



2011 IZA Prize Awarded to Migration Experts George Borjas and Barry Chiswick Laureates Underscore Need for Selective Migration Policy

For the 10th time now, the Institute for the Study of Labor presented its renowned IZA Prize in Labor Economics, the most prestigious science award in labor economics worldwide. This year *George J. Borjas* (Harvard University) and *Barry R. Chiswick* (George Washington University) were honored for their pioneering work on the economic analysis of migration and its impact on the societies of the host countries. The IZA Prize Committee stressed the policy relevance of the laureates' work and its topical relevance in the face of growing international labor mobility (see page 3 of this issue for the full text of the Award Statement).

After the previous IZA Prize Events took place in Berlin, Bonn, Washington and Denver, this year's venue was Oslo, the capital of Norway. The event coincided with the annual congress of the European Economic Association (EEA) and the Econometric Society European Meeting (ESEM), which

attracted a number of international economists and IZA network members. Welcoming IZA's choice of Oslo as the host city, the Norwegian Secretary of Labor, *Hanne Bjurström*, also conveyed her congratulations to the prize winners and acknowledged IZA's outstanding contribution to international labor market research.

During a reception preceding the official award ceremony, *Andrew J. Oswald* (IZA Senior Advisor, Research) presented the recently published contributions to the IZA Prize Book Series. Published by Oxford University Press, the series comprises the most important research findings of the IZA laureates. This year alone, several new books have been released, with additional volumes forthcoming shortly.

Like all previous winners, Borjas and Chiswick will contribute a newly edited selection of their most influential studies on the determinants of successful integration

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IZA Prize Laureates George Borjas and Barry Chiswick with IZA Director Klaus F. Zimmermann



IZA HOSTS EALE 2012

From September 20-22, 2012, IZA will host the Annual Conference of the European Association of Labour Economists (EALE) in Bonn. This is only the second time for Europe's largest expert meeting in the field to come to Germany. In cooperation with the EALE secretariat, IZA is preparing a high-class conference program. Paper submission is open until February 1, 2012.

▶ www.iza.org/eale2012



Richard Portes, George Borjas, Amanda Goodall, Barry Chiswick, Christopher Pissarides

of immigrants and aspects of a selective immigration policy to attract high-skilled workers.

At the award ceremony in Oslo, IZA Director *Klaus F. Zimmermann* welcomed the invited guests and gave the laudation on the prize winners. He particularly stressed the high relevance of the work by Borjas and Chiswick for IZA research activities in the field. Barry Chiswick has collaborated closely with IZA for many years and served as IZA Program Director for Migration until 2011. “These two eminent scholars have greatly influenced our research. Their work is a steady source of inspiration for science and politics,” said Zimmermann.

Christopher A. Pissarides (London School of Economics) also addressed the audience in his function as the current president of the European Economic Association. He had received the IZA Prize in 2005 together with *Dale T. Mortensen*. Their recent contribution to the IZA Prize Book Series is their first book publication since they won the Economics Nobel Prize last year. Pissarides joined Borjas and Chiswick in a panel discussion on future issues in migration research moderated by IZA Senior Research Associate *Amanda H. Goodall*. Representing the IZA Prize Committee, *Richard Portes* (London Business School; CEPR President) also participated in the discussion.

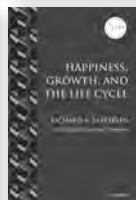
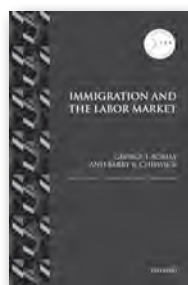
The panelists’ statements illustrated the vast challenges for migration research against the background of demographic change and the resulting shortages of skilled labor. IZA has recently contributed to the German debate on these challenges by drafting a comprehensive points system for the selection of immigrants to Germany (see next article on page 4 in this issue).

“By honoring the lifetime achievements of Borjas and Chiswick, IZA also wants to stimulate further research in this increasingly important field of labor economics. The variety of currently practiced migration policies around the world shows that there is much room for improvement,” said IZA Director Zimmermann.

A short video featuring the Oslo event is available online:

► www.youtube.com/user/IZABonn

The 2012 IZA Prize will be awarded during the next annual congress of the European Association of Labour Economists (EALE), which will be hosted by IZA in Bonn.



Dale T. Mortensen
Christopher A. Pissarides
**Job Matching, Wage Dispersion,
and Unemployment**
ISBN 978-0-19-923378-6

Richard Layard
Stephen J. Nickell
Combatting Unemployment
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Economics**
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Orley C. Ashenfelter
**Labor Policy Evaluation
and the Design of Natural Experiments**
(forthcoming 2012)

Francine D. Blau
Gender Inequality
(forthcoming 2012)

Richard B. Freeman
Making Europe Work
(forthcoming)

George J. Borjas
Barry R. Chiswick
Immigration and the Labor Market
(forthcoming)

Award Statement of the Prize Committee

The IZA Prize in Labor Economics 2011 is awarded to George J. Borjas (Harvard University) and Barry R. Chiswick (George Washington University) for their fundamental contributions to the economic analysis of migration. With their groundbreaking work, Borjas and Chiswick have set the stage for assessing migration flows and immigrant assimilation, as well as the consequences of immigration for the labor markets and welfare systems of host countries. They have been the leading figures in the intense debate about earnings assimilation and the nature of migrant selectivity. In an era in which human mobility has been rapidly increasing, and in which global differences in labor market performance pose important questions for the design of migration policies, Borjas' and Chiswick's work provided researchers and policy-makers with the necessary instruments to study some of the most pressing questions in public policy. Their research is distinguished by a focus on thought-provoking questions, rigorous theoretical and empirical analysis, policy-relevance, and accessibility to a wide audience.

Barry R. Chiswick pioneered the economic analysis of immigration with his seminal 1978 paper in the *Journal of Political Economy*, "The Effect of Americanization on the Earnings of Foreign-Born Men". Putting human capital in the center of the measurement of immigrant earnings, the paper provided the framework for much of the subsequent research on immigrant adjustment. Chiswick made the migration area a fully-fledged field in labor economics and explained immigrant behavior with simple, intuitive and understandable economics. His 1978 paper constitutes a starting point for profound discussions on how immigrants fare relative to natives in the host country's labor market, and what determines their labor market success. The human capital framework provides a better understanding of the relevance of immigrants' educational attainment, differences in assimilation between ethnic groups, or occupational concentration of migrants.

In his fundamental 1985 paper in the *Journal of Labor Economics*, "Assimilation, Changes in Cohort Quality, and the Earnings of Immigrants", George J. Borjas demonstrated the importance of considering differences in cohort characteristics when gauging the speed of immigrants' earnings adjustment. Comparing the 1970 and 1980 waves of U.S. census data, he showed that the availability of longitudinal data is vital for assessing the speed of earnings assimilation. The results underlined that some groups of immigrants may never attain earnings parity with native-born workers. Borjas found that older immigrant cohorts may catch up to the earnings of natives, but that more recent cohorts faced severe assimilation problems, indicating lower endowments of recently arrived immigrants in terms of education or language ability. The work of Borjas and Chiswick suggests that carefully designed migration policies are paramount for the successful labor market integration of immigrants.

