, Higher School of Economics, Kiev School of Economics, Warsaw School of Economics, World Bank, OECD and UNDP.

More about the program area:

► www.iza.org/link/transition

Jan Svejnar Receives 2015 IZA Prize in Labor Economics

This year’s IZA Prize in Labor Economics was awarded to one of the leading experts in the economics of transition, the Czech-born economist *Jan Svejnar* (Columbia University). For details see the complete award statement of the IZA Prize Committee on the next page.

“Jan is among those top economists who always have a policy perspective in mind. His insights have given policymakers the tools to master Europe’s greatest post-war challenge – the successful transition of the formerly socialist economies”, said IZA Director *Klaus F. Zimmermann*.

The Prize was presented during a dinner cruise on the Rhine at the occasion of the IZA/World Bank Conference on Employment and Development held in Bonn (see page 7), with laudatory remarks given by *John S. Earle* (George Mason University and IZA).

Award Statement by the IZA Prize Committee

The 2015 IZA Prize in Labor Economics is awarded to Czech-born economist *Jan Svejnar* (Columbia University) for his major contributions to comparative economics in general, and the economics of transition in particular. His research on the transition from socialist to market economies has broadened our understanding of this process in a fundamental way. His insights are invaluable in understanding and managing economic transition periods successfully in order not to endanger the economic and social well-being of the citizens involved.

Shortly after the fall of the Iron Curtain, Svejnar provided an elaborated policy agenda for a successful shift from a socialist to a market economy. In this seminal article, which appeared in the *Journal of Economic Perspectives* in 1991, Svejnar emphasized the need for micro adjustments to achieve macro stabilization in the post-socialist economies. His proposed policies tackled three areas of the economy. First, in order to establish efficient finance, trade and manufacturing markets, policies should work to remove obstacles and provide necessary market conditions by, e.g., creating a legal framework to guide and direct economic activity. Second, firms need to become more efficient through creating strong incentives for managers and workers of state enterprises as well as through a process of sustainable privatization programs. For example, linking managerial earnings to the short- and long-term profitability of the firm would be one possible strategy to deal with this issue. Lastly, Svejnar proposed specific social and labor market reforms, such as providing unemployment compensation and increasing the dispersion of labor market information to smooth labor mobility. Long-run issues to be tackled included inter-regional migration, training and the inflow of capital.

About ten years later, Svejnar compared and discussed the actual policies implemented in several countries during the transition period (*Journal of Economic Perspectives*, 2002). He illustrated how all governments carried out what he calls Type I reforms, namely, macro stabilization, price liberalization, small-scale privatization, and the breakup of state-owned enterprises. However, the so-called Type II reforms – large-scale privatizations and development of banking and legal systems – were implemented in different intensities. As he had already proposed at the beginning of the transition period, Svejnar found that a functioning legal framework and corporate governance led to better performing economies.

Throughout the decades of transition, Svejnar published numerous articles in renowned economic journals, providing important insights into the functioning of different economic systems and elaborating on various labor market issues. In co-authorship with John C. Ham and Katherine Terrell, Svejnar investigated reasons for differing unemployment rates in the Czech Republic and Slovakia during the transition to a market economy (*American Economic Review*, 1998). Compared to Slovakia and other former socialist countries, the Czech Republic experienced a much lower rise in unemployment rates, which was mainly due to higher rates of exit from unemployment to employment. A large part of this difference between the two countries could be explained by differences in demographics and demand conditions, whereas a smaller

part was attributable to differences in the behavior of firms, individuals, and institutions. In another article published in the *Review of Economics and Statistics* (2005), Svejnar, together with Daniel Münich and Katherine Terrell, analyzed the returns to human capital in the Czech Republic during socialism compared with the transition economy. Among other things, they showed that returns to education were rather low and constant in socialism and increased dramatically in the transition economy. Other examples of Svejnar's work investigating these issues include studies on the effects of privatization and ownership (with Saul Estrin, Jan Hanousek, and Evžen Kočenda, *Journal of Economic Literature*, 2009 and with Nandini Gupta and John C. Ham, *European Economic Review*, 2008), the investment behavior

of firms (with Lubomír Lízal, *Review of Economics and Statistics*, 2002), and globalization and innovation by domestic firms (with Yuriy Gorodnichenko and Katherine Terrell, *American Economic Journal: Macroeconomics*, 2010).

Furthermore, Svejnar contributed a chapter to the *Handbook of Labor Economics* (1999) on labor markets in transition, where he not only summarized the accumulated knowledge of the research on this topic but set the agenda for young researchers for many years to come.

Next to his extensive accomplishments in academic research, Svejnar works as an advisor to governments, non-profit organizations and firms including the World Bank, the European Bank for Reconstruction and Development, the Czech Government, the OECD Development Centre, and the International Fund for Agricultural Development. For many years, Svejnar was co-director of the transition program at the CEPR. Currently, he serves as Chair of the Supervisory Board of CSOB Bank.

In 2012, Svejnar received a Neuron Prize for life achievement from the Karel Janeček Endowment for Research and Science. He was one of two candidates for the Presidency of the Czech Republic in 2008.

Svejnar is currently the James T. Shotwell Professor of Global Political Economy and Founding Director of the Center on Global Economic Governance (CGEG) at Columbia University's School of International and Public Affairs. He holds a B.S. degree from Cornell University and M.A. and Ph.D. degrees from Princeton University. Svejnar serves as a co-editor for the *Economics of Transition* and was formerly an associate editor for the *Journal of Economic Perspectives* and member of the editorial board of numerous journals such as the *European Economic Review*, the *Economic and Business Review for Central and South-Eastern Europe*, and the *Journal of Comparative Economics*. He is a founder and Chairman of CERGE-EI in Prague and has been an IZA Research Fellow for over a decade.

Given his extensive research of more than two decades on transition economies, with a particular focus on labor markets throughout, Jan Svejnar has fundamentally contributed to our understanding of this crucial process and has provided well-considered and realizable guidelines for its implementation.



Klaus F. Zimmermann and Jan Svejnar

10th IZA/World Bank Conference in Bonn

Technological Change and Jobs

Since 2006, the IZA/World Bank Conference brings together policy makers and economists in order to discuss and improve the functioning of the labor markets in developing countries. More than 100 participants were present at the 10th edition of the conference held in Bonn on June 4-5, 2015. This year, the key theme of the conference was Technological Change and Jobs.

New technologies have prompted crucial and positive changes in living conditions and productivity of both developed and developing countries. Although the impact of technology on the life of workers from developing countries are different from those from advanced economies, technological change is transforming labor markets all around the world. The aim of the conference was to highlight important research and policy questions raised by the challenges of technological change for jobs in developing and emerging countries.

For instance, related to the effects of technological change on labor market disruptions in developing countries, *Sebastian Monroy-Taborda* (World Bank) highlighted the fact that although digital technologies are low in developing countries, they are growing at a faster rate than in the developed world. For most of the developing countries, large job loss due to computerization is not a major concern in the short run. Furthermore, due to time lag and lower wages, the labor

market disruption will be lower for low and middle income countries. Developing countries could take advantage of this longer time frame to adapt their policies and institutions.

In his keynote, IZA Prize laureate *Jan Svejnar* (Columbia University) focused on the relationship between wealth inequality and growth. He highlighted the fact that on average, high levels of wealth inequality have negative consequences for economic growth while income inequality and headcount pov-

erty do not. Interestingly, he also showed that wealth inequality induced by political connections is detrimental for economic growth. Finally, Svejnar suggested that the policy debate related to growth should be more focused on the distribution of wealth. This year, a plenary session was held in honor of *Gary Fields* (Cornell University), who received the 2014 IZA Prize in Labor Economics for his contributions on the importance of efficient labor markets to fight poverty and foster economic develop-

ment in low- and middle-income countries. Fields has strongly supported the IZA/World Bank Conference since its creation. In this session, *Arnab Basu* (Cornell University and IZA) talked about Fields' contributions to the understanding of labor markets in developing countries, such as his work in modifying the Harris and Todaro labor market equilibrium with an informal sector, the existence of unemployment and underemployment and the possibility for searching an urban job while working in the rural area. Three IZA Program Directors also contributed to the session: *David Robalino* (World Bank) gave a talk about Fields' book entitled "Working Hard, Working Poor." *David Lam* (University of Michigan) emphasized, through the example of Brazil, how Gary Fields' analysis of the 1960s influenced the study of the relationship between earnings inequality and economic growth. Finally, *Hartmut Lehmann* (University of Bologna) talked about labor segmentation in the Russian informal sector by testing Gary S. Fields' paradigm. ➡➡



David Lam, Arnab Basu, Corrado Giulietti, Gary Fields, David Robalino, Hartmut Lehmann, Klaus F. Zimmermann

IZA Policy Fellow Roundtable on Global Poverty: Skills Lag behind Technology

Three billion people live on less than \$2.50 a day. At the same time, 900 million workers can be considered "working poor", earning too little to make a living. Inequality is increasingly becoming an issue in many developing countries. To discuss these challenges, the IZA/World Bank Conference also featured a special session for IZA Policy Fellows to meet with leading development experts including *Jan Svejnar*, *Gary Fields*, *David Robalino*, *Stefano Scarpetta* and *Klaus F. Zimmermann*.

