



## Refugees in Germany: The Challenge of Integration

After several years of relatively low refugee inflows to Germany, their numbers have now reached a record high: By end of the year, more than one million refugees will have entered the country.

The challenges and opportunities for Germany's economy and society are discussed by IZA experts *Holger Hinte*, *Ulf Rinne* and *Klaus F. Zimmermann* in a recent contribution to the IZA Standpunkte series, published in the *Wirtschaftsdienst* journal. The key positions are summarized below. For a more detailed account, see the German version of IZA Compact.

For much too long, European and German policymakers expected that the current influx of refugees would stop at the gates of Europe. With the number of refugees growing for years now, there have been a lot of early signs that especially Greece and Italy are overburdened. Still, policymakers failed to plan ahead for the absorption and integration of a larger number of refugees. This is one of the reasons why the "refugee crisis" has now caused a deep divide in the European Union. Intra-EU solidarity with a fair distribution of refugees among the member states is not yet in sight.

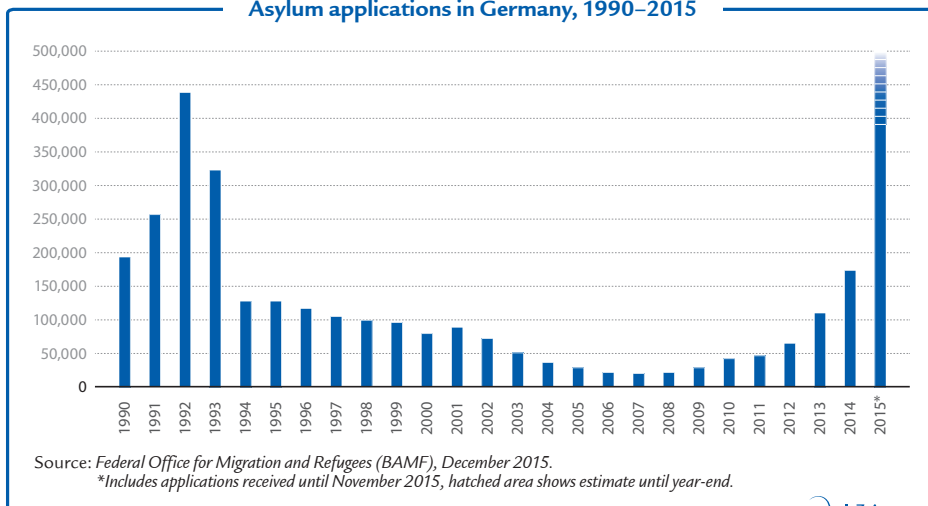
The Federal Office for Migration and Refugees (BAMF) is currently neither prepared nor equipped to handle the asylum procedure for a large part of the refugees who entered this fall. Since the early years of the Federal Republic of Germany, the so-called "Königstein key" has regulated the distribution of refugees to the states based on such criteria as tax revenues and population size. Thus, on a national level, Germany has a well-proven system for distribution that could serve as a blueprint for the EU level.

### Recognize the opportunities

Apart from the huge challenges, the refugee inflow also offers great opportunities: Germany is facing demographic changes that will lead to skills shortages in many sectors. While in the short run refugees will be able to fill this gap only in very few cases, there is a lot of potential in the medium to long run. Therefore, refugees should not be seen mainly as a "burden", but rather as an "investment in the future".

This investment will pay off in the long run because the refugees can alleviate the aging of the German working population. Many studies have shown that the balance

Asylum applications in Germany, 1990–2015



### >> In This Issue

#### REFORMS IN "BAD TIMES"

An IZA/OECD Employment Seminar brought together researchers and policy advisors from various institutions to discuss which labor market reforms are best suited to decrease unemployment. [page 2](#)

#### POLICY EVALUATION

This year's IZA Conference on Labor Market Policy Evaluation focused on the minimum wage, but also covered policy instruments like employment subsidies and job training. [page 3](#)

#### EMPLOYMENT PROTECTION

An IZA World of Labor and OECD seminar reviewed country experiences with employment protection reforms, concentrating on the political economy of the reform process. [page 5](#)

#### ENVIRONMENTAL POLICIES

Held in Berlin, an IZA workshop looked at the impact of climate, pollution and environmental regulation on human capital and other economic outcomes. [page 6](#)

#### CHINA RESEARCH

A series of activities in Beijing marked a decade of cooperation between IZA and the Center for Employment Research in China (CIER) at Renmin University. [page 7](#)

#### IZA PRIZE CONFERENCE

Honoring IZA Prize winner Jan Svejnar, a joint conference with CERGE-EI in Prague discussed transition research and new trends in labor economics and policy advice. [page 9](#)

#### ENTREPRENEURSHIP

The 6th IZA/Kauffman Foundation Workshop on Entrepreneurship Research held in Washington was followed by a policy panel focusing on developing countries. [page 10](#)

#### OPINION

IZA Director Klaus F. Zimmermann explains why global scientific policy advice is needed. [page 16](#)

of migrants' benefit receipt and tax payments is positive over the long term.

### Refugees and the labor market

Although it would be an illusion to assume that the current refugee influx alone could resolve the skilled labor shortage, Germany should put more effort into identifying skilled professionals within the group of refugees immediately upon arrival. Finding people whose qualifications and previous experience match German labor market needs requires systematic profiling.

The cost of processing hopeless asylum applications must be reduced to speed up the profiling of promising applications. A fast-track procedure should be put in place with the goal to provide language courses, reduce labor market access restrictions, and provide first employment and internship experiences.

German companies could also engage more actively in the integration of refugees. Their potential contributions range from training or job offers for young refugees to co-financing language courses or internships. In turn, companies must be relieved from unnecessary bureaucratic red tape when they provide employment and training opportunities.

There is vast scientific evidence that migrants do not displace natives in the job market. Numerous empirical studies have shown that there are no negative short-term effects, and the medium to long-term impact of immigration on native labor market outcomes is positive.

It is much more likely that the massive influx of immigrants will tighten the housing market, which is why the German government should strengthen its efforts to support the construction of low-cost housing.

### Immigration law urgently needed

In view of the current refugee situation, a German immigration law with a transparent points system for the selection of skilled immigrants is more necessary than ever. A new immigration concept should include the option to switch from refugee status to a regular immigration procedure. Refugees with proven skills, who are unlikely to qualify for asylum, should not be rejected. They would have a chance to qualify for regular immigration under a quota. This possibility of legal immigration could prevent potential refugees from entering the uncertain path of asylum application. Although all this will take time, the potential of refugees should be utilized and not ignored.

*Read more about this and other IZA contributions concerning the refugee crisis (mostly in German):*

▶ [www.iza.org/link/refugeecrisis](http://www.iza.org/link/refugeecrisis)

## Labor Market Reforms in "Bad Times"

### IZA/OECD Employment Seminar in Paris

High unemployment still causes an immense challenge for many European countries. But what are appropriate labor market reforms that help countries to decrease unemployment? The IZA/OECD Employment Seminar addressed this important question by bringing together researchers and policy advisors from various institutions. The conference organized by *Werner Eichhorst* (IZA) and *Mark Keese* (OECD) took place in Paris on October 5-6, 2015.

Preliminary findings start from the fact that despite some recovery from the crisis in terms of GDP growth, unemployment

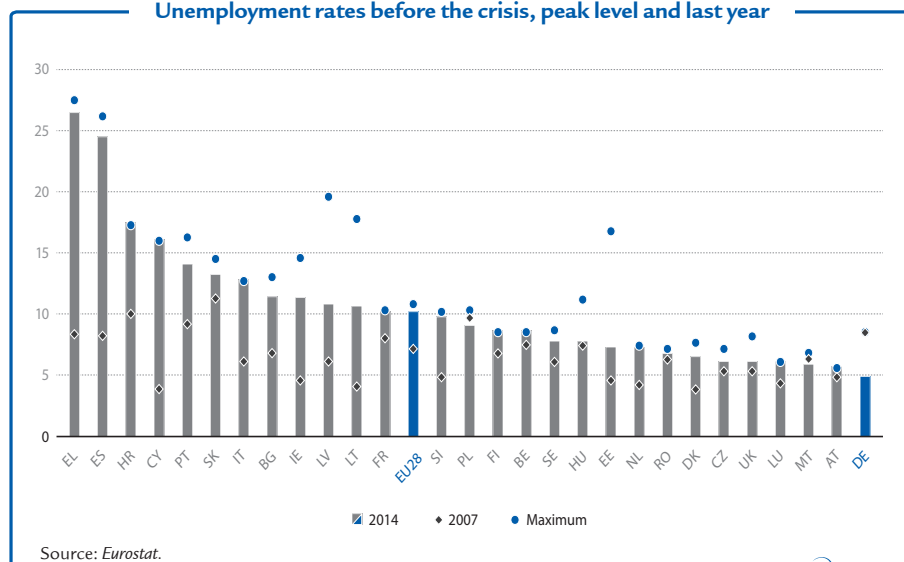
is still at high levels in many EU member states, affecting in particular young people and resulting in an increasing number of long-term unemployed persons. However, massive differences across countries point to the crucial role of public policies and institutional patterns governing the labor market. Differences in labor market responses to the crisis can best be explained by the interaction between the shock of the crisis and the institutions in place. Therefore, policy makers have highlighted the labor market as one policy area to be reformed.