Barry R. Chiswick has also written extensively on language proficiency and its effects on migrant assimilation. He developed a theoretical framework in which the acquisition of language can be analyzed, and has subsequently tested the model using data from labor markets in numerous countries. He has addressed a wide range of essential questions regarding the determinants of language proficiency, and

the impact of language ability on migrants' labor market success. Chiswick's 2007 book *The Economics of Language* (co-authored by Paul W. Miller) provides an encompassing overview of the most important results from their research. The book has contributed to a better understanding of the theory, conditions, and consequences of language acquisition and the processes of migrant integration as a whole. By empirically establishing a link between linguistic capital and economic advancement, Chiswick's analyses underscore the importance of education and language skills for socioeconomic mobility.

George J. Borjas has broadened the scope of migration research to further questions that are central for evaluating the impact of migration and for designing immigration policy. First, Borjas turned the attention to the question how immigration affects the host country's population. His thoughtful empirical analysis has provided a much more nuanced view on whether and why certain subgroups of natives are particularly affected by the inflow of immigrants. Borjas' fundamental contributions provided a coherent theoretical and empirical framework in which the welfare effects and distributional consequences of immigration can be studied. In addition to a continuous stream of innovative research papers on these topics, Borjas has also produced two influential books on immigration and immigration policy, including his 1999 book *Heaven's Door: Immigration Policy and the American Economy*. These books have helped put migration at the top of the political agenda in many countries.

George J. Borjas and Barry R. Chiswick have stimulated a tremendous amount of research by many academics all over the world. The immense contribution of these scholars also lies in their empirical ingenuity and their deep understanding of data. They raised issues about the inadequacy of existing data and developed new techniques, emphasizing the importance of high-quality micro level data for examining serious public policy questions. Their work has served as a role model for many subsequent researchers, and it has been the basis for the rapid growth of interest in the analysis of immigration during the past three decades.

The IZA Prize in Labor Economics 2011 honors the work of two exceptional scholars who have greatly advanced our understanding of some of the most important questions in modern labor market research.

Prof. George A. Akerlof
University of California, Berkeley; IZA

Dr. Marco Caliendo
IZA

Prof. Richard Portes
London Business School; CEPR

Prof. Jan Svejnar
University of Michigan; IZA

Prof. Klaus F. Zimmermann
IZA; University of Bonn

Strengthening the European Labor Market by Actively Attracting Skilled Labor Immigration

IZA Develops Comprehensive Points System for Germany

Europe faces great challenges which have a direct impact on the labor market. The economic crises in Greece, Spain or Portugal are in stark contrast to favorable labor market developments in Scandinavia and other countries. Germany, in particular, is currently reaping the harvest of its courageous reform efforts in recent years. There is a real danger that dramatically high rates of youth unemployment in countries like Spain and Greece could destroy the perspectives of an entire generation of well-educated youths. Even a rapid implementation of labor market reforms would improve the situation only over the medium term. On the other hand, the German labor market faces a growing scarcity of qualified labor both in the high-skilled segment and among those with vocational training. This once more underscores the rising importance of labor mobility within the European Union. Successfully increasing cross-border mobility of skilled labor would not only stabilize the European economy as a whole but also relieve countries whose labor markets are burdened with high unemployment.

Germany's Federal Employment Agency (BA) took a step in the right direction by initiating a recruitment campaign for skilled labor in the crisis-burdened 'PIGS' countries. This is not about depriving Greece, Spain or Portugal of their "best and brightest", but instead, about promoting temporary migration to Germany as an alternative to remaining unemployed at home. As experience shows, granting freedom of movement alone does not result in an adequate scope of labor migration. Traditionally, cross-border labor mobility in Western Europe is rather low. In the case of Germany, language barriers add to the problem.

Despite the wealth gap between Northern and Southern Europe in the 1960s, Germany would not have been able to achieve strong labor immigration without massive recruitment campaigns. It therefore makes sense for German business associations and government agencies to go abroad in order to attract skilled labor, provide information on the favorable labor market situation in Germany, and offer possibilities to acquire the German language. In addition, a Europe-wide online job portal is long overdue to reduce the substantial information deficit.

If these measures lead to greater labor mobility within the old EU states, the improved

allocation of resources would have a welfare-enhancing effect across borders. At the same time, it would mitigate the risk that young people from Southern Europe with poor job prospects go a step further and move to the traditional immigration countries. For the future economic development in the EU, it is paramount to prevent emigration of "own" skilled labor while at the same time establishing Europe as a priority destination for skilled workers from around the world.

Transparent selection criteria and quotas

Germany is well-advised to take the lead in this initiative. Labor immigration from other EU countries alone is unlikely to fill Germany's labor shortages in the long term. In the absence of consistent and targeted policy measures, the need for qualified labor is likely to exceed actual migration numbers over the next years. Moreover, the current German immigration policy is unable to select immigrants based on qualification and other relevant characteristics. Put differently, neither in quantitative nor in qualitative terms will immigration under the current system substantially reduce the skilled labor shortages. The acceptance of immigration policy suffers from a lack of predictability: without quotas it is difficult to reliably estimate the number of immigrants moving to Germany within any given period of time.

Therefore, IZA has long been advocating a German immigration policy based on transparent and predictable selection criteria and quotas. These could be regularly adjusted to economic conditions. On behalf of the Free State of Saxony's Department of Economic Affairs, Labor and Transport, IZA has developed a comprehensive concept differentiating between permanent and temporary labor migration. As labor markets are increasingly characterized by demand fluctuations, temporary movements and new forms such as chain and circular migration are gaining importance. Therefore, a modern concept should treat permanent and temporary migration separately to meet the needs of each target group. In particular, it must serve to attract high-skilled with academic education and medium-skilled with relevant vocational qualifications. In both segments of the labor market, growing shortages are expected to arise, which cannot be met alone with improvements in the education system. At the same time, such a concept must serve to restrict – or com-

pletely avoid – low-skilled labor immigration from non-EU countries.

Australia and Canada, two of the traditional immigration countries, have a lot of experience with the design of a demand-oriented, adjustable points system for immigrants. Their current policies do not exclusively aim at controlling long-term immigration, but they also contain elements to accommodate the short-term labor needs of specific industries. Although even Australia and Canada face problems with immigrant integration, these are much less substantial than in countries with unregulated immigration.

Even beyond the traditional immigration countries, there are an increasing number of EU states that base their immigration policies on economic interests and make use of selection systems. The United Kingdom, for example, introduced a multi-pillar point system with a strong economic focus that replaced its other immigration systems. The fact that parts of the model are currently being reformed or suspended due to adverse economic conditions is not an argument against the system per se but rather underscores the flexibility of such concepts. In effect since July 2011, Austria's new immigration system reduces the barriers for immigration with medium- and high-level education. Especially for the latter group, the bureaucratic hurdles with regard to identifying sectors with strong labor demand have been notably lowered.

European initiatives, such as the Blue Card, cannot replace a proactive national immigration policy – especially when considering that some of the planned features of the Blue Card have already been rendered less effective even prior to its introduction, partly upon complaints by the German government. Now the Blue Card must account for national immigration and residence legislation, which does not really constitute progress in the harmonization of EU immigration law. A German initiative aiming at a points system could strengthen the case for the necessary improvement of the European Union as an attractive target region for high-skilled migrants.