The discussion recognized a shift from looking at trade solely in terms of exports and imports towards the creation of value added. Such a new perspective will make apparent how workers in developing countries are integrated and how they will be affected by international developments. It was also highlighted that the distribution of skills necessary for embracing digital technologies has significant implications for inequality and

training. Creation of these skills is lagging behind the pace of new technologies. Future research should also contribute to understanding which entrepreneurs and firms are predictors of stable self-employment and create jobs in developing countries.

The IZA Policy Fellow network was established to promote one of IZA's key goals: facilitating communication between academic science, politics, and economic practice. Complementing the academic network of IZA Research Fellows, Policy Fellows are individuals from business, politics, society and the media. Interested in an informal exchange between academia and economic practice, they participate in selected IZA events to discuss scientific evidence and its implications for society and policy making.

► www.iza.org/link/pfellows

The IZA/World Bank Conference also featured a Policy Forum. Moderated by *Anke Rasper* (Deutsche Welle), German policy makers and experts from the United Nations, the World Bank and IZA discussed

issues of migration, employment and development. *Thomas Silberhorn* (State Secretary at the Federal Ministry for Economic Cooperation and Development) gave a keynote address on the important role of employment

in developing countries. During the panel discussion, he highlighted the importance of technological progress in the growing markets of developing countries. He also insisted on the crucial role of diaspora as well as the governments of migrants' origin countries to find solutions for their young generation. Rather than building higher walls, circular migration should be facilitated, said Silberhorn.

Laura Thompson, Deputy Director General of the International Organization for Migration, reminded that the majority of people who migrate move because they want to

do so. However, this does not mean that we should not care about people who are forced to move. According to her, the only way to reduce illegal migration is to open the regular channels. She emphasized that both



Thomas Silberhorn, Nigel Twose, Anke Rasper, Klaus F. Zimmermann, Laura Thompson, Alessio Brown

high-skilled and low-skilled migrants are needed. Thompson underlined the fact that remittances would help productivity only if the basic needs of the beneficiaries are covered. Finally, she suggested that the media change the way they report on migration issues in order to improve the often biased public perception of migrants.

According to *Nigel Twose* (World Bank), migration is more beneficial for development when it is controlled and planned. Host countries should create better opportunities for migrants to succeed and later return to their origin countries. Migrants'

skills and potential should be better used to integrate them in the receiving countries but also in development cooperation. Twose concluded by underscoring that migration is part of the problem in development but also part of the solution.

IZA Director *Klaus F. Zimmermann* highlighted the role of IZA World of Labor in informing the public debate and providing evidence-based guidance to policy makers. With

respect to current migration policy challenges, he emphasized the importance of providing information to potential migrants about the living conditions they may face in the host countries. Suggesting more support for circular and temporary migration, Zimmermann explained that border enforcement may in fact produce the opposite of its intended goal because migrants who are not able to return will tend to stay longer in the host countries.

View the conference program online:

▶ www.iza.org/link/worldb2015

IZA Book: How to Protect Workers While Creating Good Jobs

The recently published volume "Social Insurance, Informality and Labor Markets - How to Protect Workers While Creating Good Jobs" deals with the question how low-income countries can achieve a sufficient level of social security and combat poverty effectively. This topic has been a regular subject of the joint research and advisory activities of IZA, the World Bank and the Inter-American Development Bank (IDB).

These three institutions have brought together expert papers from joint conferences on Employment and Development and compiled them into the new book. The volume, which presents some of the key research findings in the field, was edited by IZA Research Fellows *Markus Frölich* (University of Mannheim), *David Kaplan* (IDB), *Carmen Pagés* (IDB), *Jamele Rigolini* (World Bank) and *David Robalino* (World Bank).

Most countries implement social protection programs to help individuals manage risks such as unemployment, disability, illness, longevity, or death. In many middle income countries, these are often based on a 'Bismarckian model' (named after Otto von Bismarck), where benefits are financed by

contributions levied on salaried employment. In countries with a large informal sector, however, only a fraction of the population is covered by this system and non-contributory programs have been added or are planned to increase coverage. This can create distortions in the labor market. Therefore this book discusses different policies on how to expand the coverage of social insurance programs to all workers, without reducing incentives to job creation and formal work.

While few would argue against the need and social merits of social insurance and social assistance programs, there are growing concerns about their unintended consequences on labor markets because of poor design. The programs can distort incentives and individual behaviors in ways that either reduce employment levels and/or promote informality, ultimately affecting productivity and economic performance. For instance, high social security contribution rates can reduce formal employment; badly designed unemployment benefits can reduce incentives to keep, search, and take jobs; and fragmented social assistance programs can become a tax on formal labor and encourage informality.

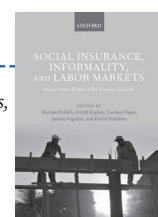
The book reviews the evidence regarding the effects of social insurance and social assistance programs on labor market outcomes and discusses options to improve their design and implementation. It focuses particularly on middle-income countries in Latin America and Asia with a large informal sector and suggests ways to reduce these distortions and better manage and finance the subsidies to make coverage universal, while creating good jobs.

IZA's joint publication with the World Bank and the IDB underscores the importance of thorough scientific evaluation of development policies and evidence-based policy advice for a more effective fight against global poverty and social exclusion.

Markus Frölich, David Kaplan, Carmen Pagés, Jamele Rigolini, David Robalino (eds.)

Social Insurance, Informality and Labor Markets - How to Protect Workers While Creating Good Jobs

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Interview: Global Labor Market Challenges

Ekkehard Ernst is Chief of the Job-friendly Macroeconomic Policies Unit at the International Labour Organization (ILO), where he is responsible for producing the new World Employment and Social Outlook, the ILO's annual flagship publication on global and regional labor market projections.

At an IZA Policy Seminar, he spoke about the “Shrinking Middle”, warning that the coming slowdown in labor supply might not be a workers’ paradise after all. In an interview with IZA Compact, he shared his outlook on global labor market trends.

What are the biggest challenges for the labor markets in developed, emerging and developing economies?

Labor markets remain in distress globally but with different challenges across countries. Most developed economies continue to face large unemployment rates that only recede gradually as the economic recovery remains sluggish. Developing and emerging countries are struck with high rates of informal employment and working poverty that stopped falling as fast as at the beginning of the 2000s.

Less than a quarter of all workers worldwide enjoy the benefits of a permanent full-time job that brings sufficient protection and access to essential social benefits, such as health care, pensions and unemployment. Most workers are struggling with a deterioration in their job quality, sluggish wage growth and fewer opportunities for better paying jobs. Only a small part of the global workforce can expect a rapid increase in high-skilled, well-paying jobs but these will make up for less than 20 percent of employment even by 2020.

The large group of middle-income, intermediate-skill-level jobs will expand only sluggishly at the global level and has started to shrink in advanced economies. This process, known as “hollowing-out” is putting pressure on the middle class and will lead to further rises in income inequality.

Is this a global trend, due to technological change and innovation?

The loss in middle-class occupations has become wide-spread in advanced economies but can also be found in some emerging regions, notably in the Middle East and in some ASEAN countries in South-East Asia. This is a particularly worrisome trend as most of these countries are middle-income countries that have not yet developed a large manufacturing base from which to advance further. Both there and in advanced economies, the recent acceleration in technological progress has led to the disappearance of jobs for tasks that can be easily carried out by machines or computers.

With the explosion of computing power over recent years, even many service sector jobs such as tax advisors or accountants can now be replaced, at least partially, by corresponding software programs. This is really a worldwide trend with technological progress spreading much faster now than in the past, also to emerging and low-income countries through production complementarities in global value chains that require the



Ekkehard Ernst

use of compatible technology across different stages of production.