As shown at the conference, one can derive conclusions regarding the design, the

timing and both short-run and medium-term effects of reforms both from the recent crisis (*Ronald Bachmann*, RWI and IZA) but also from historical comparison (*Andrea Bassanini*, OECD and IZA). Taking a broader perspective on the labor market record of OECD countries during and after the 2008/09 recession, one can certainly see an increase in reform activity under adverse conditions, pointing to the crucial roles played by the economic conditions, politico-economic constellations but also established institutional arrangements. Data from the LABREF database presented by *Aron Kiss* (European Commission) shows that the character of reforms has evolved over the last years, showing a sequential pattern. After an initial expansion to cushion the immediate effects of the crisis, we have seen more restrictive, but also deregulatory reforms followed by the most recent phase characterized by policy efficiency issues. However, all phases show more or less multidimensional policy bundles and never go only in one direction.

Labor market reforms have challenged long established institutional arrangements and mark a departure from the status quo. Hence, it is fair to say that the crisis has been a window of opportunity for institutional change, overcoming long-standing patterns to some extent and going beyond just marginal adjustments. Policy makers have started to rearrange institutions and incentives to use certain channels of flexi-

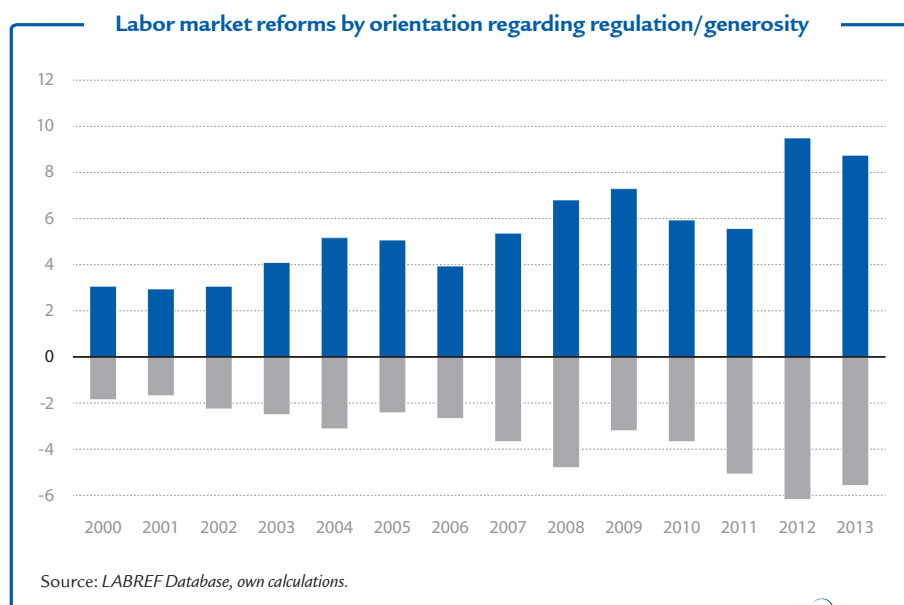
Unemployment rates before the crisis, peak level and last year



bility or adjustment on the respective labor markets.

What types of reforms have been discussed over the recent past? Important points on the agenda have been the generosity of unemployment benefits (UB) and active labor market policies (ALMP), employment protections legislation (EPL) and wage setting agreements including collective bargaining, wage flexibility and minimum wages. These labor market policies experienced fundamental reforms within the last years. However, huge differences between EU countries still exist. *Ioana E. Marinescu* (Harris School, University of Chicago and IZA), *Michael Stops* (IAB) and *David Thompson* (Department for Work and Pensions, UK) provided evidence with regard to UB and ALMP for the US, Germany and the UK. *Mario Izquierdo* and *Marta Martinez-Matute* (Bank of Spain) gave insights into EPL in Spain, while *Gerard A. Pfann* (Maastricht University and IZA) addressed the important topic for the Netherlands. Finally, *Rebecca Riley* (National Institute of Economic and Social Research) targeted the role of the minimum wage for firm productivity in the UK, while *Eric Sommer* (IZA) provided new international evidence with regard to wages and the tax-benefit system.

Labor market reforms can have heterogeneous short- and long-run effects. In general, these effects are identifiable, but not always as strong or clear as expected. The evidence presented shows that changes in UB generosity affect job search behavior directly as does the provision of better ALMP services. To some extent, changes in EPL for permanent contracts do have a short-term impact on the structure of hiring, but a massive effect is not easily found under



adverse economic conditions. Labor market reforms, however, have also facilitated wage moderation and more internal flexibility, thereby partially stabilizing jobs to the extent that these channels of adjustment have been encouraged. The current picture is not unambiguous regarding the creation of a better and more efficient labor market setup. Job creation and job quality remain basically unsolved issues, and the distributional consequences of recent developments and reforms have been characterized by unequal impacts on different social groups.

What are the future implications of the results? Also in times of fiscal deficit reduction, social investments should not be neglected, since education and training build the foundation for future economic growth and the inclusion into employment. In this context, the resurgence of the “flexicurity” model might be a means for the

conciliation of flexibility and security. Some scholars have argued that establishing “beneficial constraints” on market forces rather than ever more flexibility can be seen as a way to achieve better outcomes both for the individual and the economy as a whole.

However, there is agreement that labor market reforms cannot do the job alone. Macroeconomic conditions as well as other economic and social policies are just as crucial for labor markets and the effects of labor market policies since they highly incentivize labor demand and supply. Therefore, proper sequencing, timing and packaging of labor policies depending on other influential factors is important to establish a pathway that is sustainable and feasible economically but also in politico-economic terms.

► [www.iza.org/link/IZA-OECD2015](http://www.iza.org/link/IZA-OECD2015)

## Analyzing the Impact of Minimum Wages and Other Policies

### 11th IZA Conference on Labor Market Policy Evaluation in Bonn

The 11<sup>th</sup> IZA Conference on Labor Market Policy Evaluation, organized by *Gerard J. van den Berg* (University of Mannheim and IZA), *Marco Caliendo* (University of Potsdam and IZA) and *Steffen Künn* (Maastricht University and IZA), was held in Bonn on October 8-9, 2015.

This annual conference brought together 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 in the field of policy evaluation, particularly concerning minimum wages, employment subsidies, job training, and other active labor market

policies such as counselling and employment services.

In light of the introduction of the minimum wage law in Germany as of January 2015, the evaluation of the effects of minimum wages has been attracting special attention from both economists and policy makers. A growing consensus in the economics literature has formed that minimum wage laws have little effect on employment levels, even though they raise hourly wage rates. However, previous empirical research has not conclusively established whether the minimum wage affects the rate of wage growth later in a worker’s career.

*Kerry L. Papps* (University of Bath and IZA) contributed to this debate by examining the variation in the long-run effects of the minimum wage on wage growth according to the nature of wage bargaining. His results based on the UK data indicated that workers who were affected by the minimum wage before age 22 had significantly lower wage growth later in life than others, but only if they worked on jobs that were not covered by a collective labor agreement.

Related papers evaluated the effects of the minimum wage in the US labor market: *Hyejin Ku* (University College London)



studied possible incentive effects of the minimum wage on low-income workers, using personnel records of a firm based in Florida who hires a large number of piece-rate workers harvesting field tomatoes. She found that a minimum wage hike in January 2009 led to a relative increase in the productivity of workers at the bottom end of the productivity distribution. The analysis by *Peter Brummund* (University of Alabama) showed that the negative impact

employment and hence leave the program earlier than actually intended. On the other hand, participants sometimes just give up due to decreasing motivation over time. As a consequence, the program will not evolve its complete impact. An upcoming topic in the literature might be to explore the underlying reasons for dropouts and investigate the costs and benefits of incentive schemes to keep individuals in the program until the official end.

Studies using innovative methods for policy evaluation were of particular interest of this year's conference. Accordingly, two sessions were devoted to field experiments, and there was a separate session for the methodological improvements in the field of treatment evaluation. The papers using experiments mainly focused on the effectiveness of job search channels particularly among disadvantaged groups such as the youth or migrants.



of the minimum wage was greater in counties with low price levels.

In his keynote, *Bruno Crépon* (CREST and IZA) talked on Active Labor Market Policy in general, addressing empirical findings from the past and outlining the challenges ahead. He started with a summary of existing evidence on different programs for the unemployed such as human capital enhancing or matching programs. He concluded that we now have an extensive knowledge about program effectiveness, although only little is known about effect heterogeneity as well as cost-effectiveness. However, both aspects are crucial for policymakers in order to design programs and the assignment process more effectively. This could be done in two ways: (i) assigning individuals to programs for which the programs have been shown to generate the largest effects (targeting), or (ii) designing programs in such a way that only those individuals with the highest expected returns self-select into the program (self-targeting).

As a last aspect, Crépon drew the audience's attention towards the problem of program dropouts, which is (so far) an underresearched field. Program dropout might have positive and negative aspects. On the one hand, participants might find

Following up on the topic of active labor market policies, *Bart Cockx* (Ghent University and IZA) exploited Belgian data to evaluate the effectiveness of contracting out mandatory publicly provided counselling and training for long-term unemployed to private for-profit and non-profit organizations. Based on a multivariate transition model, the intervention was found highly effective in reducing unemployment duration, but also spurred employment instability and withdrawals from the labor force.