Three-pillar strategy for temporary and permanent immigration of skilled labor

The IZA model centers on a three-pillar strategy. The first pillar targets immigra-

IZA Proposal: Points System for Immigration to Germany

Pillar 1: High-skilled

(1) Qualification (education, vocational training)	30 to 50 points*
University or college degree (B.A./B.Sc.)	30 points
University or college degree (M.A./M.Sc.)	35 points
Doctoral degree (Ph.D. or equivalent)	40 points
University professor (habilitation or equivalent)	50 points
(2) Language skills	up to 10 points**
Very good or excellent German skills (min. B1)	10 points
Basic German skills (min. A2)	5 points
Very good or excellent English skills (min. B2)	5 points
(3) Professional experience	up to 10 points
At least 9 months of job experience in Germany	10 points
Job experience (per year)	2 points
(4) Age	up to 10 points
Age group 21-39 years	10 points
Age group 40-49 years	5 points
(5) Job offer	10 points
Proof of job offer in Germany	10 points
(6) Special integration advantages	up to 10 points
German university or college degree	10 points
Spouse also moves to Germany	5 points
Spouse's qualifications	up to 5 points
Previous or current stays in Germany	up to 5 points
Family or relatives in Germany	up to 5 points
Successful completion of integration course	5 points
Maximum total	100 points
Threshold 1 (qualifies for screening)	60 points
Threshold 2 (permanent residence granted instantly)	80 points

* At least 30 points must be achieved in the field of qualification in order to qualify for immigration under pillar 1. In the future, the recognition of foreign qualifications might be based on the European Credit Transfer System (ECTS) and the European Qualifications Framework (EQF). At the time, however, these are still in the implementation phase and cannot serve as a definite standard.

** Classification of language skills according to the Common European Framework of Reference for Languages (CEFR).

Pillar 2: Skilled

(1) Qualification (in shortage occupations)	15 to 35 points**
Completed relevant vocational training: Urgency level AA	30 points
Completed relevant vocational training: Urgency level A	25 points
Completed relevant vocational training: Urgency level B	20 points
Completed relevant vocational training: Urgency level C	15 points
(2) Language skills	up to 15 points***
Very good or excellent German skills (min. B1)	15 points
Basic German skills (min. A2)	8 points
Very good or excellent English skills (min. B2)	5 points
(3) Professional experience	up to 15 points
Occupation-specific job experience in Germany (per year)	5 points
Occupation-specific job experience (per year)	2 points
(7) Age	up to 10 points
Age group 21-39 years	10 points
Age group 40-49 years	5 points
(4) Job offer	15 points
Proof of job offer in Germany	15 points
(5) Special integration advantages	up to 10 points
Spouse also moves to Germany	5 points
Spouse's qualifications	up to 5 points
Previous or current stays in Germany	up to 5 points
Family or relatives in Germany	up to 5 points
Successful completion of integration course	5 points
Maximum total	100 points
Threshold 1 (qualifies for screening)	60 points
Threshold 2 (permanent residence granted instantly)	80 points

* At least 15 points must be achieved in the field of qualification in order to qualify for immigration under pillar 2. In the future, the recognition of foreign qualifications might be based on the European Credit Transfer System (ECTS) and the European Qualifications Framework (EQF). At the time, however, these are still in the implementation phase and cannot serve as a definite standard, particularly as they do not yet account for the peculiarities of the German dual system of vocational training.

** Shortage occupations (with medium- to long-term labor shortages) to be defined by suitable indicator systems. Urgency levels (AA/A/B/C) are determined by the size of the shortage.

*** Classification of language skills according to the Common European Framework of Reference for Languages (CEFR).

Source: IZA Research Report No. 35

tion of the high-skilled, mainly university graduates. This group possesses flexible and transferable qualifications and skills. Against the background of a dynamically changing knowledge society, these characteristics are rapidly gaining importance. At the same time, they usually imply a strong ability to integrate into the host society, both economically and socially. For this group, job-specific skills or concrete job offers are less relevant. Points in this pillar put a high weight on general human capital and academic education. This offer is also directed at foreign graduates of German universities, whose continued stay in Germany is highly desirable. The second pillar enables and controls immigration of skilled workers, who do not hold an academic degree but possess sector-specific skills through vocational training in labor market segments that are expected to exhibit shortages in the medium to long term. The points awarded for this group differ substantially from the first pillar: occupational skills received a relatively higher weight, and a concrete job offer should exist.

For both immigrant groups, the proposed point system not only rewards German language skills but also provides an option to succeed with a good knowledge of English.

In this case, the acquisition of German language skills will be part of mandatory "integration courses" which in the future should be more tailored towards the needs of the labor market. Furthermore, the IZA concept sets two different threshold levels and thereby differs from most of the currently practiced international immigration regimes. The lower threshold defines a minimum of points needed to qualify for the screening procedure (at 60 percent of the maximum number of points, this is relatively high by international standards). Achieving this level does not constitute a legal claim to an immigration permit. The number of permits granted depends on a regularly adjusted quota. Within this quota, only the best applicants will be successful. Unsuccessful applicants may be considered again within the next quota period. The new feature is a second threshold, set at a very high level. Applicants who achieve 80 percent of the maximum points are instantly granted permanent residence because they can be expected to have good labor market prospects and a high ability to integrate.

The third pillar covers temporary immigration to satisfy short-term excess labor demand in specific sectors. Immigration through this pillar is strictly limited. A work permit is tied to a job offer and will be grant-

ed for the duration of the contract, for a maximum of three years. During that period, reapplication through the points system is possible. Companies seeking to hire labor through this pillar must pay a fee.

Even though it is safe to assume a dynamically growing need for immigration, the introduction of a quantitative and qualitative selection system should be accompanied by low initial quotas. This strategy, which serves to test and evaluate the system, must be communicated adequately to potential immigrants. Nonetheless, Germany should not count on a very large pool of interested applicants immediately after implementation of the points system. IZA proposes to set the quotas for the first and second pillars at 50,000 each during a two-year trial period. These quotas should be raised – or lowered – whenever necessary. For the third pillar, the quota should be set at 10,000 to 20,000 temporary immigrants during the trial period. This should also help to test different indicators of sector-specific labor shortages. Another reason for a relatively low quota in this area is not to rob employers of an incentive to invest in in-company training.

Introducing a combined points and quota system would also help downsize bureaucra-

cy. A large number of legal provisions could be abolished following the introduction of such a system, which would reduce the red tape for firms and applicants alike. This is particularly true for the costly and time-consuming current practice of “priority checks” favoring German employees. Standardized application procedures would speed up the screening of applicants.

The success of this concept relies to a large extent on how it is communicated and

promoted, both at home and abroad. An attractive online portal for potential applicants should summarize all relevant information. Also, the different regions in Germany can be given a chance to promote themselves as target regions. Most importantly, applicants should be able to calculate their chances of obtaining a permit. The size of the economic gain achieved with this concept will, at any rate, depend on Germany’s ability to communicate its change of course internationally.

Holger Hinte
Ulf Rinne
Klaus F. Zimmermann

Ein Punktesystem zur bedarfsorientierten Steuerung der Zuwanderung nach Deutschland

IZA Research Report Nr. 35
www.iza.org/link/report35.pdf



New Study: Immigrant Integration in the EU Still Insufficient

In a new study requested by the European Parliament’s Committee on Employment and Social Affairs, an international research team led by *Werner Eichhorst* (IZA Deputy Director of Labor Policy) analyzed the situation of immigrants in the EU member states. The report focuses on the process of integration and its impact on the labor market. Among other aspects, the experts investigate both restrictive immigration policies and practical barriers to integration. They describe best practices taken at the national and company level, which have been successful in promoting the integration of immigrants, preventing discrimination and improving their social inclusion.