Will growing income polarization and labor insecurity create an atmosphere of social unrest in the world?

The real risk is this: Global labor demand for highly skilled workers will outstrip its supply, creating continuous upward pressure on wages at the upper tail of the wage income distribution. The slowdown in labor force growth over the coming decades means that this dynamic is sufficient to push global average wages above productivity growth, at least for some years.

At the same time, technological progress and automation will lead to increasing pressure on middle- and low-income earners to compete for the same low-skilled jobs, accelerating deflationary wage pressures at the lower end of the wage distribution. Such a situation of rising average wages with an increasingly unequal distribution of wage incomes complicates the task for policy makers. Simple redistribution from capital owners to workers will not work, and reverting to more progressive income taxation might simply create even more wage pressure at the top if labor demand is inelastic.

Long-term solutions such as improvements in the education system and better integrated vocational training are needed, but might not yield results quickly enough to prevent frustrated young people from expressing their dissatisfaction in more straightforward ways, as we have seen in recent years in several countries across the world.

Can macro-economic policies and institutional reforms help secure access to decent jobs in the different regions of the world?

Indeed, the macroeconomic environment needs to become more amenable to job creation. So far, capital owners have enjoyed enormous windfall gains in the form of con-

tinued monetary stimulus that helped push up asset prices without stimulating more investment. It also created distortions by making capital much cheaper than labor, thereby biasing new investment in favor of labor-saving technologies. Here, we need to find a more balanced approach that includes fiscal measures targeted specifically at employment creation, such as hiring tax credits or wage subsidies.

But the technological trends are here to stay, and we need to prepare our education systems for these changes. Life-long learning needs to become a reality, offering opportunities for training and education to people long after they have left school. Public employment services need to integrate much more technical training than in the past, possibly in tight collaboration with the private sector to guarantee a better reintegration for those unfortunate enough to lose their jobs.

And we need to strengthen the incentives for companies to invest in the skills of their workforce by providing training systems similar to those we have for young people.

Cutting-Edge Research on the Economics of Risky Behaviors

7th Annual Meeting in Izmir, Turkey

The 7th IZA Annual Meeting on the Economics of Risky Behaviors (AMERB), co-founded and co-organized by IZA Program Director *Amelie F. Constant* (George Washington University and Temple University) and *Erdal Tekin* (American University and IZA), took place in May 2015. AMERB, which has enjoyed great success over the past six years, was held at the Izmir University of Economics in Turkey. AMERB was also supported by American University's School of Public Affairs, the Center for the Economic Analysis of Risk at Georgia State University, the Usery Workplace Research Group at Georgia State University, and Izmir University of Economics.

AMERB brought together almost 50 researchers from across the globe. The diverse set of presentations covered various aspects of social, political, economic, and public health issues and the resulting policy implications. *Eli Berman* (University of California, San Diego) delivered the keynote entitled "Development and Conflict: Governance in Risky Places". He began by noting that about 1.5 billion individuals live in countries plagued by violent conflict, and that the majority of development aid is distributed to such countries. Berman then noted that well-governed developing countries have become safer and healthier, while life expectancy is only about 50 years in many of the riskiest countries on the planet. The remainder of Berman's keynote address focused on how public policy and well-designed interventions can promote development and improve the quality of life in developing countries by reducing risk through improved governance.

Healthy habits

The conference opened with welcoming remarks from Erdal Tekin, Amelie F. Constant, *Barbara Romzek*, Dean of American University's School of Public Affairs, and IZA Director *Klaus F. Zimmermann* (Bonn University). The first paper, presented by *Matthias Rieger* (Erasmus University Rotterdam), evaluated the effect of city and county bans on trans fats in restaurants in New York. Using a difference-in-differences strategy that exploits within-county variation in the adoption of such bans, Rieger provided compelling evidence that banning trans fats from restaurants reduced cardiovascular disease mortality rates by about 4%. From a policy

perspective, it is important to note that given this point estimate and assuming a standard "value of a statistical life," the policy likely passes conventional cost-benefit analyses.

Rafael Novella (Inter-American Development Bank) investigated a potential unintended benefit of a job-training program in the Dominican Republic: reductions in teenage pregnancy. Using data from a randomized impact evaluation of the *Juventud y Empleo* program, which targeted both job and non-cognitive skills, he finds an approximately 20% reduction in the probability that treated female teenagers (program participants aged 16-19) became pregnant within about two years of the program. Interestingly, Novella showed that increases in non-cognitive skills were a likely channel through which the program reduced teen pregnancy.



Eli Berman

Effrosyni Adamopoulou (Bank of Italy) presented research on the long-run effects of World War II on health and eating habits. Adamopoulou used micro data to conduct a difference-in-differences analysis that exploits geographic and temporal variation in Italian children's exposure to the war and finds that individuals who were relatively more affected

by the war were significantly more likely to be obese in adulthood. The author pointed out that mid-twentieth century Italy was quite similar to developing nations experiencing war and natural disasters today, which is why these findings may have important contemporary policy implications. Moreover, the results provide additional evidence on the long-run implications of early childhood environments.

Doing time

Giovanni Mastrobuoni (University of Essex and IZA) investigated the impact of serving time in "open-celled" as opposed to traditional prisons on the recidivism of Italian prisoners. The analysis focuses on prisoners who spent time in Bollate, an innovative, open-celled facility near Milan that allows prisoners relatively unfettered movement within the prison during the day and provides access to schooling, job training, and even work outside of the prison. After carefully comparing the post-prison outcomes of individuals who were transferred to Bollate due to overcrowding in neighboring prisons to individuals in the same prisons who were not transferred to Bollate, Mas-

trobuoni finds that conditional on sentence length, spending an additional year in Bollate reduces recidivism by about 15%. This is at least partly due to a positive effect of spending time in Bollate on the likelihood of being employed after release, though this is not the only mechanism through which Bollate appears to reduce recidivism.

Glen Waddell (University of Oregon and IZA) presented research on how inmates responded to policy changes that altered the incentives for good behavior while in prison. More generally, Waddell also tested for discontinuities in the probability of misbehavior just before and just after biannual reviews of prisoner behavior. This research highlights the usefulness of high quality administrative data and is also policy relevant, as inmate misbehavior is costly to the individual (through sentence extensions) and also imposes negative externalities on the prison staff and other inmates. Thus, it is important to understand what policies and incentives improve inmate behavior. Somewhat surprisingly, the preliminary results presented at AMERB provide no evidence that arguably sizable changes in the incentive structure for good behavior altered rates of prisoner misconduct.

Food and drugs

The research presented by *Willa Friedman* (University of Houston) was on behavioral responses to the introduction of anti-retroviral (ARV) drugs in Kenya. Using a difference-in-differences strategy that compares cohorts of young women in areas that received ARV drugs to young women in areas that did not receive ARV drugs, Friedman found an 80% increase in pregnancy rates and a 40% increase in self-reported sexual activity in ARV-treated regions. While the provision of ARV drugs did lead to an increase in sexual activity, simulations suggest that full ARV coverage would cause an overall decline in new HIV infections, given that ARV drugs reduce the spread of HIV.

Pietro Biroli (University of Chicago and IZA) presented research at the nexus of genetics, biology, and economics that examines how genetic endowments and health investments over the life cycle interact to affect health outcomes. Formulating a structural model of health, where poor health is measured by body mass index (BMI) and food and exercise are inputs to the health production function, Biroli showed that individuals with certain genetic makeups have greater demand for food and that food intake has relatively larger

effects on the BMI of these individuals. This innovative research highlights the potential importance of interactions between genetic makeup and economic choices.

Poisonous encounters

Kevin Schnepel (University of Sydney) started day two of AMERB by presenting preliminary results from an analysis of the impact of elevated blood lead level (EBLL) interventions on student outcomes. The analysis was made possible by linking several administrative datasets from North Carolina and by exploiting a discontinuity in how the EBLL interventions were administered to children. Importantly, preliminary results suggest that the intervention has positive effects on long-run socioeconomic outcomes, suggesting that EBLL interventions can improve the life outcomes of children who are exposed

also long-term reductions in sexual assault, suggesting that the specific way in which prostitution is legalized matters.