Another study providing evidence on job training programs was presented by *Jeffrey A. Smith* (University of Michigan and IZA). The study considered the effects of the job training provided under the US Workforce Investment Act to adults and dislocated workers in two states. The substantive contribution centered on impacts estimated non-experimentally using administrative data. The estimation results suggested moderate positive impacts on employment, earnings and desirable firm characteristics for adults, but not for dislocated workers. The study also had a substantial methodological contribution consisting of assessing the value of the additional conditioning information provided by the Longitudinal Employer Household Dynamics relative to the data available in state Unemployment Insurance earnings records. The value was found to be zero.

*Arne Uhendorff* (CREST and IZA) analyzed the impact of the search clubs on job search outcomes of young unemployed workers living in deprived neighborhoods in France. The results suggested a small positive effect of being assigned to a search club on the probability of being employed six months after randomization and a positive impact on the probability of entering a long-term contract.

*Florian Zimmermann* (University of Zurich and IZA), on the other hand, investigated how information provision affects job seekers' employment prospects and labor market outcomes in Germany. Individuals assigned to the treatment group of the experiment received a brochure that informed them about job search strategies and the consequences of unemployment. The causal impact of the brochure was moderately positive but mostly insignificant in the overall sample, whereas it was pronounced and statistically significant for individuals who exhibit an increased risk of long-term unemployment.

Find these and other presented papers online:

► [www.iza.org/link/Eval2015](http://www.iza.org/link/Eval2015)

# Protecting Workers or Protecting Jobs?

## IZA World of Labor/OECD Seminar on Employment Protection Reforms

Over the past few years, a number of European countries have undertaken in-depth reforms of their employment protection legislation. While the timing and characteristics of these reforms vary, they generally share the common objective to reduce the gap in employment protection across contract types, clarify the conditions for termination of a contract for economic reasons, and reduce dismissal costs.

Reaping the full benefits of these reforms will take time. In most cases, they will materialize gradually through hiring, firm entry and productivity growth. At the same time, they may generate short-term costs in terms of job losses as firms adapt their workforce in a still uncertain economic environment. Although the balance between these potential effects is an important empirical issue, evidence on the short-run consequences of structural reforms remains scarce. Moreover, the fact that certain structural reforms might entail short-run costs raises the question whether they should be implemented during a recession – or postponed to better times.

### Timing is crucial

The timing of reforms also raises political economy considerations as to whether it becomes easier or harder to carry out a reform depending on the state of the economy. Yet, there is even less empirical evidence on the interaction of these reforms with the business cycle.

To address these issues, the second edition of the joint IZA World of Labor and OECD seminar brought together leaders from academia, the OECD and policymaking to review country experiences and evidence on implementing employment protection reforms, with a specific focus on the political economy of the reform process. The central points addressed by the panelists were (i) the critical elements in designing the reforms and (ii) the challenges of implementing the reforms – also including aspects of communication, complementary policy measures, as well as compensation mechanisms for negative short-run effects.

*Stefano Scarpetta*, OECD Director for Employment, Labour and Social Affairs and IZA Program Director, moderated the discussion and introduced the topic by highlighting the fact that for the first time in a long time several countries undertook

bold reforms either focusing on few areas like the regulation of regular contracts or combined them with reforms in other areas (e.g. collective bargaining as in Spain 2013) and these reforms have led to significant effects.

*Pedro S. Martins* (Queen Mary University of London and IZA) presented the reforms in Portugal, which improved policies in both the equity and efficiency dimensions. He highlighted the fact that the government had just been confirmed. In terms of design and implementation of reform policies, Martins stressed the need for continuous creation and dissemination of evidence of the reform impact to guide policymakers and inform the public. With regard to reforming employment legislation, he proposed that economists should interact with lawyers as well as the administration of public employment services.

### Holistic view

Ambassador *Claudia Serrano Madrid*, former Minister of Labor and Social Security and Permanent Representative of Chile to the OECD, explicitly supported this call for consultation and interaction. She reviewed the various reforms implemented by Chile and the lessons learned. Above all, one needs to take into account the time needed to design and implement the reform. Reforms should take a holistic, comprehensive view on the policy framework and explicitly consider complementarities among various policies as well as explicitly take territorial differences into account. Apart from the importance of informing and training the implementers, the central challenge lies in communicating with the public and informing the future beneficiaries of the reforms. In this context, communication via mass media can play a crucial role in forming public opinion. In the interest of evidence-based policy making, continuous monitoring and evaluation of policies is essential.

Stefano Scarpetta highlighted two additional lessons learned from Portugal and Chile in the political economy of employment reforms: the need for a strong political mandate and for involving the social partners in supporting the reforms.

*Daniel Navia Simón* (Economic Office of the President of the Government of Spain) outlined the substantial reform package implemented in Spain to close the gap between permanent and temporary con-

tracts by lowering protection of the former while increasing it for the latter. He also stressed the need for a comprehensive policy approach, which in the case of Spain also encompassed other legislation relevant for worker protection as bankruptcy regulations. In line with the previous panelists, Navia emphasized the importance of presenting the evidence on the impacts of the reforms to the voters. Furthermore, he pointed out the lack of political pressures to implement reforms in good times, and a lack of fiscal leeway for short-run compensatory and redistributive policies in bad times. He proposed that this should be considered when agreeing on fiscal issues at the EU level.

### Communication matters

*Alexander Kritikos* (DIW Berlin, University of Potsdam, Managing Editor of IZA World of Labor) highlighted three crucial elements of the so-called Hartz reforms in Germany with respect to reducing unemployment protection: the involvement of the social partners, an institutionalized evaluation process of each reform step so that only successful policies were kept, and communication with media only once agreements have been made. In addition, he stressed the role that IZA World of Labor can play in providing the evidence of the profession on specific policies to guide evidence-based policy making.

Stefano Scarpetta summarized the importance of the “narrative,” clearly stating why reforms are needed, how they contribute to worker protection, and that it is not a “beauty contest,” but the ultimate aim, also of evaluating reform policies, is to increase worker well-being.

In the open floor discussion, Ambassador *Gabriele Checchia*, permanent representative of Italy to the OECD, confirmed the significant role of the narrative and emphasized the crucial role the OECD can play in this respect. Pedro Martins and Alexander Kritikos underlined the point by *Roland Schneider* (Trade Union Advisory Committee at the OECD) that any reform is country- and time-specific and not one-size-fits-all. Evidence as presented in IZA World of Labor supports policymakers in identifying the most suitable policy option and adapting it to the relevant context.

View the program online at:

▶ [www.iza.org/link/WoL-OECD-2](http://www.iza.org/link/WoL-OECD-2)

## IZA@DC Young Scholar Program

For the fourth year in a row, the IZA@DC Young Scholar Program took place in Washington, DC at the Georgetown University Campus and the Intercultural Center. *Amelie F. Constant* (IZA Program Director for Migration) and *Frank Vella* (Georgetown University and IZA) co-organized the training week that started September 27. This year, a group of ten graduate students from different parts of the world were selected to participate in the program. The students presented their paper in an hourly format, allowing time for Q&A.

Amelie Constant and IZA fellows *John Earle*, *Lindsay Lowell*, and *Mary Ann Bronson* chaired the sessions of the student presentations. The students also attended daily lectures by renowned speakers on different topics, and had the opportunity to talk with these professors for an hour each day. Guest lecturers included *Luigi Pistaferri* (Stanford University and IZA), *Peter Arcidiacono* (Duke University and IZA), *Kenneth Wolpin* (University of Pennsylvania), *Francine Blau* (Cornell University;



2010 IZA Prize winner) and *Alexandre Mas* (Princeton University; 2009 IZA Young Labor Economist Award winner).

In her mentoring speech, Amelie Constant advised the students about professional development, guided them and prepared

them for the week. The students had many choices to meet and confer with more than 80 IZA fellows and affiliates in DC during the week, to network, increase their social capital and make their research known. They also had a chance to mingle with GU students and learn about graduate school in the US.

## Labor Market Effects of Environmental Policies

### IZA Workshop in Berlin

This year's workshop of IZA's "Environment and Employment" research program took place in Berlin at the end of August. After welcome addresses by Program Director *Olivier Deschenes* (UC Santa Barbara), and *Alexander Spemann*, Director of Labor Policy Germany at IZA, the first session started with research on temperature, human capital and income.

#### The heat is on

*Joshua Wilde* (University of South Florida) presented a study on the effects of heat waves during the time of conception on later life outcomes. Using census and survey data from sub-Saharan Africa, he showed that individuals conceived during heat waves have higher educational attainment and lower child mortality, which is attributable to fetal and parental selection.

*Tatjana Deryugina* (University of Illinois at Urbana-Champaign) presented the results of her study on the effects of daily temperature on annual incomes in U.S. counties. Relying on county-level income data over a period of forty years, she demonstrated that productivity of single days significantly declines with increases in the temperature; a regular weekday above 30 degrees Celsius induces costs of 20\$ per person for an average county.

*Maya Rossin-Slater* (UC Santa Barbara) complemented the previous two presentations by providing evidence on the long-term effects of extreme temperatures in early periods of child development on adults' outcomes thirty years later. Using administrative earnings records from more than twelve million US citizens, exact information on individuals' year and place of birth as well as historical weather data, Maya showed that an extra day with mean temperatures above 32 degrees Celsius in utero and within the first year of life leads to a 0.2 percent reduction in average earnings at the ages of 29 to 31.