The authors’ policy recommendations include: raising the awareness of discrimination issues, effective enforcement and implementation of anti-discrimination laws, promoting introduction programs for immigrants, providing language services for immigrant children, enhancing the labor market participation of immigrants, and improving the recognition of foreign qualifications.

The full text is downloadable from the European Parliament web pages and also available as IZA Research Report No. 40.

► <http://www.europarl.europa.eu/activities/committees/studies/download.do?language=en&file=42435>

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The Integration of Migrants and its Effects on the Labour Market

IZA Research Report Nr. 40
www.iza.org/link/report40.pdf



IZA Project on International Trafficking in Humans

Trafficking in persons has generated heated debates and proposals for unilateral and multilateral policy reforms. The question of viable policy actions at a national and transnational level brings together governments, international organizations, law enforcement agencies, non-profit organizations and ground-level activists. Notwithstanding these debates and controversies, trafficking in persons is still one of the least studied forms of international migration. Consequently, policy recommendations have often outstripped conceptual development and empirical justifications.

With funding from the TransCoop Program for transatlantic research cooperation of the Alexander von Humboldt Foundation, the IZA project entitled “International Trafficking in Humans: A Cross Country Analysis” brings together a team of researchers from Europe and North America: *Randall Akee* (Tufts University), *Arnab Basu* (College of William and Mary), *Arjun Bedi* (ISS, Erasmus University Rotterdam), *Nancy Chau* (Cornell

University), *Melanie Khamis* (IZA) and *Hilmar Schneider* (IZA). The goal is to answer three sets of questions: First, what are the push and pull forces of human trafficking, and how do these factors compare with the forces that influence voluntary and economic migration flows? Second, how do international policy initiatives (e.g. the Palermo Protocol of the United Nations) fare in stemming the tide of the transnational flows of trafficked persons? Third, is there cross-cutting linkage between policies restricting/facilitating conventional migration flows and the incidence of trafficking in persons?

The IZA project contributes to trafficking research in three substantive ways. First, a cross-country matrix of international trafficking links (2000-2009) has been compiled based on reported incidence of trafficking in persons worldwide. Second, particular attention is paid to the role of the middleman traffickers in determining the effectiveness of international policy cooperation. Finally, the project introduces a full range of empirical methodologies

to trafficking research, including gravity modeling, and the construction of migration openness indicators.

The project generated a series of papers: “Transnational Trafficking, Law Enforcement and Victim Protection: A Middleman’s Perspective” (by Akee, Basu, Bedi and Chau) presents a conceptual model of the international trafficking problem where the clandestine activities of middleman traffickers play a critical role. The model shows that the trafficking response to host and source country bans on prostitution depends critically on the *combination* of three sets of factors: the elasticity of demand for the services of trafficked victims in host and source countries, the bargaining power of middleman traffickers in claiming a share of the victim’s price, and the transnational ease of mobility of middleman traffickers. The paper then makes use of these results to infer the elasticity of demand for the services of trafficked victims by empirically examining the role of prostitution bans in host and source countries on international trafficking flows.

“Vulnerability and Trafficking” (by Akee, Basu, Chau and Khamis) exploits the panel nature of the international trafficking data compiled for the purpose of this project, and the inception of the UN Protocol to Prevent, Suppress and Punish Trafficking in Persons in the interim. The paper examines the importance of multi-lateral cooperation in efforts to mitigate international trafficking via a difference-in-difference and instrumental variables approach. The findings suggest a negative association between host-source ratification of the Palermo Protocol and observed bilateral incidence of trafficking in persons.

Another objective of this project is to stimulate cross-disciplinary work among trafficking researchers and migration researchers. Indeed, the sources of the push and pull factors of legal migration are by now well-documented. Less often observed, however, is the fact that legal migration is but one of possible alternatives available to migrants and facilitators of migration, including illegal migration, smuggling, trafficking, and other forced displacement of people due to economic forces, political unrests, or natural disasters. Migration policy reforms aimed primarily at any one of these forms may thus have important cross-cutting effects on both legal and illicit flows. These are the

issues that motivated the IZA workshop entitled “Legal and Illicit Migration: Theory, Empirics and Policy” in July 2010, with funding from the Alexander von Humboldt Foundation through the TransCoop Program.

A policy panel on illicit immigration and enforcement featuring *Norbert Drude* (Department of Financial Control and Illicit Work, Cologne), *Thanh-Dam Truong* (ISS, Erasmus University Rotterdam) and *Dita Vogel* (HWWI, Hamburg) included reports on the results of recent HWWI research on the economic importance of illegal and illicit migration in Germany and the EU, and the key distinction between (i) illegal migrant status and (ii) illegal work but legal identity in the conduct of enforcement activities in practice. Also discussed were the role of EU enlargement on illegal immigration trends; the critical issues of exploitative work conditions facing illegal immigrants and its relation to law enforcement and policy making, and the value-added of an interdisciplinary approach to address the relationship between migrants, employers, enforcement agencies, and the law.

The second part of the workshop showcased a series of frontier research themes surrounding legal and illicit immigration, such as political economy; host and

source country perspectives; assimilation; coerced or forced migration; and deportation and return.

The conference papers can be downloaded from the IZA website:

► www.iza.org/link/LIITEP

Randall K. Q. Akee
Arjun Bedi
Arnab K. Basu
Nancy Chau

**Transnational Trafficking, Law Enforcement and Victim Protection:
A Middleman's Perspective**
(mimeo)

Randall K. Q. Akee
Arnab K. Basu
Nancy Chau
Melanie Khamis

**Ethnic Fragmentation, Conflict, Displaced Persons and Human Trafficking:
An Empirical Analysis**
(IZA Discussion Paper No. 5142)

Randall K. Q. Akee
Arnab K. Basu
Nancy Chau
Melanie Khamis

Vulnerability and Trafficking
(mimeo)

Cutting-Edge Research Forum: IZA Annual Migration Meeting

Along with the 3rd Migration Topic Week (MTW), the 8th Annual Migration Meeting (AM²) took place in Washington, DC in May 2011. Co-organized by IZA Program Directors *Amelie F. Constant* (Executive Director, DIWDC) and *Barry R. Chiswick* (George Washington University), the four-day meeting brought together more than fifty migration experts from all over the world and allowed for twenty-seven presentations on remittances, occupational adjustments, personal and cultural conflicts and the effects of immigration on the host economy.

The Julian Simon Lecture was again the highlight of the AM². This year's keynote, entitled “Chain Reaction: The Causes and Consequences of America's War on Immigrants,” was delivered by *Douglas S. Massey* (Princeton University). He stressed the importance of policymakers – at both the state and national levels – to take action in legalizing the undocumented immigrants and integrating them into American society in order for the nation to continue striving economically and socially. Currently, the estimated figure on undocumented residents living in the U.S. is 11.2 mil-

lion; they comprise 4% of the population, 8% of the labor force, a third of the foreign-born, and 60% of Mexican immigrants. Yet they lack social, economic, and civic rights.