Floris T. Zoutman (Norwegian School of Economics) reported research testing the hypothesis that medical marijuana laws (MML) in the U.S. harmed Mexican drug cartels and reduced violent crime in the U.S. as a result. Using three different datasets, Zoutman estimated that violent crimes such as murder and robbery significantly decreased in the U.S. states bordering Mexico after the passage of MML laws. Additionally, the reduction in homicides was largely driven by drops in homicides associated with drugs and juvenile gangs.

Rocco D'Este (University of Warwick) presented his research on the causal relationship between bans on over-the-counter (OTC)

on military personnel's proclivity to commit domestic violence. Using both administrative military data and data from a nationally representative survey, Cesur identified the causal effect of combat exposure by exploiting that, conditional on being deployed, it is essentially random whether a unit experiences active combat. Comparisons of self-reported data on the frequency of domestic violence between soldiers who were deployed to active combat zones to those who were deployed to non-combat zones yields strikingly large, consistent, and robust estimates of the effect of combat exposure on subsequent domestic violence. For example, back-of-the-envelope calculations suggest that overseas deployments since 2001 have caused upwards of 20,000 instances of domestic violence, totaling more than \$20 million in direct financial costs. These results indicate a substantial cost to overseas deployments that has previously been overlooked in the economics literature.

George Wehby (University of Iowa and NBER) discussed his ongoing research on the impact of Argentina's 1998-2002 financial crisis on child and maternal health. Using unique data from a survey of hospitals in South America, Wehby estimated the impact of the financial crisis in Argentina by implementing a difference-in-differences strategy in which Brazil and Chile served as controls, as these countries did not experience financial crises during this time period. Generally, Wehby found some evidence that macroeconomic conditions affected child and birth outcomes in Argentina, though these effects varied by socioeconomic and demographic characteristics. This research adds to our understanding of the complex relationship between health and macroeconomic conditions.

Vasso Artinopoulou (Panteion University) closed AMERB with a discussion of restorative justice, a movement gaining popularity in the field of criminology. Restorative justice is a relatively recent and interdisciplinary notion of justice that aims to promote healing after wrongdoing by bringing victim and offender together. Artinopoulou argued restorative justice has great potential as an alternative or additional approach to addressing crime, as it aims to increase the responsibility of offenders and reduce the likelihood of recidivism by restoring social bonds of victims and offenders and by facilitating the reintegration of offenders into society. It will be interesting to see how this concept of justice continues to evolve and enter the policy debate.

The presented papers are available online:

► www.iza.org/link/AMERB2015



to lead paint during childhood. Like several papers presented at AMERB, these results reinforce the importance of childhood environments and interventions in shaping long-run outcomes.

Klaus F. Zimmerman presented preliminary results from surveys conducted in Bangladesh designed to explore the relationship between arsenic contamination of well water and mental health. A nontrivial fraction of villagers are exposed to well water tainted by arsenic, and there is a strong negative association between this contamination and poor mental health outcomes.

Sex and crime

The impact of legal street prostitution zones in the Netherlands on both reported and perceived levels of criminal activity was analyzed by *Stephen Kastoryano* (University of Mannheim and IZA). Comparing nine large cities that adopted such zones to 14 that did not, Kastoryano found that the presence of a legal street prostitution zone reduced the incidence of reported rape and sexual abuse by 30 to 40% in the first two years. When a city used a licensing system, there were

sales of key ingredients to the production of crystal methamphetamine (meth), meth labs, and crime in the U.S. The harms to health of the meth epidemic in the U.S. are well documented, and recent research provides evidence that OTC bans on the sale of cold medications containing ephedrine, a critical ingredient in the production of meth, reduced the number of meth labs in operation. D'Este's research builds on the extant literature in two ways. First, he uses a difference-in-differences strategy to identify the reduced form effect of OTC ephedrine bans on crime. Specifically, he found that OTC bans reduced both property and violent crime by 8 to 16%. Second, using the policy variation as an instrument for the number of operating meth labs, D'Este estimated the elasticity between meth labs and crime to be between 0.2 and 0.3. These results provide important evidence on the range of socioeconomic outcomes, including crime, affected by OTC bans and identify some of the channels through which such effects operate.

Victims of violence

On the final day, *Resul Cesur* (University of Connecticut) presented his innovative research on the impact of combat exposure

14th Transatlantic Meeting of Labor Economists

Long-Standing Cooperation between IZA and SOLE

The 14th IZA/SOLE Transatlantic Meeting of Labor Economists, organized by *Dan A. Black* (University of Chicago and IZA) and IZA Director *Klaus F. Zimmermann* (University of Bonn), was held in Buch near Munich from July 2-5, 2015.

Organized by IZA in collaboration with the U.S. based Society of Labor Economists, this annual meeting brings together both young and established scholars from around the world, especially from the U.S. and Europe. This year's papers covered a number of important issues relevant to modern labor markets: migration, education, labor supply, employment, and labor market networks.

In the first presentation, *Shoshana Grossbard* (San Diego State University and IZA) studied the effect of common law marriage policies in the U.S. on fertility among teenagers. Since such policies increase the cost of cohabitation for young men, economic theory predicts a reduction in fertility among teen women. This is exactly what Grossbard finds in her empirical results based on multiple years of U.S. microdata and exploiting policy changes across U.S. states.

Ainhoa Aparicio Fenoll (Colegio Carlo Alberto and IZA) observes that there is a huge variation in youth unemployment across the European Union, while migration of young workers between EU member states is very limited despite free movement of workers with the EU. She looks at the potential explanations concerning different languages across countries, which makes it harder to find a job abroad and hence reduces the propensity to migrate. In her empirical analysis she uses several extensions of the school-leaving age as well as the introduction of foreign language classes in compulsory school in order to study the impact of general and language skills on migration and finds that this effect is positive.

Many teenagers have a job while they are still enrolled in compulsory schooling. *Angus Holford* (University of Essex and IZA) looked at the impact of having a job on exam performance using microdata of teenagers in the UK. He finds that boys' performance in exams is not affected, but that there is a negative effect for girls having a job at age

15. He concludes that this result is not only driven by crowding out time for studying, but also by a decreasing extent to which girls care about school and an increasing proneness to engage in risky behaviors.

Ruth Uwaifo Oyelere (Emory University and IZA) studied the welfare and employment effects of a major overhaul of the compulsory school system in Nigeria in the early 1980s. Based on panel household survey data from Nigeria, she presented evidence that the schooling reform decreased the likelihood of poverty and had also some positive impact of individual wages but no effect on the probability of being employed.

The first session was closed by *Elena Mattana* (CORE, Université catholique de Louvain) with a study analyzing the impact of financial aid to students. Building on a structural model of enrollment in tertiary education,

which found negative effects of air pollution on short-run productivity, can help inform policymakers about the costs and benefits of ambient air pollution.

Ronald L. Oaxaca (University of Arizona and IZA) modeled why some people choose to hold more than one job simultaneously, and presented evidence from British panel data for 1991-2008, finding that the second jobs are more responsive to wage changes.

Following up on the topic of labor supply, *Anna Lovász* (Hungarian Academy of Sciences) exploited Hungarian data for 1997-2011 and found that childcare availability had a significant positive effect on maternal labor supply. Specifically, increasing childcare coverage by 10 percentage points lead to a 1.8% rise in the female labor force participation rate.



loan take-up and employment decisions as well as a student aid reform in 2001 in Sweden, she empirically tests the model predictions using administrative panel data on students. She finds that additional aid and more generous means testing on student income substantially reduce drop-out rates and increase graduation rates with more advanced degrees, but at the cost of students staying enrolled longer and accumulating more debt.

On the second day, *Simone Schüller* (IRVAPP and IZA) presented results from a policy evaluation of a local broadband delivery program in the Italian province Trento in 2010-12, finding that underserved rural areas benefit from increased broadband penetration. *Nico Pestel* (IZA) presented a paper on the causal effects of air pollution on individual productivity using data on German professional soccer players for 1999-2011. The analysis,

The subsequent presentations discussed labor market and peer networks, which are a relatively novel topic in the field. Using U.S. data, *David Neumark* (University of California, Irvine and IZA) found that having networks of neighbors was linked to faster re-employment following massive layoffs during the Great Recession and to re-employment at neighbors' employers. Using an experiment with U.S. college students conducted in 2011, *Kelly Bedard* (University of California, Santa Barbara) showed that friendships and peer connections matter for joint health-related activities such as using the fitness center. The results have implications for experimental studies in general and the study of mechanisms that drive contagious behavior.