#### Red tape and green skills

The following presentation by *Gautam Gowrisankaran* (University of Arizona) shifted the workshop's focus towards the analysis of potential consequences arising from environmental regulation. The paper showed that government inspections in response to fatalities at a coal mine considerably decreased the number of accidents at uninvolved coal mines, leading to savings of up to \$2 per hour in accident loss, while average productivity fell by seven percent.

*Francesco Vona* (OFCE Sciences Po) proposed a data-driven methodology to identify "green skills" and to assess the demand for these skills in response to environmental

regulation. He showed that "green skills" correspond to high-level analytical and technical know-how and that environmental regulation may trigger demand for these skills by inducing technological and organizational change.

The presentation was followed by *Jens Horbach* (Hochschule Augsburg) and *Alexander Spemann*, who showed the key insights from a joint study of the Ellen MacArthur Foundation, SUN and the McKinsey Center for Business and Environment on the assessment of a Circular Economy concept. They demonstrated the potential efficiency gains to be realized in European economies' resource usage and discussed the sustainability of the concept.

*Katrin Sommerfeld* (ZEW Mannheim) presented her analysis of employment effects due to environmental regulation. Using administrative firm-level data from Germany, she showed that overstaffed firms responded to the introduction of an electricity tax by reducing employment, whereas other firms did not change employment in response to the reform.

*Mark Curtis* (Wake Forest University) reported the findings of his study on the employment effects of the 2004 expansion of air quality standard in the US, which issued regulatory costs and a variety



of limitations for polluting plants. Using non-parametric differences-in-differences, he showed that the reform, however, significantly increased employment, his results being at odds with the related literature.

*Ann Ferris* (U.S. Environmental Protection Agency) discussed the need to incorporate potential welfare effects of policy-induced labor market changes in applied benefit-cost analysis of environmental policies and suggested potentially viable strategies.

### Something's in the air

Opening the second day of the workshop, *Reed Walker* (UC Berkeley and IZA) presented the results of his analysis on the potential determinants of the significant drop in US manufacturing's emission of air pollutants over the last two decades. Using a quantitative model, detailed administrative data and statistical decomposition methods, he showed that the fall of the emission level can be attributed to more efficient production technologies, the substantial increase in the implicit pollution tax as well as environmental regulation policies.

*Edson R. Severnini* (Carnegie Mellon University and IZA) talked about his research on the effects of air pollution on children's health. He showed that the US authority's shutdown of nuclear power plants in the 1980s in response to the Three Mile Island nuclear accident increased electricity generation by coal power plants and thereby induced higher levels of ambient air pollution. This change in electricity generation in

turn worsened the health of children born after the nuclear shutdown, with negative effects being most pronounced for children in proximity to coal power plants.

The presentation by *Dave E. Marcotte* (American University and IZA) broadened the knowledge about potential harmful pollut-



ants by focusing on the effects of ambient pollen on student's achievements. Using data on academic performance for children aged five to eight, he offered evidence that high levels of ambient pollen significantly limit the achievements of children, even more than manmade pollutants such as ozone or particulate matter.

Following up on this topic, *Haoming Liu* (University of Singapore and IZA) started a short series of presentations on the effects of air pollution on workers' productivity. Using day-to-day fluctuations in the productivity of Chinese manufacturing workers and variation in the level of particulate matter, he showed that high levels of air pollution substantially reduce worker's productivity. *Tom Chang* (USC Marshall)

used data on call center employees from one company with various branches across China, demonstrating that high levels of air pollution can even affect the productivity of indoor white-collar workers. However, negative effects of ambient air pollution do not materialize in every set-up, as *Ron Shadbegian* (National University of Singapore)

reported. Using detailed data on the productivity of supermarket cashiers in the US, he found no evidence of negative productivity effects arising from rather moderate levels of pollution.

*Annabelle Krause* (IZA) gave the last presentation of the workshop, presenting evidence on the effects of contaminated drinking water on mental health. Using household survey data from Bangladesh, she showed that the arsenic level in the respondents' drinking water is negatively related to their mental health.

Most of the presented papers are downloadable from the IZA website:

► [www.iza.org/link/envir2015](http://www.iza.org/link/envir2015)

## Long-Standing Collaboration in China Research

### IZA/CIER Workshop in Beijing

A full decade of cooperation between IZA and the Center for Employment Research in China (CIER) at Renmin University of China was marked this year by a series of activities which took place in Beijing in the early fall.

The 7<sup>th</sup> edition of the traditional IZA/CIER annual workshop took place at the Renmin University Campus on October 16 and 17, co-organized by *Corrado Giuliatti* (IZA), *Klaus F. Zimmermann* (IZA and University of Bonn), *Zhong Zhao* (Renmin University of China and IZA) and *Xiangquan Zeng* (Renmin University of China and IZA). It featured topics which are central to the policy debate in China, ranging from labor market discrimination to migration and well-being.

*Margaret Maurer-Fazio* (Bates College and IZA) presented the results from her audit study

based on internet job boards, conducted in Chengdu and Shanghai. She showed that



callback rates for job interviews do not differ substantially between women who have or have not been unemployed, or who are married or unmarried. However, there are differences in response rates depending on location, firm size and firm ownership.

*Sylvie Demurger* (GATE and IZA) presented a recent paper based on the RUMiC dataset, in which she explores how remittances are spent by individuals left-behind in rural villages. Her results show that remittances increase per capita consumption, especially for less poor households.

Quite topical and timely with the relaxation of the one-child policy in China, *Fei Wang* (Renmin University of China) reported the results from studying the effects of the “two-child” policy in a county that was selected to allow more than one child during the 1980s. The analysis shows that the policy did not have significant effect in the short run, but that it would yield a substantial increase in births in the long run.

*Wang-Sheng Lee* (Deakin University and IZA) studied the well-being of individuals who

marry others with different household registration status (hukou). The paper analyzes the consequences of a policy change where restrictions in the marriage between individuals with rural and urban hukou were relaxed. The results show that overall more “interhukou” marriages following the reform lead to an increase in the well-being of couples since it improves the assortative mating of individuals.

Several other topics, such as the formation and the role of social networks, the efficacy of the recently implemented universal pension program and the effect of housing on labor supply were presented.

Download the papers here:

► [www.iza.org/link/CIER2015](http://www.iza.org/link/CIER2015)

#### Employment Forum

On October 18, Klaus F. Zimmermann participated in the Quarterly Forum on Employment organized by the School of Labor and Human Resources at Renmin University. The forum, chaired by the

School’s Dean *Wieguo Yang* (Renmin University and IZA), saw the participation of representatives from various ministries of the Chinese government, the statistical office and academic fellows from several Chinese universities.

The central topic was the presentation of the recent employment figures for China, followed by a debate about the potential policy interventions to boost employment rates. Zimmermann outlined the experience of the German labor markets, emphasizing the success of the labor reforms that took place in the previous decade, as well as the need of rigorous policy evaluation to inform policy makers.

Zimmermann also took this opportunity to meet with *Zhang Jianming*, Executive Vice Chairman of the University Council at Renmin University. They discussed the successful collaboration between IZA and Renmin University and agreed on the importance of the partnership to further promote the research agenda on Chinese labor markets.

## European Summer Symposium in Labour Economics



Organized by IZA and the London-based Centre for Economic Policy Research (CEPR), the 15th European Summer Symposium in Labour Economics (ESSLE) took place from September 3-6 in Buch/Ammersee, Germany. *Corrado Giuliotti* (IZA) and *Josef Zweimüller* (University of Zurich and IZA) put together a program covering a wide variety of labor economics topics.

*Beata Javorcik* (University of Oxford) presented the results of her recent work investigating how globalization affects inequality, and in particular the gender wage gap within exporting firms. While she finds evidence that women are more underpaid in exporting than in other firms, she also shows that most of this gap is

explained by firm heterogeneity. In other words, after controlling for differences in the characteristics of firms, the gender wage gap in exporting firms is actually lower than in other firms.

Using recent data from Spain, *Juan F. Jimeno* (Bank of Spain and IZA) explored how the change in employment protection legislation changed the labor court rulings concerning economic dismissal. With the reforms of 2010 and 2012 broadening the definition of economic dismissals, one would expect a substantially higher number of such dismissals ruled as fair. On the contrary, evidence from the data suggests that this was not the case.

Using administrative Austrian data, *Andrea Weber* (University of Mannheim and IZA) provided new evidence into the consequences of unemployment insurance on wages. Unemployment benefits are found to induce individuals to search for high-wage jobs, but at the same time they reduce re-employment wages because they increase unemployment duration.

*Robert Shimer* (University of Chicago and IZA) outlined a dynamic model of transition between employment and non-employment where the key feature is the possibility of decomposing the sources of non-employment duration dependence in the part attributable to heterogeneity across workers and the part related to



structural duration dependence for each worker.

By developing a theoretical model tested with data from Germany and the UK, *Barbara Petrongolo* (Queen Mary, University of London and IZA) delved into the puzzle of wage rigidity over the business cycle. One of the main conclusions of the paper is that search behavior of the unemployed – through reservation wages – has implications for wage cyclicality.