The presentation by *Adriana Kugler* (Georgetown University; Chief Economist, U.S. Department of Labor; see also page 17) used Vietnam as an example to show that remittances in the hands of women are associated with improvement in education and physical well-being for the elderly and children. *Antje Kroeger* (DIW Berlin) presented evidence that households with low remittance receipts invested in children even less than households without such remittances. The results further explained that in very poor countries families carried a great financial burden even with the help from remittances, because the absence of one caregiver fell hard on the rest of the family. *Angelino Vicejsza* (IFPRI) studied the remittance patterns of El Salvadorians in Washington DC. He concluded that cash remittance receipts appeared “greater” than grocery vouchers, and that female remitters sent more in groceries than their male counterparts.



Douglas Massey

The 2011 IZA Prize co-winner *Barry Chiswick* underlined the significance of gender, place of birth and English skill matching as characteristics directly affecting the earnings of immigrants. He found persistence of inefficiencies and labor mismatch among U.S. immigrants. *Aslan Zorlu* (University of Amsterdam) demonstrated that not only occupational adjustment was closely linked to specific groups of immigrants, but the skill transferability also played a tremendous part. With regard to employers' attitudes to-

ward migration, *Catia Nicodemo* (Universitat Autònoma de Barcelona) analyzed the labor market in Spain and the role of social networks and qualifications of immigrants during the hiring process. The paper presented evidence that immigrants are hired because qualified natives are scarce. *Carl Shu-Ming Lin* (Rutgers University) showed that U.S. employers who hired high-skilled immigrants increased their companies' profits. H-1B work status visas accounted for the largest flow of labor migration, and 80% of total H-1B visas were from industries connected with information technology. *Anirban Ghosh* (Georgetown University) studied immigrant hiring and productivity gains. While there was no significant difference between a native's productivity and an immigrant's productivity, it was a common assumption nonetheless due to the overrepresentation of foreign-born workers in certain high skill areas.

Alicia Adsera (Princeton University) presented evidence of a slightly higher fertility rate among immigrant women than Canadian-born women. Age and education level were the main factors of fertility assimilation. *Jennifer Ward-Batts* (Wayne State University) found that immigrants with daughters had a tendency to work more hours per year compared to those with boys. The race and ethnicity of working immigrant parents often determined comparable differences with native workers.

Analyzing second generation migrants' initial disadvantage and the failure of the education system, *Annabelle Krause* (IZA) pointed out that both family background and the German educational system imposed disadvantages for second generation children. Further complications were also linked with discrimination that placed migrant children in lower-ranking schools. *Simone Schüller* (DIW Berlin) found benefits to children when parents identified with the majority group. Interestingly, immigrant mothers appeared to assimilate to the host country more than immigrant fathers, who appear to cling to their ethnic minority in the host country. Being integrated contributed to building human capital, career and placement in higher secondary schools. *Simonetta Longhi* (ISER, University of Essex) discussed the impact of cultural diversity on wages and job satisfaction in England, finding a positive relation be-

tween diversity and wages, and an increasing level of productivity.

With respect to illegal migration from Senegal, the study by *Lingueré Mously Mbaye* (CERDI, University of Auvergne) reflected the people's frustrations with injustice and corrupted governments in their home country that lead to massive emigration abroad in search of an escape. The Senegalese chose to emigrate legally to France and the U.S. due to the geographical proximity and stricter

Plaza (World Bank) showed that African immigrants in Africa lived much worse off than their native counterparts; they were unlikely to own any type of housing, they had limited access to clean water, food and any type of foreign or domestic assistance. Also with regard to south-south migration, *Anna Maria Mayda* (Georgetown University) found indication of a negative impact on natives' wages especially among the higher skilled South African workers. However, there was no effect on the overall income as highly qualified immigrants play an important part for the national well-being. *David Phillips* (Georgetown University) examined a health worker wage policy in Ghana, which helped curb out-migration of health workers.

Harriet Duleep (College of William and Mary) proposed an immigration and innovation model which stressed that high-skilled im-

migrants were essential for entrepreneurship and creating new jobs in the host country. *Corrado Giulietti* (IZA) presented preliminary findings that immigration to Germany has a positive impact on overall happiness.

Dan-Olof Rooth (Linneaus University) studied ethnic minority workers in Sweden who sort away from the most prejudiced employers in the labor market. The employers' negative attitudes had generated a wage gap for ethnic minorities especially for the low-skilled workers, the main cause being the uncontrolled municipalities that call for policy interference to minimize discrimination and reduce negative effects. *Matloob Piracha* (University of Kent) analyzed the immigrant labor market mismatch in Australia, showing that over- and under-education in one's own country continued in the host country.

The meeting once again showcased cutting-edge research on migration, which is of increasing importance in the face of growing international mobility and skilled labor shortages. Choosing the U.S. capital as the venue for the 8th Annual Migration Meeting turned out to be a great success as the event also attracted a number of representatives from politics and the media. IZA will continue to strengthen its research and policy advice activities in this field.

The studies presented at the AM² can be downloaded at:

▶ www.iza.org/link/AMsquared2011



IZA Program Directors Amelie Constant and Barry Chiswick

immigration enforcement; they go to Spain and Italy illegally because it is less expensive to go and more accessible by boat. *Bryan Roberts* (Nathan Associates) showed that inconsistencies in the numbers of unauthorized immigrants in the U.S. are due to the deportation risks that result in population undercount. *Silvio Rendon* (Stony Brook University) explored several scenarios based on whether individuals entered the country legally or illegally and the subsequent decisions they made that were determined by U.S. policies and socio-economic conditions.

B. Lindsay Lowell (Georgetown University) provided an insight into the guestworker phenomenon in the U.S., while *Brian Scholl* (USAID) looked at cultural influences when immigrants choose in which state to settle. *Una O. Osili* (IUPUI) claimed that how immigrants controlled their finances in the host country was closely related to their country of origin and the financial experiences they had prior to emigrating. If immigrants experienced a financial crisis in their country of origin, they lacked confidence in U.S. banks; however, they did not exhibit the same investing behavior in other non-bank investments. With regard to remittances and poverty in Ghana, *Kwabena Gyimah-Brempong* (University of South Florida) showed that international aid decreased poverty among households that was far surpassing any domestic assistance, suggesting policy efforts that would increase the flow of remittances and help poverty-ridden Ghana. Analyzing housing and home ownership in South Africa, *Sonia*

Behavioral Economics: How Default Settings Affect Decision-Making

The increasingly sophisticated instruments of research in behavioral economics help us gain knowledge about human behavior that can be of great relevance for economic policymaking. An example is the influence of default options on individual decision processes and the willingness to make an active selection between different alternatives rather than to accept a default option. How we ultimately decide concerning the selection of different options (e.g. when filling in online forms or with regard to contract design) depends crucially on the definition of the standard option. The upcoming reform of the German Organ Transplant Act illustrates that such mechanisms can indeed be far-reaching. IZA expert *Steffen Altmann*, who recently won a prestigious Schumpeter Fellowship from the Volkswagen Foundation in this field, presents the state of current research in an upcoming issue of "Spektrum der Wissenschaft". This IZA Compact article summarizes some key aspects.

Each year approximately 12,000 people wait for an organ transplant in Germany. One reason for the low number of transplants is the low share of citizens who declare their willingness for organ donation during their lifetime. A representative survey commissioned by the Federal Centre for Health Education from the year of 2010 showed that only about 25% of Germans have an organ donor card. In contrast, 99.78% of the population in the neighboring country of Austria are registered as a potential organ donors (as of 2009).