In the first of two presentations on homelessness using a unique nationally representative dataset from Australia, *Deborah A. Cobb-*

Clark (University of Melbourne and IZA) demonstrated that children who experience homelessness are less likely to be employed in adulthood, with the direct effect of childhood homelessness on employment being much larger for men than for women. Following up, *David C. Ribar* (University of Melbourne and IZA) presented evidence that homelessness is strongly positively associated with food insecurity for men but less strongly associated for women.

The next three presentations dealt with the well-being causes and consequences of international migration, which is an emerging topic in the field. First, using birth certificate data, *Lidia Farré* (University of Barcelona and IZA) found that children born to new Ecuadorian immigrants in Spain have better birth outcomes than those born to natives and those left behind, providing novel evidence of the healthy immigrant effect. Second, *Artjoms Ivlevs* (University of the West of England, Bristol and IZA) empirically examined whether the immigration from the eight transition countries which joined the EU in 2004 affected life satisfaction of natives in England and Wales. Driven by the inflows occurring in the first two years after enlargement, the life satisfaction of young natives increased while that of old natives declined. Third, *Milena Nikolova* (IZA and Brookings) used Gallup World Poll data for 2009-2013 to demonstrate that life dissatisfaction increases emigration desires for potential movers from 100 developing and transition countries. Both income and perceived well-being were relatively less important for potential emigration, however, compared

with migrant networks and perceptions of socio-economic conditions.

Grace Lordan (London School of Economics) presented a paper analyzing the differences in job satisfaction of women in male- and female-dominated jobs. The evidence from Britain and the U.S. indicates a strong negative relationship between female satisfaction and the share of males in the occupation, and women are more likely to move from occupations with a higher share of males but males are more likely to stay in them.

The presentation by *Terra McKinnish* (University of Colorado, Boulder) started from the observation that couples within the same occupation are more common than one would expect at random. Economic theory on the functioning of marriage markets provides two potential explanations: individual preferences for a spouse with the same occupation or lower search costs within one's own occupation. Using U.S. Census data on couples and detailed information on occupations, she showed that her empirical results are more consistent with a search costs explanation, i.e., it is more likely to meet a partner within an occupation when the sex ratio is favorable.

Eleanor Dillon (Arizona State University) studied the selection into self-employment and presented a dynamic model on sectoral choice providing insights into the lifecycle returns to entrepreneurship based on the U.S. Panel Survey of Income Dynamics. She concludes that those individuals who never enter self-employment have little informa-

tion on their potential entrepreneurial skills. Those who enter self-employment gradually learn about their entrepreneurial ability through experience and return to wage-work when relative earnings are relatively more favorable than in self-employment. This sheds some light on the observation that the median entrepreneur earns significantly less than the median wage-worker.

Nancy Chau (Cornell University and IZA) provided a structural model of a two-tier labor market with both regular workers and contract workers employed by a third-party subcontractor. The model highlights that contract work may have important implications for workers' effort since workers may provide lower effort when they redeem their wage as "unfair". The model implications are tested using firm-level microdata from India.

The conference was closed by a presentation by *Rodrigo R. Soares* (Sao Paulo School of Economics and IZA) on the relationship between product-market competition and racial discrimination. Economic theory predicts that discrimination should be lower when competition within industries is high, since it becomes more costly in a competitive environment. The empirical results support this hypothesis. Using Brazilian census data, Soares showed that trade liberalization in Brazil during the 1990s, which led to more competition in some industries, has significantly decreased the racial wage gap.

The presented papers are available online:

► www.iza.org/link/TAM2015

RIETI and IZA World of Labor Policy Symposium in Tokyo

Addressing Demographic Challenges

The Tokyo-based Research Institute of Economy, Trade and Industry (RIETI) and IZA World of Labor, the online platform for evidence-based policy advice, joined forces to discuss international evidence and the policy implications for Japan's demographic challenges in the Policy Symposium "Reforming Labor Market Institutions to

Promote Elderly Employment", held in Tokyo on May 26, 2015.

In his opening remarks, RIETI President *Masahisa Fujita* stressed the value of evidence-based policy, a common thread in the activities of RIETI and IZA. IZA's Director for Strategy and Research Management *Alessio*

J.G. Brown highlighted the need for evidence-based scientific policy advice and presented IZA World of Labor as an example how to support evidence-based policymaking in labor economics.

Various leading international and Japanese researchers presented experiences and evidence. In the first keynote of the symposium, *David Neumark* (University of California, Irvine and IZA) showed that age discrimination laws in the U.S. have complemented social security reforms to boost the labor supply of older workers. Nonetheless, while successful in normal times, these laws failed during the Great Recession since they reduced hiring of older workers in the severe downturn. The evidence suggests that age discrimination in hiring in the U.S. persists and needs to be addressed.



The European experience of highly regulated European labor markets and the Great Recession was presented by *Juan F. Jimeno* (Bank of Spain and IZA), whose keynote discussed various policy responses based on the European experience to promote elderly employment. He proposed that the degree of employment protection should not depend on seniority. Rather than severance payments, unemployment benefits with some US-type experience rating should be used to compensate for job losses. Jimeno also rejected the “lump of labor fallacy”, which implies that restricting the supply of older workers increases the employment of younger workers, as not supported by empirical evidence.

Ayako Kondo (Yokohama National University) provided facts about elderly employment in Japan and evidence on the effects of legislative reforms. Japan obliged employers to offer workers continued employment until the eligibility age for full pension benefits. This implies the need to adjust wages of older workers, and Kondo highlighted that they have actually started decreasing. She also stressed the importance of promoting female labor supply in the light of the shrinking population and relatively low female labor force participation. Promoting female employment is as important as promoting elderly employment, said Kondo.

At the beginning of the panel on lessons to be learned for Japan’s policies based on international evidence, *Kotaro Tsuru* (Keio University, RIETI Program Director) reiterated the need for wages to adjust and called for a shift from the existing employment type of regular employees with an unlimited scope of duties to clearly defined and specified job duties, what he calls job-based regular employment.

The European experience has shown that those countries which addressed challenges on various policy margins fared much better. A significant margin to address the challenges created by population aging is increasing female labor market participation. In addition to legislative reforms, Tsuru suggested reducing labor market segmentation. Further options discussed were

unemployment benefits with experience-rating for older workers and the abolition of a mandatory retirement age.

The panelists broadly agreed that the current Japanese social and employment model is no longer viable in light of population aging, and that various complementary instruments should be implemented to induce a change of the Japanese model and its perception.

IZA/RIETI Workshop in Tokyo: Changing demographics and the labor market

Preceding the policy symposium, recent research on demographic challenges was presented and discussed in a workshop. A number of papers were devoted to the topic



of retirement, which is particularly policy-relevant given the inverted population pyramid in many OECD countries.

Yan Lau (Reed College) analyzed how age-threshold penalties on retirement savings accounts affect withdrawal and labor supply of the elderly in the US, finding that mandatory withdrawals can lead people to reduce working time. Also for the US, *Lorenzo Burlon* (Bank of Italy) showed that technological progress during a worker’s life may postpone the retirement decision due to real wage increases. Using an Overlapping Generations Model, *Joanna Tyrowicz* (Warsaw University) evaluated the welfare consequences of alternative retirement systems. *Elena Stancanelli*

(CNRS, Sorbonne and IZA) discovered that French partners’ leisure time together increases only slightly after retirement.

Using time structure data in Japan, *Emiko Usui* (Hitotsubashi University and IZA) looked at how the share of housework between husband and wife in Japan affects their satisfaction. *Karine Ishii* (Université Paris-Dauphine) analyzed to what extent caring for their elderly parents decreases the labor supply of middle-aged Japanese women. *Ayaka Kondo* (Yokohama National University) studied a regulation that made continued employment up to pension eligibility age mandatory in 2006, finding no substitution effect among younger full-time workers. However, there seems to be some crowding out of middle-aged female part-time employment.

Two other papers looked at the effects of flexible labor markets. While *Daniel Possemeriede* (Utrecht School of Economics and IZA) found no significant labor supply increase for Dutch workers due to flexi-time and telehomework, *Nuria Rodriguez-Planas* (CUNY, Queens College and IZA) warned that family-friendly policies which can only be used by mothers may backfire as employers substitute away from hiring childbearing-aged women or from promoting them to good jobs (regardless of their family structure).