Using employer-employee data, *Patrick Bennett* (Copenhagen Business School) provided evidence of how worker displacement leads to an increase of crime in Denmark. By focusing on job losses induced by displacement, the analysis shows that individuals who lose their jobs are more likely to commit crime than non-displaced workers.

Using a panel of industries in 17 countries from 1993-2007, *Georg Graetz* (Uppsala University and IZA) documented the economic impact of industrial robots, finding that industrial robots increased both labor productivity and value added. Furthermore, robots increased wages and total factor productivity but reduced the working hours of both low-skilled and middle-skilled workers.

Exploiting a universal free-choice reform causing a fall in math-science skills, *Juanna Schräter Joensen* (University of Chicago and

IZA) explored how skills are shaped by social interactions in schools and families. Results from the analysis suggest that younger siblings are more likely to choose math-science if their older sibling could choose math-science at a lower cost. Such effects are strongest among closely spaced siblings, in particular brothers.

*Andreas Steinmayr* (University of Munich and IZA) presented the results from a recent study investigating how being exposed to a field of study influences students' major choices. Based on data from a natural experiment at a Swiss university, the analysis shows that students who are assigned a research term paper in economics are more likely to major in economics.

The paper by *Semih Tumen* (Central Bank of Turkey and IZA) analyzes the impact of the substantial influx of Syrian refugees in Turkey on natives' labor market outcomes. The paper finds that while no effect on natives' wages was recorded, employment is found to be adversely affected. Further analysis shows that employment are particularly large in the informal sector.

*Dietmar Harhoff* (University of Munich) investigated the role of social ties in the migration decision. The paper focuses on the mobility towards West Germany after the fall of the iron curtain. Using a unique database on patents from both East and

West Germany, the analysis shows that social ties are important for the migration decision of inventors on average, but not for the very productive ones.

*Giuseppe Bertola* (EDHEC Business School) explored the determinants and consequences of school choices in France. Exploiting the combination of several unique data sources, the analysis shows that public education is more suitable for students who are talented and from a culturally privileged family background, while private schooling are chosen by less able students from richer families.

Exploiting unique data on tax declarations in Italy, *Maia Güell* (University of Edinburgh and IZA) documented the extent of intergenerational mobility across provinces, showing its relationship with economic outcomes and income inequality. More intergenerational mobility is associated with good economic outcomes (such as higher employment and schooling) while less mobility is associated with higher economic inequality.

These and other studies presented during the three-day symposium, which marks a long-standing collaboration on labor research between IZA and CEPR, are available from the conference website:

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

## New Trends in Labor Economics and Policy Advice

### IZA Prize Conference Hosted by CERGE-EI in Prague

To celebrate the work of 2015 IZA Prize laureate *Jan Svejnar* (Columbia University), IZA organized a joint conference with CERGE-EI on “Labor Economics and its Public Policy Impact on Economic Growth” in Prague on November 21, which attracted a distinguished audience of over 100 academics and policymakers.

During the first part, an academic session chaired by *Corrado Giuliatti* (IZA), Nobel laureate

*Christopher Sims* (Princeton University) presented some puzzling figures about the cyclicality of labor productivity, showing that output per worker in the wake of the recent economic crisis increased in the U.S. and Spain, but decreased in many other developed countries. He suggested that the cyclicality of labor productivity might become a central topic for macroeconomists in the years to come.

*Henry S. Farber* (Princeton University and IZA) demonstrated that taxi drivers in New York City respond positively to unanticipated increases in earnings opportunities, which goes against previous research showing that taxi drivers work less when the wage is unexpectedly higher. *Stefan Jurajda* (CERGE-EI and IZA) documented a large wage database of McDonald's workers around the world. Comprising data for the period 2000-2015, this database allows the



comparison of how real wages of workers who supply comparable skill inputs have evolved across countries over time.

*Alan B. Krueger* (Princeton University and IZA) presented recent figures on the “uberization” of the U.S. labor market, showing that the size of the “offline” gig economy is much larger than the online activities of Uber et al. Analyzing the working arrangements of individuals involved in these activities is fundamental for the understanding of potential downward pressures on labor standards and for the design of proposals to extend the social compact between workers and companies in the sharing economy.

The academic session concluded with *Gerard Roland* (University of California, Berkeley)

giving a condensed review about 25 years of research in the economics of transition. His presentation showed how the topics in the area evolved over the years, highlighting the important contributions made by Jan Svejnar and other academic experts in the area of transition economics.

The policy panel, chaired by Jan Svejnar, was dedicated to experiences and practices in evidence-based policy advice. Representing the “demand” side, Czech Labor Minister *Michaela Marksová* highlighted the challenges of labor market policy making and politicians’ need for scientific advice. IZA Director *Klaus F. Zimmermann* presented the IZA World of Labor platform as an effective instrument for the wider dissemination of scientifically founded policy advice.

IZA Program Director *Stefano Scarpetta* shared insights from the OECD while *Daniel Münich* introduced IDEA, an academic and policy think tank recently established within CERGE-EI, as a platform to bring research results closer to policy makers. IZA Program Director *Hartmut Lehmann* (University of Bologna) highlighted the importance of strengthening data collection initiatives based on his experience of leading transition research within IZA.

View the program online:

▶ [www.iza.org/link/prizeconf2015](http://www.iza.org/link/prizeconf2015)

## 6th IZA/Kauffman Foundation Workshop on Entrepreneurship Research Policy Panel on Entrepreneurship in Developing Economies

The 6<sup>th</sup> IZA Workshop on Entrepreneurship Research jointly organized with the Kauffman Foundation was held on September 16 and 17 in Washington D.C., hosted by Georgetown University. The two-day workshop provided leading economists within the field of entrepreneurship research the opportunity to present and discuss their work with other experts. This year’s workshop focused on entrepreneurship in developed and developing economies and was followed by a policy panel on “entrepreneurship in developing economies”.

After a short welcome address by the organizers *Marco Caliendo* (University of Potsdam and IZA), *Alexander S. Kritikos* (DIW Berlin, University of Potsdam and IZA) and *E.J. Reedy* (Kauffmann Foundation), the first session started with two presentations analyzing why some entrepreneurs create jobs and others don’t. *Robert W. Fairlie* (UC Santa Cruz and IZA) showed that most non-employer startups hire their first employee in the first three years of existence; after that period only a few additional firms make the switch to employer. His study further reveals that neither the education level of the owner nor the revenue levels of young firms are found to be associated with the probability of hiring an employee. In contrast to this, there is first evidence that entrepreneurship training might increase the likelihood that solo-entrepreneurs hire their first employee, while business assets and intellectual property are also associated with hiring the first employee.

The second presentation on this issue by *Tom Astebro* (HEC Paris) uses Swedish data

and shows that on an individual level newly incorporated entrepreneurs create 50 percent more jobs than sole proprietors. *Astebro* suggests that this observation can be partly derived from the fact that high-ability individuals are more likely to form incorporated ventures. The first session was concluded by *Nicholas Papageorge* (Johns Hopkins University). In his analysis, he turns to another puzzle of entrepreneurial decision making, i.e. that many individuals are self-employed even though they would earn more in paid employment. He examines the role of personality traits in determining entrepreneurial decisions and earnings. He finds that the personality traits that make entrepreneurship profitable are not always the same personality traits that drive people to open their own business. This means that, in terms of personality traits, individuals who would be the highest earning entrepreneurs are not always the individuals who choose to be entrepreneurs.

The second and third sessions focused on the institutional environment and its impact on entrepreneurship. *James Brown* (Iowa State University) opened the session with the question what would happen if firms could borrow more. Based on a unique lending program initiated by the Swedish government, he analyzed the impact of temporarily allowing firms to postpone payment of all labor-related taxes and fees which functioned as a loan from the Swedish government at fixed interest rates. He compares outcomes in firms using the lending facility with otherwise similar firms whose labor taxes were sufficiently low that they could not benefit

from the program. His estimates indicate that net debt levels increase sharply for the firms that borrow funds, showing that they use the program to relieve credit constraints rather than repay debt from other sources. Moreover, participating firms seem to have significantly higher rates of real investment and employment growth. He concludes that these findings connect the availability of external credit with real activity in entrepreneurial firms in a way that has proved difficult in other settings.

*Frank Fossen* (Free University Berlin and IZA) estimated the impact of a differential treatment of paid employees versus entrepreneurs in a public health insurance system on the entry rate into entrepreneurship. As the health insurance system creates incentives or disincentives for starting a business depending on the family’s situation and health, he finds that increases in the health insurance cost differential between entrepreneurs and paid employees decreases the probability of entry into entrepreneurship. He therefore concludes that occupational choices towards entrepreneurship should be taken into better account when discussing further health care reforms.

*Ting Xu* (University of British Columbia) analyzed how crowdfunding markets influence entrepreneurial learning, given the fact that entrepreneurship is characterized by high failure rates. He suggests that entrepreneurs update beliefs based on feedbacks from the crowd in ways consistent with a simple Bayesian learning model. Moreover, entrepreneurs make entry and project choice decisions based

on what they learned. He concludes that feedback from financial markets, traditionally only available to listed firms, can become accessible to entrepreneurs of new ventures as early-stage financing is disintermediated by the involvement of the crowd. The session was concluded by *Andreas Mazat* (Ifo Institute). He presented a preliminary analysis on the question whether differing access to broadband infrastructure influences entrepreneurial entry rates. First results tend to indicate that broadband affects startup rates of small establishments, active in the service sector, whereas startup rates of relatively large establishments appear to be rather unaffected.