These strong differences in registration rates notwithstanding, preferences for and against organ donation seem similarly distributed in both countries. Despite the low number of registered organ donors in Germany, 74% of the population state that they are principally willing to donate organs after death. The reason why registration rates nevertheless differ strongly lies in the so-called "default" regulation that holds as long as citizens do not actively decide for one of the available alternatives. In Germany, a citizen must "opt in" and actively consent his willingness to donate organs. On the other hand, consent

is presumed in Austria, and citizens must actively "opt out" if they disagree. Since people frequently remain passive and do not take active decisions, default regulations can have powerful implications when it comes to organ donation, but also in other important situations of economic or social life.

Psychological and behavioral economic research has identified a number of factors that can help understand the prevalent passivity in major economic or social decisions. This is particularly important since it is often inevitable for legislators to specify some default regulation. The question of what constitutes a "good" default option from a social welfare perspective, however, can only be answered if legislators have a sound understanding of the driving forces behind passive behavior. The existing studies identify three classes of mechanisms that drive passive behavior at the individual level. They are grounded in our individual preferences, as well as in human limitations of rationality and attention.

Recent scientific studies show that many people attach a disproportionately high importance to the "here and now". We tend to put too much weight on our current well-being compared to our future benefits. While a certain degree of impatience does not distort the consistency of our decisions, strong present biases can lead to suboptimal decisions and procrastination. As a result, many people remain passive and procrastinate decisions even if the benefits substantially outweigh the costs of a decision.

The second mechanism is that people passively accept default options due to their own uncertainty about preferences and expectations. In a survey of the Federal Centre for Health Education on the topic of organ donation, 53% of respondents indicated that they feel poorly or not at all informed on the subject. This uncertainty can reinforce the tendency to remain passive. People often assume that default options constitute "recommendations" and gladly follow them for convenience. This creates a number of possibilities to influence consumption deci-

sions, which should not be underestimated in terms of consumer protection.

A last factor that contributes to the strong acceptance of default rules is their nature to define an alleged status quo or reference point for decisions. Numerous studies show that individual decision-making is often influenced by such reference points and the assumed majority behavior: we tend to judge changes relative to the status quo rather than directly comparing the consequences of various alternatives (i.e. absolute values of different alternatives).

Perhaps the most important consequence of human passivity is that product specifications, optional legal regulations, and other forms of default rules may have strong behavioral consequences even if there is no rational reason for such effects.

A clearer understanding of passive decision behavior can therefore contribute to a better design of policies and legal provisions, by focusing on how to promote the welfare of passive consumers. This is especially important if we assume that people are not always acting in their best interest. A comprehensive knowledge of the causes and effects of passive behavior can support the design of regulatory mechanisms in political practice. Default rules represent a key instrument of "soft" or "benign paternalistic" policy interventions: Appropriately specified, they can help to improve decisions, without restricting the freedom of choice.

In some cases, better knowledge of passivity and its foundations can also lead policymakers to abandon default rules and instead develop alternative methods to stimulate active decision-making. Germany has decided to adopt neither an opt-in nor an opt-out solution for organ donation. Instead, every citizen should be brought to make an active decision on whether or not to donate organs. While the outcome would more closely reflect people's actual preferences, it would force everyone to make – possibly unpleasant – decisions.

Better Access to Childcare: An Important Strategy to Meet the Demographic Challenge

The lack of adequate childcare facilities is one of the main reasons why mothers involuntarily leave the labor force for longer periods. They often face immense difficul-

ties in returning to full-time employment after childbirth. A number of scientific studies show that longer interruptions in the employment history have an immedi-

ate negative impact on family income, as well as indirect disadvantages such as the devaluation of qualifications or reduced pension entitlements. This is particularly

true for high-skilled mothers looking for a job that matches their formal qualifications. From a macroeconomic perspective, this results in a large unused potential of qualified labor. In the face of demographic change, this important resource should not be underestimated. More flexible working hours and other family-friendly policies could help activate this unused potential. In particular, reliable and high-quality childcare for children of different age groups is vital.

The German discussion on the compatibility of family and career is mainly concerned with the childcare situation for under three-year-olds and pre-school children. In contrast, little attention is paid to the situation of families with school-age children, although there is much room for improvement in this field. Continuous employment history for mothers can only be achieved if adequate daycare is available at least until age 15.

International comparative research also largely neglects the age cohort of younger school children. Nursery schools and daycare centers get much more attention than all-day schools and after-school care. Data for Germany show that external care for school-aged children primarily takes place on a part-time basis up to 29 hours a week, which accounted for 54 percent in 2008. By international standards, the share of children in schools that offer daycare for more than 30 hours is relatively low (38 percent).

The improvement of full-time childcare would not only have positive labor market effects, but it would also be desirable in terms of education policy. All-day schools or additional care could make family life easier with regard to education and preparation for school, particularly for disadvantaged and immigrant families.

A recent IZA study prepared for the German "Zukunftsrat Familie" of the Federal Ministry of Family Affairs analyzes the childcare situation for children in primary school up to the first years in secondary school. Contrasting the supply of available childcare facilities with the existing demand, the au-

thors estimate the labor supply effects of expanded childcare for mothers of school-aged children. From the macroeconomic perspective, the resulting income effects and the additional public revenues from taxes and social security contributions are compared with the necessary investments and operating costs.

Strong work incentives for inactive mothers

The IZA study shows that an expansion of after-school care would lead to higher employment rates and longer working hours for mothers. In other words, all-day care for school-aged children is a cornerstone for the compatibility of family and work. Particularly for mothers of elementary school children, continuous childcare is essential to avoid long interruptions in their employment histories. It mitigates the income losses and the devaluation of occupational qualifications. Hence, the expansion of all-day schools is not only desirable in terms of education policy but also with respect to an improved labor market (re-)integration of mothers. In addition, this could substantially reduce the shortage of qualified workers.

The estimated additional labor supply resulting from the availability of reliable after-school care is shown to have the strongest effects on previously non-employed mothers, whereas the marginal effect on working hours of already employed mothers is less significant. The impact is mainly confined to the western part of Germany, where the availability of childcare is much more limited than in the east.

In sum, the expansion of all-day care capacities for school-age children would particularly benefit qualified mothers in western Germany who currently do not participate in the labor market due to insufficient childcare opportunities. In two scenarios analyzed by the IZA experts, between 195,000 and 260,000 mothers who have not yet used any external childcare services would enter the labor force – to a large extent in skilled jobs and mainly in part-time employment. Currently em-

ployed mothers, on the other hand, would increase their working hours only marginally, and their income gains would be modest. When accounting for the mobilizing effects on employed mothers who already use some form of external childcare, but would benefit from an expansion as well, the number of mothers who return to the labor market would increase by an additional 150,000 to 200,000. In total, depending on the scenario, the extra labor supply would amount to between 345,000 and 462,000 mothers.

Accordingly, the increase in net incomes and public revenues from income tax and social insurance contributions would be sizeable. In both simulated scenarios, the effects on mothers who do not yet use any external childcare would amount to 0.9 to 1.0 billion euros in extra income taxes and 1.6 to 1.9 billion euros in social security contributions. This compares to annual operating costs of just above 1 billion euros for all-day care for children under 12 years of age, and 1.7 to 1.9 billion euros for children under 15. Hence, the recurrent costs could be covered largely by the additional tax revenues. If parents were charged only modest fees for childcare, the balance for public budgets would be positive – even without accounting for the reduced expenditures for transfer recipients and the long-term positive impact on mothers' career prospects. Against this background, the one-time investment of about 3.3 to 3.5 billion euros for a sufficient expansion of all-day care for under twelve-year-olds would be money well spent.