These and other papers presented during the workshop are available online:

► www.iza.org/conference_files/RIETI_2015/

Selected IZA World of Labor articles on the demographic challenge:

Laura Hospido
(Banco de España and IZA), April 2015.

Pension reform and couples’ joint retirement decisions

“The success of policies raising the retirement age depends on people’s responsiveness to changes in pension eligibility”

DOI: 10.15185/izawol.142

Matteo Picchio
(Marche Polytechnic University and IZA), January 2015.

Is training effective for older workers?
“Training programs that meet the learning needs of older workers can improve their employability”

DOI: 10.15185/izawol.121

Carol Graham
(Brookings Institution and University of Maryland and IZA), November 2014.

Late-life work and well-being
“Flexible retirement may be one solution to the challenges of unemployment, aging populations, and public pension burdens”

DOI: 10.15185/izawol.107

► wol.iza.org

Which Policies Promote Youth Employment?

IZA Workshop in Bonn

In the aftermath of the Great Recession, one in five young people in Europe are currently unemployed. The distribution of youth unemployment rates across countries varies substantially, with some countries facing youth jobless rates of 50 percent or above. Against this background, *Pierre Cahuc* (CREST-Ecole Polytechnique, Paris) and *Konstantinos Tatsiramos* (University of Nottingham and IZA) organized a workshop held in Bonn (June 1-2, 2015) on the role of institutions and policies in shaping employment opportunities for youth.

200 days) and earned lower wages (about 22%). Most of the effects take place during the first five years (nine years, respectively, for wages) of employment experience. These findings suggest that making fixed-term contracts more available may reduce the welfare of low-skilled workers.

One of the potential reasons for lower overall employment of young workers is that they experience higher job instability. Although young people find jobs as fast as older people, they are confronted with job separa-

various labor market outcomes. For the low educated, the findings suggested no significant effect of graduating in a recession on the probability of being out of employment but a negative and persistent effect on gross annual earnings, which is driven by working fewer hours. For highly educated, there was a small negative effect on employment in the first five years after graduating in a recession, but a large and persistent negative effect on annual earnings, which was driven by lower hourly wages.

In response to high youth unemployment, especially among low educated workers, France has introduced an intense counseling program for three months with collective meetings (search clubs) focused on disadvantaged youth. *Daphne Skandalis* (CREST) presented the evidence from a field experiment on the effect of intensive collective counseling relative to less intensive individuals counseling. The findings suggested a positive effect of being assigned in a search club on employment, especially on subsidized employment and on those who are more employable.

Alternative policy measures to enhance youth employment include a reduction in payroll taxes. *Niklas Kaunitz* (Stockholm University) presented his evaluation of the reduction of payroll taxes in Sweden on employment. Sweden reduced payroll taxes by 11 percentage points in 2007 for those aged 18-24 and for an additional five percentage points in 2009. Using full Swedish population aged 16-75 (in 2001-10) the author performed a difference-in-differences estimation finding a small but significant increase in employment between 1.3-2.5% due to the reduction of payroll taxes.

Internships have become a widespread phenomenon among university students in the US and Europe. The paper presented by *Thomas Siedler* (University of Hamburg and IZA) examined the effect of internship experience on labor market outcomes, such as wages later in life and employment probability. Using a panel of university graduates in Germany and variation in the introduction and abolition of mandatory internships at German universities the findings suggest that internships increase wages by about 4-6%. The effects are larger for students and areas of study with weaker labor market orientation.

Download these and other presented papers:

► www.iza.org/link/youthempl_2015



There are two main messages coming out of the workshop: The first is that fixed-term contracts tend to increase the frequency of job separation and have negative long-term effects on employment and wages for young workers. The second is that other policies, such as reduction in payroll taxes and intensive counseling, may be more effective ways to increase youth employment, although the magnitude of these effects may not be substantial.

In a number of countries, policy makers have tried to create incentives for firms to hire young workers by reducing firing costs through the introduction of fixed-term contracts. *J. Ignacio Garcia Perez* (Universidad Pablo de Olavide) provided an empirical investigation of the long-term effects of fixed-term contracts in Spain, which liberalized the use of temporary contracts in 1984 for all workers as a way to fight youth unemployment. The success of the policy depends on the transition rate from temporary to permanent contracts and the long-term effects on employment. Using a regression discontinuity design, the authors of the study examined the long-term impact of fixed term contracts on young workers career by using Social Security data for more than 20 years. Workers entering for the first time in the labor force after the reform in 1984 (mostly with fixed-term contracts) compared to their counterparts entering before the reform (mostly with permanent contracts) have accumulated fewer days of work (about

tions more frequently. Reasons include lower tenure, lower accumulated non-firm specific experience, and job protection.

Pierre Cahuc provided a framework based on a search and matching model to evaluate the impact of job protection on youth employment, which reproduced the negative relation between job separation and tenure and identified the red-tape layoff costs. The model was estimated for the labor market of unskilled workers in France during the period 2003-2012. In France, there exists a discontinuity of job protection at two years of tenure, where firms have to pay at least six months of severance payment for an unfair dismissal of a worker with more than two years of tenure. The main findings suggested that it is sufficient to have a small firing cost to have an important effect on the job separation rate. However, the firing cost does not seem to have a big impact on the unemployment rate of young individuals.

The employment and wage profile experienced by young workers may also be determined by the strength of the economy at the time of entering the labor market. *Bart Cockx* (Ghent University and IZA) presented his study on the effect of graduating during a recession on labor market outcomes of graduates in case of a rigid labor market. Using rich survey and administrative data from Belgium, the study considered the effect of fluctuation of the provincial unemployment rate at the time of graduation on

Learning from the Best

18th IZA European Summer School in Labor Economics

In May, IZA held its traditional European Summer School in Labor Economics. Organized by *Ulf Zölitz* (IZA), the event brought together distinguished lecturers and a large number of PhD students to familiarize the young researchers with up-to-date topics and methods in labor economics.

nomics) and *Daniel S. Hamermesh* (RHUL and University of Texas at Austin), winner of the 2013 IZA Prize in Labor Economics.

Senik's lectures were devoted to "Subjective Well-being, Life Satisfaction and Happiness". The topics included measures

In addition to the lectures and presentations, two guest speakers provided extra information. Advisory board member *Uwe Sunde* (University of Munich and IZA) introduced the participants to the broad set of activities of the European Association of Labour Economists (EALE).



The students were also given the opportunity to present their work in a presentation or poster session and to discuss their ideas with established researchers in a relaxed and open atmosphere. This year's edition hosted 39 students of 15 different nationalities based in universities from 12 different countries at Lake Ammersee in Bavaria. As in previous years, about half of the participants were female.

The lectures were delivered by IZA Research Fellows *Claudia Senik* (Paris School of Eco-

nomics) and *Daniel S. Hamermesh* (RHUL and University of Texas at Austin), winner of the 2013 IZA Prize in Labor Economics.

Hamermesh introduced the students to "The Economics of Time Use", discussing the theory of the allocation of time, general trends in time use, and demographic and family issues related to time use. Hamermesh also provided the students with personal advice and practical suggestions in his presentation on "How to publish in a good journal – I wish I knew".

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

More about the IZA Summer School:

► www.iza.org/link/sums

Successful IZA Career

Uwe Sunde Wins Prestigious Gossen Prize

The Verein für Socialpolitik (VfS), the association of German-speaking economists, has awarded this year's Gossen Prize to *Uwe Sunde*. The decision of the prize committee was announced during the VfS annual meeting in Münster on September 7, 2015.

Uwe Sunde is currently Professor of Economics at his alma mater, the University of Munich. He became affiliated with IZA in the fall of 1998 and enrolled in the European Doctoral Program, spending one year each at the Bonn Graduate School of Economics and Universitat Pompeu Fabra in Barcelona. As one of the first PhD students at IZA, his doctoral dissertation was supervised by IZA Director *Klaus F. Zimmermann*.

After obtaining his habilitation from the University of Bonn in 2008, Uwe Sunde held a chair in macroeconomics at the University of St. Gallen until 2012.

From January 2001 until January 2008, Uwe did his research at IZA, where he also coordinated the seminar and guest researcher program. He currently represents the European Association of Labour Economists (EALE) on the Advisory Board of the IZA European Summer School in Labor Economics (see article above).

His wide range of research interests include long-term development and human capital formation, labor economics, population economics, and behavioral economics. He has (co-)authored 41 IZA Discussion Papers to date, generating a total of over 200,000 downloads.