The workshop then turned to macro issues and the crucial question what data to use. *Christopher Goetz* (U.S. Census Bureau) presented new public use data to study entrepreneurship from linked employer-employee data. These statistics on new firms and entrepreneurs fill some gaps in the available data on entrepreneurship as they provide additional details about the structure and workforce of entrepreneurial firms, and about the dynamics of entrepreneurial employment. These new statistics address key questions about who starts businesses, who works for startups, and the recent employment histories of both founders and their early employees.

The first day was concluded with the presentation of *Benjamin Pugsley* (Federal Reserve Bank of New York), who analyzed the causes of the declining startup rate over the past three decades. He showed that declines in the growth rate of the labor force, which peaks in the late 1970s, explain an important share of the startup rate decline while leaving incumbent dynamics unaffected. He also shows that the equilibrium response to a permanent demographic shift in a standard Hopenhayn (1992) setting matches the steady decline in the U.S. startup rate over the last 30 years without additional frictions.

The second day focused on developing economies. It started with a session on the impact of education and training on entrepreneurship in low-income countries. *Zuzana Brixiova* (African Development Bank and IZA) presented a model of costly firm creation in an economy with an unconvincing business environment. She argued that substantially improving the business environment would help raise the entrepreneurial productivity especially if other bottlenecks such as skill shortages are addressed. *David McKenzie* (World Bank and IZA) analyzed whether a business training program for female entrepreneurs

in Kenya had direct effects on themselves or even spillover effects on other potential female entrepreneurs. He finds that training had no impact on business knowledge questions requiring calculations, but led to a modest, but statistically significant, increase in the business practices used, while there is also some suggestive evidence that there is a negative spillover on the sales and profits of untreated women operating in the same markets.

In the keynote speech, *Antoinette Schoar* (MIT Sloan School and IZA) focused on some insights which could be gained from behavioral economics for small business and entrepreneurship in developing economies. She focused in particular on repayment behavior of entrepreneurs who received small or micro loans. The main point of her keynote was that small changes in how funding is set up can affect these entrepreneurs significantly and that these small changes are more driven by psychological than by financial tools. To underline her hypothesis, she first presented several experiments



where she analyzed the effects of various interventions by loan officers and their effects on the borrowers' behavior. For instance, simple text message reminders by loan officers were used in comparison to cash incentives for on time repayment where both types of interventions (with very different cost structures) delivered similar reductions in late payments. Goal specific text reminders also increased the percentage in savings among similar entrepreneurs, as these reminders help them to stick to their plans.

Given these insights, Antoinette Schoar then presented an approach which reinforced the idea of relationship lending and connecting it to new technologies: entrepreneurs without collateral should receive loans where the relationship is used as collateral. In the experimental setup, four different treatment groups were created,

one with no monitoring, a second with SMS reminders, and two more with loan officers being in contact with borrowers with differing intensities. Her main findings on this experimental setting is that – in addition to the positive effects of SMS reminders – personalized attention by loan officers matter for repayment behavior and loan renewal decisions. In other words, relationship lending affects the clients' willingness to reduce moral hazard and increases their loyalty to the bank. She concludes that it is necessary to rethink models of credit risks in loan markets and that advances in lending products may help borrowers to improve their credit types.

#### Policy Panel: “Entrepreneurship in Developing Economies”

Jointly organized by IZA and the Kauffman Foundation, a policy panel following the workshop turned to further issues of entrepreneurship in developing economies and to the question whether and how entrepreneurs could contribute to more growth in developing economies. It

started with the introduction of the GLM-LIC project by *David Lam* (University of Michigan and IZA), who explained that this combined initiative of IZA and the UK Government Department for International Development (DFID) aims to improve the worldwide knowledge on labor markets including entrepreneurship issues and self-employment in low-income countries (LICs) and to provide a solid basis for capacity building and development of future labor market policies.

Two presentations out of the multiple research activities were introduced subsequently. *Pamela Jakiela* (University of Maryland and IZA) investigated whether young women can be empowered by micro-franchising, as it connects unemployed participants with local business franchisors and provides mentoring and startup capital for participants to launch



businesses. The study firstly measures the direct impact of the micro-franchising intervention on participants. Secondly, it analyzes the program impact to the effect of a cash grant program, and estimates the impact of new micro-franchises on nearby businesses.

*Joan Hicks* (University of California, Berkeley) in the second presentation assessed the potential of small business grants in combination with vocational training. Similar to David McKenzie, she also analyzed the case of Kenya. The analysis focuses particularly on the near-term impact of vocational training, including an evaluation of the differential returns between private and public training and the impact of training in the informal sector. The project also investigates an additional intervention which will randomly select half of the voucher winners and half of the non-winners to receive an unconditional cash grant that is sufficient to purchase toolkits or provide seed capital for their entrepreneurial ventures. Both research approaches provide first incidence that cash grant programs have a positive effect on entrepreneurial activities.

The second day was concluded by a panel discussion on entrepreneurship in developing economies. The leading question of the panel was whether entrepreneurs in developing economies would be able to play a similar role as entrepreneurs in developed economies. There, entrepreneurs create new products based on technological breakthroughs and have a positive impact on jobs and economic growth. In contrast, in developing economies, the contributions of entrepreneurs to economic growth are limited.

In the panel, Alexander Kritikos as the moderator and the audience discussed

with the four panelists, Antoinette Schoar, *John C. Haltiwanger* (University of Maryland and IZA), *Xavier Gine* (World Bank) and David Lam to what extent entrepreneurs are able to substantially influence economic development and wealth creation in an economy; the regulatory environment in developed and developing economies explains the differences in outcomes; and other institutional factors matter.

It became clear during the discussion that there are many unsolved problems in the field of entrepreneurship in developing economies. One crucial difference between developed and developing economies is the level of regulation and corruption. Thus, to attract and encourage productive entrepreneurs, governments need to cut red tape and streamline regulations. However, the panelists raised many more systemic differences.

For instance, Xavier Gine stressed that access to finance is a further crucial issue. He explained that while microfinance approaches were in the past believed to be one solution to give the great majority of poor entrepreneurs better access to financial means, today's experience with the outcomes of microfinance are disillusioning. The contracts coming along with microfinance loans are from his point of view to inflexible, take the rigid repayment deadlines as an example, and not sufficiently tuned to the needs of a typical entrepreneur. Therefore, entrepreneurs who need access to such financial solutions are not able to optimally realize their ideas in the markets.

David Lam pointed to the positive experience of cash grants and agreed that new and creative solutions need to be found to relieve entrepreneurs from their financial limits. He also clarified that education has still to play a crucial role for entrepreneurs

and that an optimal educational approach has not been found so far. Antoinette Schoar discussed hierarchical issues. The great majority of individuals in developing economies grow up in an environment where they are more used to be in a serving position. Many of them cannot imagine, even if they have great entrepreneurial ideas, to realize these in the markets, as they do not feel empowered to be in a position where they set the tone instead of serving.

John Haltiwanger emphasized the different cultures of creating new firms. Firms in developed economies, who have the prospect to grow with innovative ideas in the future, start small and become large in a relatively short amount of time – the so-called gazelles. Moreover, there is a common understanding that this firm type comes along with great risks which the entrepreneurs themselves but also the society are ready to accept. In developing economies, most firms start large and remain large. They enter markets with established ideas without potential for innovation. Also, the societies in such countries are typically not willing to accept and share such risks. Therefore, there is no sufficient basis in developing economies for innovative entrepreneurs to enter markets with new ideas. These individuals often prefer to move to more innovation-friendly countries.

Overall, the discussion showed that it seems as if many systemic, institutional and societal factors mentioned in the discussion have to be in place at the same time to enable entrepreneurs to contribute to economic growth in developing economies.

View the program online:

▶ [www.iza.org/link/Entre2015](http://www.iza.org/link/Entre2015)

## New Book: Labor Migration, EU Enlargement, and the Great Recession

Will substantial refugee inflows and terrorist attacks jeopardize further policy initiatives to strengthen intra-EU labor mobility? Research findings show the overall positive economic effects of free mobility, and a potential to alleviate economic turbulences. To stimulate welfare growth in Europe, mobility should therefore be improved and not be removed from the European policy agenda.

A new volume edited by *Martin Kahanec* and *Klaus F. Zimmermann* extends and deepens our knowledge about cross-border mobility and its role in the enlarged EU. Its main purpose is to enlighten the growing and yet rather uninformed debate about the role of

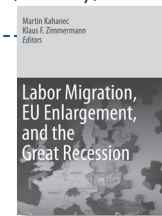
post-enlargement migration for economic adjustment in the crisis-stricken labor markets of the Eurozone and the EU as a whole. The book addresses the economic aspects of post-enlargement migration, including effects on receiving and sending labor markets, redistributive impacts, and the effects of migration policies on the intra-EU mobility of workers. It covers the experience of receiving and sending countries and how it affected them during the Great Recession. Renowned experts in the field study whether and how post-enlargement mobility has enabled the EU to absorb asymmetric economic shocks, how it has affected welfare systems, and whether it has contributed to the sustainability of the EU

and the Euro area. The authors also evaluate brain circulation as a vehicle of improved allocative efficiency of EU labor markets and propose a policy agenda for mobility in an enlarged EU. In view of the current threat to European principles of free mobility and open borders, the new volume offers a compass to stakeholders in politics, economics, society, and the media.