In light of the impending demographic challenge, German family policy should make this issue a top priority.

Werner Eichhorst
Paul Marx
Verena Tobsch

Schulgänzende Betreuung für Kinder:
Status Quo und
Beschäftigungswirkung

IZA Research Report No. 37
www.iza.org/link/report37.pdf



IZA/World Bank Conference in Mexico: Making the Case for Social Insurance and Protection in Low- and Middle-Income Countries

How to provide insurance and security to people working in the informal sector was the key theme of the 6th IZA/World Bank conference on "Employment and Development" held in Mexico City on May 30-31,

2011, under the auspices of the President of Mexico. The conference series was initiated in 2006 to find solutions for the creation of better jobs and income opportunities in the poor countries of Latin

America, Africa and Asia. Attended by more than 100 policymakers, researchers and representatives of international institutions, this year's conference was co-organized and cosponsored by the In-

stituto Tecnológico Autónomo de México (ITAM) and the Inter-American Development Bank (IDB).

Having more insurance and social protection is critical because it can increase the population's acceptance of labor market reforms, such as the introduction of more flexible labor contracts. However, as was stressed emphatically by Mexico's President *Felipe Calderón* in his keynote address to the conference, for all the economic virtues and benefits, political economy considerations can hinder any reform process. He laid out the difficulties he has encountered in his country's parliament in seeking to reform the labor laws, which have been basically unchanged since 1970, in order to make the country's economy more competitive.

According to IZA Director *Klaus F. Zimmermann's* opening statement, global poverty can be ameliorated through the creation of jobs – but in the absence of formal-sector jobs, governments must step in to provide basic social insurance. To this end, the IZA/World Bank conference series brings together policymakers, researchers and representatives of international institutions to foster a better understanding of the informal sector and the effectiveness of labor market reforms in emerging and developing economies – and in determining how policies that have been successfully employed by developed countries such as Germany can be adapted to the unique circumstances of developing economies.

In another keynote speech, *Javier Lozano*, Mexico's Secretary of Labor and Social Welfare, stressed the urgency of the need for reform in order for low- and middle-income countries to take advantage of the demographic dividend. Using as an example the case of Mexico, whose population at an average age of 27 years is very young, demographic aging implies that reforms of labor and social protection will only become more difficult in the years ahead, as an ever bigger share of the population ages, needing pensions and requiring more expensive medical care.

Birol Aydemir, the Turkish Undersecretary of Labor and Social Security, pointed out that “informality is a social disease” with very negative consequences for the economy and the society. He also underscored the importance of designing social

revenue financing of a basic package of social insurance benefits can help eliminate labor market distortions, it might not always be feasible. Robalino stressed the need to eliminate implicit redistribution within social insurance programs by



Mexico's President Felipe Calderón during his keynote speech

protection systems carefully programs so that they do not deter employment and promote informality. Mr. Aydemir outlined the measures his government has been undertaking to combat informality, including increased enforcement (inspections, controls and penalties), awareness-raising, greater incentives for firms to hire formal workers, and reducing disincentives for (informal) workers receiving non-contributory health insurance (the so-called Green Card in Turkey) to get formal jobs. These measures have contributed to the reduction in job informality from 48% in 2005 to 41% in 2010.

Carmen Pages of the Inter-American Development Bank underscored the need for better social protection for the informal sector. An aging population and the vanishing of traditional protections via the extended family will leave more and more people unprotected. While in the past an average of six children took care of their parents, with smaller family sizes the burden now rests on only one or two children. The continuous migration from rural to urban areas also makes traditional old-age caring arrangements between parents and children less reliable. She also suggested making contribution rates to contributory systems progressive so that the disincentives to join the system are smaller for poor people.

David Robalino, leader of the World Bank's Labor Team, indicated that while general

linking contributions to benefits as a way to reduce the tax wedge. This can be achieved by moving from Defined Benefit to Defined Contribution pensions, from unemployment insurance to unemployment savings accounts, and by asking individuals to contribute to health insurance on the basis of “premia,” as opposed to a share of earnings. Explicit redistributive arrangements that do not depend on where individuals work can then be designed to cover those with low or limited savings capacity.

While most conference participants agreed that social protection for the informal sector is needed, the perfect solution of contributory and/or non-contributory systems has not yet been found. There was a clear consensus, though, that a certain unbundling of the insurance components would be needed: While universal systems might work best for health insurance, particularly for serious health shocks, old-age pensions could require different systems. As *Robert Holzmann* (University of Vienna) stressed, one should not force poor people into mandated pension schemes. Their need for liquid funds is higher than the need for long-term illiquid savings.

Gary Fields (Cornell University) also made a plea for providing a basic security to everyone. He would rather see people abstain from work and have a basic income than taking up very dangerous jobs. Employer of Last Resort schemes, in which the government guarantees any person the right to 100 days of remunerated public work each year, would be one way in which the government could provide basic security to everyone. Similar schemes have been introduced in India and Argentina.

As an alternative vision, other speakers – including *Laurence Kotlikoff* (Boston University) – laid out that it would be good if poor people were saving more money,

which would help them cope with smaller to medium shocks. He acknowledged that poor people often do not have access to safe and sound saving products. In addition, people do not always behave rationally: Even though they know that saving is important, they face so many pressing demands that they postpone starting to save. Helping people to overcome be-

havioral myopia by offering clever saving products, e.g. insurance savings accounts, could help to reduce their vulnerability. He has urged governments to sponsor the establishment of personal retirement accounts — the government providing matches for poor, unemployed or disabled citizens — whose contributions would be invested in a global index fund.

The full program of the conference and the policy forum is available online:

- ▶ www.iza.org/link/worldb2011/
- ▶ www.iza.org/link/worldbpf2011/

IZA/World Bank Workshop Discusses the Challenge of Informality

In June 2011, another joint event held by IZA and the World Bank was the workshop on “Institutions and Informal Employment in Emerging and Transition Economies”, organized by *Hartmut Lehmann* (University of Bologna and IZA), *Alexander Muravyev* (IZA), *Johannes Koettl* and *Jan Rutkowski* (both World Bank and IZA).

Informality and informal employment pose a major challenge to policymakers in emerging and transition economies. A large part of economic activity in these countries is not registered or under-declared and many workers enter employment relationships that do not provide any or only partial protection. The causes and consequences of informality in these regions have recently received growing attention, with a particular emphasis on the role of institutions. IZA’s program area “Labor markets in emerging and transition economies” will deal with informality and informal employment as one of its key issues in the coming years, in cooperation with the World Bank.

The keynote lecture was delivered by *Friedrich Schneider* (University of Linz and IZA) who focused on the development and the size of the shadow economy and of the shadow economy labor force in OECD, developing and transition countries. Schneider stressed that tax policies and government regulation are the most influential factors impacting on the shadow economy and its labor force. A second highlight of the workshop was the “policy corner”, where World Bank researchers presented their research on informal employment. The study by *Jan Rutkowski* on “Promoting Formal Employment in Kazakhstan” presented estimates of informal employment and its profile, as well as impediments to formality. Assessing poten-

tial gains from formalization, he concluded with policy recommendations on how to promote formal employment. A second presentation on “Informal Employment in the New Member States” was given by *Jesko Hentschel* and *Johannes Koettl*. Their research deals mainly with institutional impediments of employment formalization at the lower end of the wage distribution, in particular with the disincentives of tax and benefit systems to formalize jobs.

observed individual characteristics rather than by structural state dependence due to past informality spells.