Klaus F. Zimmermann congratulated his former student: "Uwe Sunde is a bright scholar with excellent analytical skills and a remarkable talent to think outside the



Uwe Sunde

box. He has been a part of the IZA family from the early days and has contributed immensely to our activities in his various roles. This honor is greatly deserved!"

About the Prize

Worth 10,000 euros, the Gossen Prize is awarded annually to honor a German-speaking economist under 45 years of age, who works in central Europe and has gained international recognition by publishing in top journals. The goal is to promote the internationalization of economic research done in Germany, Austria and Switzerland.

The two previous winners are also IZA Research Fellows: *Ludger Wößmann* (ifo Institute, University of Munich; 2014) and *Michèle Tertilt* (University of Mannheim; 2013).

IZA Initiatives: Citing Data and Making It Available for Reuse

Industries and markets won't grow and mature to the benefit of all market participants until there are fair conditions. This includes prices of raw material, wages, rules of competition, respect of intellectual property and the like. It is no different with research – in particular empirical research. The inputs to the research process are technology (soft and hardware), human labor (the researcher), past literature (citations) and relevant data. Academic research has long solved the problem of attribution of credit. If your work has been useful to new research, then you are properly cited in a manner that can be counted and compared. This is the currency that underpins the academic market. When it comes to data, a commodity without which there can simply not be empirical research, things are not as optimal. IZA's International Data Service Center (IDSC) is trying to contribute to the data part in our "industry".

IZA and its director *Klaus F. Zimmermann* have recognized from the very early days of the institute that data is a commodity which is not fairly available to market participants. A 1998 memorandum co-authored by Zimmermann on the contributing factors to successful empirical research and policy advice (IZA DP No. 14) is widely considered to be the defining moment things started to improve in Germany in terms of data for research in labor economics, but also more



generally. Today's efforts at the IDSC of IZA continue to aim at improving data conditions. We have therefore launched two new services in the hope that they will be used and filled with life by the IZA research network.

Data citation service

We believe that proper attribution of credit to a dataset and to data workers is an important ingredient to raising both data quality and data availability for research. The IDSC of IZA has been at the center of various efforts and initiatives in the past on relevant topics and has made a recommendation adopted by IZA on how to properly cite data.

At the core of this proposal for a proper citation convention is the best of all currently available proposals out there. So whenever possible, we suggest and/or require that convention, which is analogous to academic citations of prior research. Whenever data providers have their own suggestion, we recommend following it. And whenever that suggestion does not conform to the standard, we will be making an effort to suggest changing it. In order to support the researcher in doing this easily, we have compiled a searchable database of proper citation of datasets commonly used in labor economics:

► <https://idsc.iza.org/citations>

IZA recommends this citation for its working paper series and will be requiring it in the rest of its publications ecosystem.

Data repository service

Researchers in labor economics and elsewhere increasingly compile their own data for a paper. The dataset of such a paper, of course, has no proper citation convention, and the author of the research paper is its author. In that case, we offer a data repository service where a user can upload their data (something which more and more journals require anyway):

► <https://idsc.iza.org/datasets>

The researcher has full responsibility for the data, as well as full control, and defines both the duration of a possible embargo and the mode of its availability after the embargo is lifted. The IDSC of IZA will curate the data and provide a DOI for permanent reference and proper citation. After legal and regulatory obstacles were overcome, the service is now fully in place. We invite the research community to populate it with their data. This repository will be searchable and, if adopted by our researchers, can become a resource for all. Making data available for reuse, besides being mandated by an increasing number of funding agencies, is important for replication but also helps the corresponding research to get cited.

New IZA Study and Tower Talk on the Future of Trade Unions

Digitalization drastically changes the way we work. Working times and places are becoming more flexible. Intelligent machines and robots are gaining importance in modern production. This creates new opportunities for work and leisure, but it also requires redesigning the way labor is organized.

Labor unions, in particular, are faced with challenge to protect workers' interests in increasingly diverse working environments. A new IZA policy paper by *Werner Eichhorst, Holger Hinte, Alexander Spemann* and *Klaus F. Zimmermann* identifies six key fields of action. Most importantly, unions should focus on a more creative regulation of working hours and the modernization of vocational training. The authors conclude that trade unions keep playing an important role in balancing out market forces in the digital world of labor.

► <http://ftp.iza.org/sp82.pdf>

As the invited speaker at a recent IZA Tower Talk, the chairman of the German Confederation of Trade Unions (DGB), *Reiner Hoffmann*, discussed these challenges with IZA Director Zimmermann. While they agreed that working hours must become more flexible, Hoffmann argued this could be achieved without abolishing the standard eight-hour workday. Zimmermann recommended that unions expand their coverage to new forms of labor and provide services and advice for the growing number of self-employed workers and freelancers. Hoffmann emphasized the unions' task to ensure that the opportunities of digitalization are fairly distributed among income groups. Firms should therefore invest more in vocational training.

In the debate moderated by journalist *Kai Pfundt*, Hoffmann und Zimmermann both argued that employee performance can no longer be measured in terms of workplace presence but must be evaluated according to



R. Hoffmann, K. Pfundt, K. F. Zimmermann

individual output. They disagreed on the scope of unions' mandate. While Zimmermann said unions are focusing too much on general politics, Hoffmann contended that more flexible and globalized labor markets require a more extensive union mandate. In his concluding remarks, Zimmermann underscored the core message of the IZA study: "Unions will continue to play an important corrective role in the labor market. But to succeed, they must embrace the new developments and opportunities of digitalized labor markets."

Launched in 2014, **IZA World of Labor** is a unique online platform that 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 on a wide range of labor market issues in an innovative structure, and a clear and accessible style. IZA Compact presents a selection of recent articles:

New firms entry, labor reallocation, and institutions in transition economies

In the transition from central planning to a market economy in the 1990s, governments focused on privatizing or closing state enterprises, reforming labor markets, compensating laid-off workers, and fostering job creation through new private firms. After privatization, the focus shifted to creating a level playing field in the product market by protecting property rights, enforcing the rule of law, and implementing transparent start-up regulations. A fair, competitive environment with transparent rules supports long-term economic growth and employment creation through the reallocation of jobs in favor of new private firms.

Randolph L. Bruno (University College London and IZA)
 IZA World of Labor 2015: 180
 ▶ <http://dx.doi.org/10.15185/izawol.180>

University dropouts and labor market success

With university education continuing to expand worldwide, university dropouts will make up a large group in future labor markets. Dropping out is routinely viewed as a negative indicator. However, data on university dropouts does not generally provide information on their labor market outcomes, so empirical evidence is sparse. The studies that have examined the issue show that dropping out can be more of an advantage than not having enrolled in university at all. Many dropouts are more likely than upper secondary school graduates with no university education to progress in their careers. And many graduate later in their life.

Sylke V. Schnepf (JRC, University of Southampton and IZA)
 IZA World of Labor 2015: 182
 ▶ <http://dx.doi.org/10.15185/izawol.182>

Collective bargaining in developing countries

Because theoretical arguments differ on the economic impact of collective bargaining agreements in developing countries, empirical studies are needed to provide greater clarity. Recent empirical studies for some Latin American countries have examined whether industry- or firm-level collective bargaining is more advantageous for productivity growth. Although differences in labor market institutions and in coverage of collective bargaining agreements limit the generalizability of the findings, studies suggest that work rules may raise productivity when negotiated at the firm level but may sometimes lower productivity when negotiated at the industry level.

Carlos Lamarche (University of Kentucky and IZA)
 IZA World of Labor 2015: 183
 ▶ <http://dx.doi.org/10.15185/izawol.183>

Active labor market policies and crime

Active labor market programs continue to receive high priority in wealthy countries despite the fact that the benefits appear small relative to the costs. This apparent discrepancy suggests that the programs may have a broader purpose than simply increasing employment—for instance, preventing anti-social behavior such as crime. Indeed, recent evidence shows that participation in active labor market programs reduces crime among unemployed young men. The existence of such effects could explain why it is the income-redistributing countries with greater income equality that spend the most on active labor market programs.

Torben Tranaes (SFI, Copenhagen and IZA)
 IZA World of Labor 2015: 185
 ▶ <http://dx.doi.org/10.15185/izawol.185>

Should severance pay be consistent for all workers?