*Martin Kahanec,*  
*Klaus F. Zimmermann (eds.)*

**Labor Migration, EU Enlargement,  
and the Great Recession**

Berlin/Heidelberg/New York 2016,  
478 pages. ISBN: 978-3-662-45319-3



## From the IZA Newsroom

### Life satisfaction gap between transition countries and the West is closing

Trends of globalization such as migration, economic integration and digital communication are undoubtedly bringing people closer together. But do they also cause the levels of satisfaction to converge? Researchers have long studied the institutional factors contributing to the strong international differences in life satisfaction.

The transition of the Central and Eastern European states after the collapse of the Soviet Union provides a particularly rewarding object of investigation in this respect. It entailed a series of socioeconomic, political and institutional transitions in Central and Eastern Europe (CEE) and the former Soviet Union (FSU). Unemployment, inequality, income volatility, and, in some cases, civil war accompanied the more positive experiences of obtaining new political rights and civil liberties.

In addition to far-reaching economic reforms to establish market economies, these transition countries had to create the legal and institutional foundations that underpin modern democratic and capitalist nations. This involved fundamentally reforming old institutions or creating new modern institutions of public finance, central banking, and customs.

#### Life and unhappiness in transition

Many papers have tried to uncover the factors behind the declining life satisfaction levels during the transition and have concluded that rising unemployment, inequality and uncertainty, income volatility, rapidly changing social norms, and declining social protection are some viable explanations (see for example IZA Discussion Paper No. 3409).

However, despite their dramatic declines in the early 1990s, income and consumption improved substantially by the late 1990s, suggesting that the transition was a successful process. Yet, alongside these improvements, subjective well-being indicators show a more nuanced story. During the 1990s, mirroring the income trends, life satisfaction in transition countries sharply declined, and while it started to recover in the 1990s, it failed to match the recovery in GDP.

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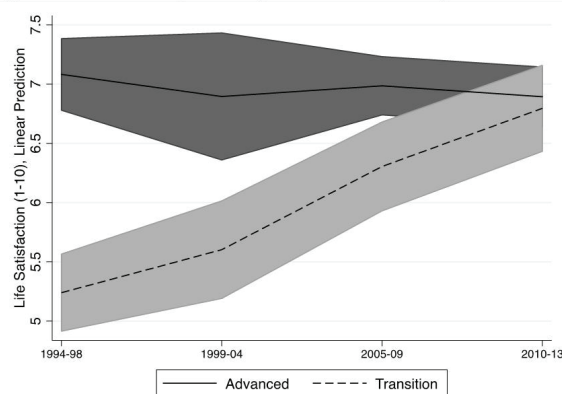
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#### What can close the life satisfaction gap?

Despite the large literature that examines the transitioning process, few studies look at the life satisfaction differentials between transition and non-transition economies. In a new IZA Discussion Paper, *Milena Nikolova* studies the life satisfaction gap between post-socialist and advanced Western societies and the role of the rule of law in explaining this gap.

As the transition process entails reaching the quality of life levels in developed countries, advanced countries are the relevant comparison group. Because the rule of law is related to democratic institutions and the market economy, it is particularly relevant for transition economies, where such reforms were most pronounced in the 1990s.

Figure 1: Life Satisfaction, Transition, and Advanced Countries, 1994-2013



Using World Values Survey data for 1994-2013, Nikolova shows that the average life satisfaction between advanced and transition countries has started to converge in recent years. In a regression framework, she demonstrates that the life satisfaction differential persisted until the early 2000s but had closed during the 2010-2013 period (see figure).

Combining her analyses with macro-economic data from the World Development Indicators and institutional data from the

International Country Risk Guide, the paper further demonstrates that macroeconomic factors (GDP per capita, inflation, and unemployment) explained part of the life satisfaction gap reduction.

The rule of law, which refers to a system of well-defined, universally applicable, and fair laws, was an additional factor reducing the size of the life satisfaction gap in the early 1990s, and it completely explained the gap by the late 1990s. In fact, it appears that holding both macroeconomic factors and the rule of law constant, respondents in transition countries appear to be 0.6 points more life satisfied than those in advanced countries in the 2010-2013 survey wave (on a 1-10 scale). This result may be due to the differential timing and effects of the financial crisis—i.e., the economic crisis appeared in Eastern Europe later than in the West and abated by 2010.

Nikolova's findings suggest that the completion of the transition process may be in sight, at least in the minds of ordinary people in post-socialist countries. As institutions and macroeconomic conditions continue to improve, post-socialist countries may achieve objective and subjective quality of life levels similar to those in the West.

► <http://ftp.iza.org/dp9484.pdf>

## Interview: Smart policy toward high-skill emigration

Michael A. Clemens (Center for Global Development and IZA), is one of the leading scholars in the economics of migration. During his visit to IZA in November, we took the opportunity to talk to him about what constitutes smart policy toward high-skill emigrants.

*With the refugee crisis dominating European headlines, public opinion is starting to turn against legal immigration driven by economic motives. What is your opinion, based on the evidence?*

The effects of refugees and economic migrants are created primarily by policy. It is possible to turn either refugees or economic migrants into a burden. It is also possible to turn them into a resource. This is a choice. There is recent and groundbreaking research on this, in two very different settings. Low-skill refugees in Denmark have raised the wages of native Danish workers. This is shown in a study with data on every single worker in Denmark across two decades. When refugees were dispersed across the country, they generally complemented the labor of native workers. And where they did displace limited numbers of native workers, those natives ended up earning more, because they were displaced into jobs requiring more complex tasks.

The result is similar in a radically different setting: the effects of the two million Syrian refugees now in Turkey. You might think that such a large and unmanaged flow, unlike in Denmark, would have to break the Turkish labor market. But that refugee inflow, too, has actually raised wages for Turkish workers. A remarkable new study shows that those refugees have displaced many Turkish workers, but they have displaced many of them into higher-paid formal work, while Syrians take the informal jobs that Turks used to fill.

It didn't have to work out this way. In either of these situations, policy could have converted these people from an economic resource into an economic burden. Denmark, instead of spreading refugees around the country and helping integrate them into the labor force, could have tried to 'protect' native workers from them (as some Eastern European countries are doing now). This would have actually harmed native workers. Turkey, rather than issuing Syrians identification cards designed to facilitate job offers, could have confined them in the camps and actively prevented them from working (as Lebanon has done). That would have lowered Turkish wages and increased their dependence on government handouts. In economic terms, there is nothing necessarily beneficial or harmful about people arriving in desperate conditions; policy makes the difference.

*Many have advocated limits on high-skill migration in the name of economic development overseas, to keep skilled people from leaving countries where they are needed. In your recent IZA World of Labor article, you argue that many such policies are misguided. How is that?*

This is a common idea. Even respected development experts have recommended blocking migration of skilled people from poor countries on these grounds. The basic problems with such policies relate to effectiveness and ethics.

On effectiveness: They have never been shown to work. Think about a poor neighborhood you are familiar with, and consider



Michael A. Clemens

whether forcibly preventing smart young people from leaving that neighborhood would result in improved well-being there. For one thing, you might find the brightest kids being a lot less interested in school if they knew that they could never work outside a ghetto, where their efforts would be rewarded. There would be many other pernicious effects as well. With countries, too, there are indirect effects of this kind. This is why no one has ever demonstrated a positive effect on development, economic or otherwise, from trapping skilled people inside a poor country. In fact, if you think of places where skilled people really have been trapped against their will in the past—East Germany, North Korea—you are not thinking of places with vibrant development.

Beyond this, for the truly poor countries the problem is that they have extremely few skilled workers, period, not that those skilled workers are leaving. Think of the countries on earth with the lowest numbers of university-educated workers as a fraction of the labor force, like Malawi. Even if some draconian policy somehow forced all the skilled people from those countries who are abroad to return home—including the ones who got their training abroad—this would barely change the skill shortages at home.

And on ethics: Think for a moment about the policy I just mentioned, of forcing all skilled people from poor countries to go back there. That prospect should be shocking and abhorrent. Imagine someone arriving at your own door, and informing you that your plans for your life are not important, and that someone else has determined that your skills are needed in a place you have decided you don't want to live—so you'll be sent there against your will. It would shatter your universe; it is not something we should discuss casually. The United Nations Universal Declaration of Human Rights, Article 13, guarantees the unconditional right of all people to leave any country they wish to leave, for any reason. Interfering with such a basic human right is something we should only ponder gravely, in the face of extremely compelling evidence that it would do good. As I mentioned above, we don't have such evidence.

*But why should politicians in developed countries care? And what can they do?*

Politicians who care about development should promote well-regulated skilled migration. High-skill emigration brings many indirect benefits to developing countries. Economists have shown that high-skill emigration increases trade for the countries that those migrants leave, by building their networks abroad. And it increases not just the amount of trade, but the diversity of products produced and exported. High-skill migration similarly causes investment in the countries migrants come from, and transfers new technologies (measured by patents) to the countries of origin. The effects of skilled workers are global, and many of them do more for their countries abroad than they can do at home.