The trend towards labor market flexibility in Europe has typically involved introducing legislation that makes it easier for firms to issue temporary contracts with low firing costs, while not changing the level of protection that is in place for permanent jobs. This has created a strong “dualism” in some European labor markets, which might affect turnover, wage setting, and human capital accumulation. In view of this, some economists propose replacing the existing system of temporary and permanent contracts by a single open-ended contract for new hires, with severance pay smoothly increasing with tenure on the job.

J. Ignacio García Pérez (Universidad Pablo de Olavide and IZA)
 IZA World of Labor 2015: 174
 ▶ <http://dx.doi.org/10.15185/izawol.174>

The decline in job-to-job flows

As part of a more general process of employment reallocation from less to more productive employers, job-to-job flows tend to be beneficial for productivity and for workers. Thus, when this rate slows, it is important to understand why. In the US, for example, the job-to-job flow rate is now at an all-time low. While job-to-job flows are a means of boosting wages and productivity, a decline could indicate improvements for workers if it means that they are now better matched to their jobs. Furthermore, when job-to-job flows are lower, firms and workers incur fewer costs related to job transitions, such as job search and hiring costs.

Henry R. Hyatt (US Census Bureau and IZA)
 IZA World of Labor 2015: 175
 ▶ <http://dx.doi.org/10.15185/izawol.175>

▶ wol.iza.org

From the IZA Newsroom

The long shadow of Stasi spying

Many countries monitor their citizens using secret surveillance systems. According to the Democracy Index 2012, published by the Economist Intelligence Unit, 37 percent of the world population lives in authoritarian states. In many of those countries, large-scale surveillance systems are installed that constantly monitor societal interactions and identify political opponents. Despite the prevalence of surveillance systems around the world, there is little empirical evidence on the social and economic costs of spying.

In a new IZA Discussion Paper, *Andreas Lichter, Max Löffler and Sebastian Sieglösch* aim to estimate the effect of state surveillance on social capital and economic outcomes by using official data on the regional number of spies in the former socialist German Democratic Republic (GDR). The official state security service of the GDR, the Ministry for State Security (*Ministerium für Staatssicherheit*), commonly referred to as the *Stasi*, administered a huge network of spies called “unofficial collaborators” (*Informelle Mitarbeiter, IM*). These spies were ordinary people, recruited to secretly collect information on any societal interaction in their daily life that could be of interest to the regime.

The authors use the substantial regional variation in the spy density across GDR counties (*Kreise*) to estimate the effect of surveillance on long-term outcomes of social capital and economic performance after the fall of the Iron Curtain and Germany’s reunification. The key challenge to isolate the causal effect of spying is to rule that the allocation of spies was driven by factors that also influenced social and economic outcomes after reunification.

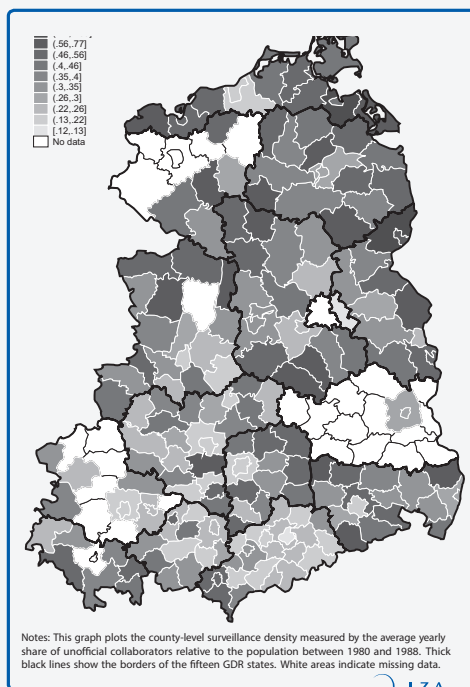
The researchers address this challenge in two ways. First, they compare counties at GDR state borders. These counties were similar in observable characteristics except for the intensity of spying, which was (partly) administered by the Stasi offices at the state level. Second, they collect measures of social capital and economic performance from the 1920s and 1930s, hence prior to the existence of the GDR. In the econometric panel analysis, they use these pre-treatment data to demonstrate

that the allocation of Stasi spies was not higher in regions that were traditionally more liberal, progressive or productive.

Trust in people and institutions is undermined

Overall, the authors find a negative and long-lasting effect of spying on both social capital and economic performance. Using data from the German Socio-Economic Panel (SOEP), they show that more government surveillance leads to lower trust in strangers and stronger negative reciprocity – two measures that have been used as proxies for interpersonal trust in the literature. Moreover, they demonstrate that institutional trust, as measured by electoral turnout, is significantly lower in higher-spying counties. The findings imply that an abolition of all spying activities would have led to an increase in electoral turnout of 1.8 percentage points.

Other research has documented that trust in strangers is particularly important for entrepreneurs, given that it is very difficult to successfully run a business if people do not trust clients, trading partners or stakeholders. In line with this mechanism, the IZA paper shows that self-employment rates as well as the number of patents per capita are significantly lower in higher-spying counties.



Economic slowdown and population decline

Last, the authors show that more general measures of economic performances are affected as well. Counties with a higher number of spies per capita experienced persistently higher unemployment rates post reunification. The authors further find significantly negative effects of the spy density on county population: Stasi spying appears to be an important driver of the tremendous population decline experienced in East Germany after reunification. For both out-migration waves (1989-1992, and 1998-2009), population losses were relatively stronger in higher-spying counties.

Overall, the paper documents that more intense state surveillance had negative and long-lasting effects on both social capital and economic performance. The findings are well in line with other studies on the relationship between the quality of political institutions, social capital and economic performance. While the study compares different East German counties to each other, it is likely that the findings are at least transferable to other countries of the former Warsaw pact that operated similar mass surveillance systems, such as Poland or the Czech Republic.

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► newsroom.iza.org

► <http://ftp.iza.org/dp9245.pdf>

What Happened to Standard Employment?

Many countries view “standard employment” as a permanent full-time job that pays a collectively agreed wage and is covered by social security. It is associated with disutility of labor incurred to secure a living. Consequently, the long-witnessed trend towards shorter working hours has been widely considered a social achievement. This was understandable at a time when physically demanding labor in construction, manufacturing and mining was predominant. Standard employment may even consist of precarious work. Many societies try to fight this notion, often in vain, by mandating a minimum wage that should enable everyone to earn their livelihood through work.

In Germany, the origins of the “standard employment contract” can be traced back to the economic boom of the 1960s. But the term *Normalarbeitsverhältnis* did not play a role until it entered the social policy debates of the 1980s and 1990s. Since then, the public perception has been that standard employment is increasingly crowded out – if not threatened in its very existence – by new forms of work. Part-time work, fixed-term contracts, temporary work and “mini-jobs” account for a growing share of total employment. Some refer to this as “atypical employment” while others call it “precarious work.” Over the past two decades, this supposedly atypical employment has risen by more than 70 percent. Some even falsely attribute this development to labor market reforms aimed at enhancing flexibility.

Despite doomsday warnings, two-thirds of the German workforce are still on “standard” contracts. This share has not become smaller during the past decade. On the contrary, it has recently started to pick up again. “Flexible” or “dynamic” employment, as it should rather be called, has risen in absolute but not in relative terms. This is also due to the fact that the robust German labor market has at the same time created many new standard jobs. And when you look at global trends,

almost half of the world’s population is self-employed while only a small fraction has a “standard” job. From this perspective, our standard (or rather “static”) form of work must be considered atypical.

With the decline of hard labor that actually involved disutility, other aspects of the working world are gaining more weight. After all, work is about much more than just earning a living. It creates social identity and self-fulfillment. This leads to a growing demand for more flexible working times and places. Many companies have long ago introduced flextime, working time credits or other forms of variable work schedules. Creating a better work-life balance has become a top priority for many couples and families. The demand for flexible and dynamic work therefore not only arises from employers’ need to adapt to market conditions, but also from the wants of modern employees. Therefore, generalizing these flexible jobs as “precarious” is completely off the mark.

The rise of the digital economy has the potential to dissolve the standard employment relationship from the inside out. It does away with the need to work fixed hours at a fixed workplace. There will be lots of new opportunities for self-determined freelancing or self-employment. At the same time, social interaction and integration in daily work routines will decrease, while stress and workload pressure (sometimes self-imposed) will grow. As a result, a new type of precarious work may evolve that is not just determined by pay. This is where the real challenge lies when it comes to shaping the future world of work.




Klaus F. Zimmermann



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