These effects are documented in rigorous statistical studies. But they are easy to see as well. A well-known example of this is Mohamed Ibrahim, an engineer who once worked as a functionary in Sudan's telecommunications agency. He emigrated



to the United Kingdom and founded a telecom company, later bringing new technologies and billions in investment to Africa. A shortsighted policymaker may have tried to block him from leaving Sudan in the first place, since his 'skills were needed' there. Farsighted policymakers understand that the world and the economy are much more complex than that.

But this does not mean that regulation on skilled migration, in the name of development, is useless. An important concern for the countries that skilled migrants leave is a fiscal concern: many poor countries heavily subsidize higher education, and this can turn skilled emigration into a fiscal drain. The best

policy solution to this isn't to block skilled migration, which is ethically problematic and would cut off the many benefits. Rather, a policy priority is to develop systems of higher education finance that are built around the reality of migration, encouraging skill formation and mobility while limiting fiscal drain. I proposed one such system in IZA's Journal of Labor Policy, but we need a lot more innovation here.

Read the full interview with links to the studies referred to in the text at:

► <http://wp.me/p3cqoR-1jG>

## IZA World of Labor on Track Knowledge Hub for Evidence-Based Policy Advice

In 2015, IZA World of Labor has made substantial and significant steps towards firmly establishing itself as the major resource in evidence-based policy making in labor economics. By the end of the year, we will have published over 220 articles, another 100 articles are being processed, and in total 500 articles have been contracted. IZA World of Labor is currently covered by the EconLit and RepEc (A&I) services. We have applied to DOAJ and we are scheduled to apply to SSCI and Scopus in 2016.

The contributions reach a large and growing community in the media, policy institutions (such as World Bank, OECD, ILO, and the

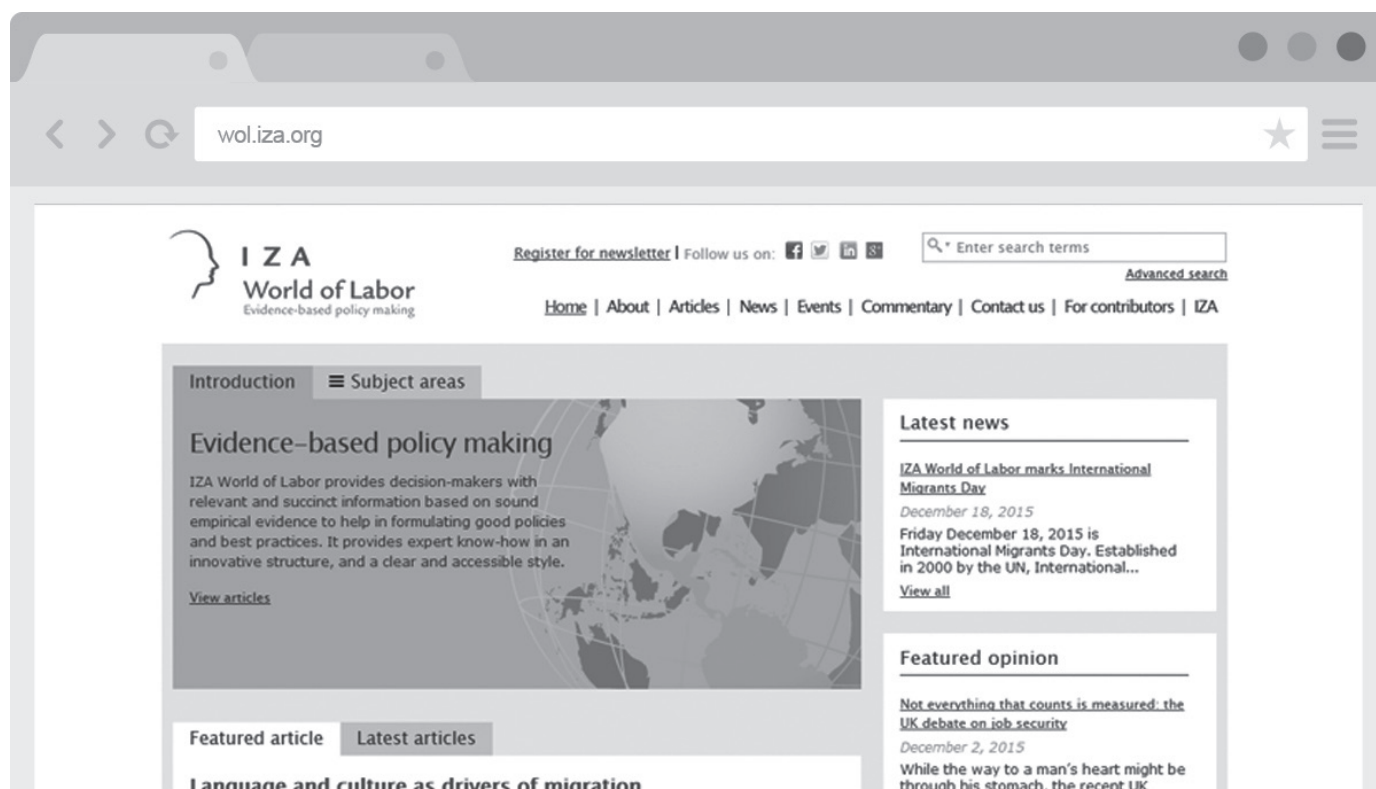
EU Commission), as well as among students and the wider public. For example, this year IZA World of Labor articles have been covered by leading international media (Economist, Wall Street Journal, Independent, The Times, El Mundo, Wirtschaftsblatt, Der Standard, etc.) and leading German media (Süddeutsche Zeitung, Welt, Welt am Sonntag, Bild, Focus, Spiegel Online, etc.).

We disseminated the idea of evidence-based policy making and the content of the articles to our target group at various policy events involving the authors, e.g. at the Society of Government Economists, an IZA World of Labor Policy Symposium in

Tokyo, a seminar at the EU Commission, an IZA World of Labor policy symposium for the French government, and a joint IZA World of Labor seminar at the OECD (see pages 4-5 of this issue). A larger number of IZA World of Labor articles have also been cited in the B20 Employment Taskforce Policy Report for the G20.

This outcome is the result of the joint efforts of our contributors, the Editorial Board, and all others involved at Bloomsbury Publishing and at IZA. We look forward to continuing this important and exciting initiative.

► <http://wol.iza.org>



The screenshot shows the IZA World of Labor website homepage. The browser address bar displays 'wol.iza.org'. The website header includes the IZA logo, navigation links (Home, About, Articles, News, Events, Commentary, Contact us, For contributors, IZA), a search bar, and social media icons. The main content area features a 'Subject areas' menu with 'Evidence-based policy making' selected. Below this, there is a featured article titled 'Language and culture as drivers of migration'. To the right, there are sections for 'Latest news' (highlighting International Migrants Day) and 'Featured opinion' (highlighting a piece on job security).

## Global Scientific Policy Advice Needed

Scientific research does not have to follow socio-political concerns, but it is often inspired by practical challenges. While science cannot help policymakers in cases where hard evidence and convincing findings are lacking, both sides should nonetheless engage in evidence-based policy advice. National and international labor market policies provide a number of good examples how this concept can work.

Earlier this year, the governments of France and Italy have decided to draw their lessons from the successful German labor market reforms. This is a great step forward, even if the implementation has yet to come. On the other hand, many in Europe still fear the economic and social consequences of open and mobile labor markets – despite the proven success of EU enlargement and the available evidence from numerous international migration studies. Unfortunately, the new refugee issue has led people to increasingly ignore such findings.

But even though the success and the potential of evidence-based policy advice have been widely shown, the concept is subject to criticism from various sides. The necessary independence cannot be guaranteed, a common argument goes. From this point of view, any policy recommendations are ultimately driven by political and economic interests and dependencies. This allegation is an attack on the scientist's professional ethos, which includes compliance with the principles of good scientific practice, the pursuit of robust findings, and the impartial communication of these findings. New ethics codes, which the profession has recently adopted, ensure that these principles are upheld.

While good science is always global, some claim that good policy advice must be primarily national in scope. To be sure, national contexts and institutional differences are relevant for a policy advisor. But the increasing global interdependence leaves no room for provincial strategies.

For highly open economies like Germany, policy is no longer national. Since globally oriented science ensures the competitiveness of national policy advisors, the quality of German policy advice would be threatened if it were to concentrate on national peculiarities alone.

Evidence-based policy advice, moreover, requires a combination of research and advice: The researcher also acts as an advisor, while the advisor also conducts research. In Germany, the Science Council and other scientific organizations have always stressed the need for this dual role, and the Academies of Science have been practicing it worldwide. Opponents of this concept claim that the dirty business of policymaking only keeps scientists from doing good research. Likewise, the demands of policymakers are better met, according to the argument, if they free themselves from the constraints of seeking science-based advice.

Of course, there will always be scientists who shy away from offering policy advice, just as well as policy advisors who do not want to do research. This is not to be condemned. But these two types cannot be considered actors of evidence-based policy advice. And in the long run, this is likely to result in policies of inferior quality. Only the best scientific findings should provide the foundation for important economic policy decisions. Only genuine scientists, i.e., those who contribute to the advancement of science through their own publications, can produce such output, inspired by the challenges of their advisory role, and communicate their results as evidence-based policy advice. This superiority is owed to global competition both in research and policy advice, which ensures the use of the best methodology and findings.




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