Peter Elek (Eötvös Loránd University, Budapest) and *Klara Peter* (University of North Carolina and IZA) dealt with underreporting of wages in Hungary and Russia. Elek in his study took advantage of the doubling of the minimum wage in 2001-2002 to identify “cheaters” and “non-cheaters” among workers and firms regarding the declaration of wages. Peter examined the incidence and determinants of informal payments in the Russian health care industry in 1994-2005 using the RLMS data. Her findings show that long-run endowments of the health care sector, greater economic development and higher health care expenditure at the regional level have a bribery-reducing effect. There is also evidence that the private sector is more prone to corruption.



Three papers looked at aspects of informal employment in Russia and Ukraine. *Fabian Slonimczyk* (Higher School of Economics, Moscow) focused on the effect of taxation on informal employment exploiting the Russian flat tax reform of 2001 and finding a significant reduction in the fraction of informal employees as a result of a significantly lower tax wedge. *Anzelika Zaiceva* (University of Modena and Reggio Emilia and IZA) focused on the link between job separations and informal employment. Using longitudinal data from Russia (RLMS), her study finds significant effects of both past displacement and quits on the chances of future informal employment, with a higher probability of involuntary informal employment following displacements. *Melanie Khamis* (Wesleyan University and IZA) investigated the persistence of informality in the Ukrainian labor market using longitudinal data from Ukraine (ULMS). Her research finds that the persistence of informality seems to be mostly driven by un-

Three theoretical papers discussed the links of institutions and informal employment. *John Bennett* (Brunel University and IZA) presented a model that specifies conditions in a development context under which voluntary and involuntary self-employment, and voluntary and involuntary informal wage employment coexist. *Frank Malherbet* (University of Rouen and IZA) looked at the impact of product and labor market regulations on informal employment in a general framework where formal and informal firms are subject to the same externalities. *Nancy Chau* (Cornell University and IZA) presented a theoretical model that questions the compatibility of two stylized representations often found in the academic and policy literature on informality, namely that the

informal (or unregulated) sector is more competitive than the formal (or regulated) sector and that contract enforcement is easier in the formal sector than in the informal sector.

Combining theory with empirics was endeavored in three additional studies. *Erik Jonasson* (Lund University) used regional data from Brazil to test a theoretical model that assesses the role of government effectiveness in the fight against informal employment. His results suggest that informal employment is lower in regions with better governance and higher average education. *Tommaso Gabrieli* (University of Reading) presented a study of the effects of increasing formality on micro-firm performance via tax reduction and simplification schemes. The paper tests a simple theoretical model using data from Brazil, corroborating the positive effect of formality on micro-firms' performance. Developing

and testing the concept of the formalization tax rate, i.e. of the direct and opportunity costs of formalization, *Johannes Koettl* showed the paramount role of faulty labor taxation and of a wrong design of social security systems in constraining formal job creation.

The workshop was rounded off by three papers that stood on their own but covered important themes. *Mihails Hazans* (University of Latvia and IZA) compared the prevalence of informal employment in 30 European countries using data from the European Social Survey, focusing in particular on the distribution and dynamics of informal employment across the region and the incidence of informal work among different demographic and skills groups. *Janneke Pieters* (University of Groningen and IZA) analyzed production linkages between the formal and informal sector, distinguishing between a tradition-

al informal and a modern informal sub-sector. The study finds that employment growth in modern informal manufacturing is positively related to downstream formal sector outsourcing. This relationship is not found for the traditional informal sector. *Niels-Hugo Blunch* (Washington and Lee University and IZA) examined the formal-informal earnings gap in Serbia using multiple measures of informality. His results seem to point to the presence of earnings discrimination towards informal sector workers. They also suggest the importance of continued attention towards the education system as a potentially important vehicle for decreasing the formal-informal sector earnings gap.

A selection of the presented papers will be published in 2012 in a special issue of *Research in Labor Economics* on the theme of the workshop, edited by Hartmut Lehmann and Konstantinos Tatsiramos.

10th Edition of the IZA/SOLE Transatlantic Meeting of Labor Economists

In May 2011, the successful cooperation between IZA and the Society of Labor Economists (SOLE) resulted in the tenth annual Transatlantic Meeting of Labor Economists, which again took place in Buch/Ammersee. Organized by *Daniel S. Hamermesh* (University of Texas at Austin and IZA), IZA Director of Research *Marco Caliendo* and IZA Research Associate *Alexander Muravyev*, the conference brought together scholars from Europe and the U.S. to discuss various topical issues in labor economics research.

Deborah A. Cobb-Clark (University of Melbourne and IZA) explored whether non-cognitive skills are stable traits over time. Results from Australian longitudinal data show that employment or health-related life-events are unlikely to substantially affect the locus of control, but that measurement error leads to substantial downward bias in the estimates. The study by *Magne Mogstad* (Statistics Norway, ESOP and IZA) provided evidence on the returns to schooling in current and lifetime earnings. The estimates exhibit a strong life-cycle bias and also suggest that the cross-section estimates of the returns to schooling are highly sensitive to the age composition of the sample. The work presented by *Gesine Stephan* (IAB and IZA) showed that public employment services for hard-to-place in-

dividuals, compared to private services, resulted in a significantly lower number of unemployed individuals and fewer days in unemployment.

Jos N. van Ommeren (VU University) examined the causal effect of commuting distance on workers' wages in a quasi-natural experiment setting using information on all



workers in Denmark. According to the results, one kilometer increase in commuting distance induces a wage increase of about 0.42%. *Louis-Philippe Morin* (University of Ottawa) found that the abolition of Grade 13 from Ontario's education system, which generated a double cohort of high-school graduates simultaneously entering the labor market, had a negative impact on weekly earnings.

Giulio Zanella (University of Bologna) documented the impact that the time spent after looking grandchildren has on the labor supply of senior male workers. Based on the

US PSID, he found that grandparenting is responsible for about one-third of the decrease in hours worked. The presentation by *Leslie S. Stratton* (Virginia Commonwealth University and IZA) focused on households' demand for time spent on domestic services. Based on time-use data for the UK and France, the study indicates that women's wages seem to have a stronger association with the inputs to domestic work than any other price measure.

Michael C. Burda (HU Berlin and IZA) showed that payroll taxes not only represent a major long-run distortionary influence of governments on labor markets, but they also affect business cycle dynamics.

Daniel D. Santos (IBMEC Business School) compared workers displaced by the same firm at the same moment and found that the "stigma effect" of being laid off is overestimated in previous studies on wage variation that did not incorporate firm effects. *Kory Kroft* (Yale University) studied how optimal unemployment insurance benefits vary with local labor market conditions. The theoretical model shows that the moral hazard problem of unemployment benefits is a function of the local unemployment rate. Empirically, an increase in the local unemployment rate substantially reduced the unemployment duration elasticity.

Based on data from China's one-child policy, *Solomon W. Polachek* (State University of New York at Binghamton and IZA) demonstrated how a shorter fecundity horizon for females (a biological constraint) leads to age and educational disparities between husbands and wives. According to the analysis of the role of social networks in the labor market performance of immigrants, presented by *Corrado Giuliatti* (IZA), the quality of the network – as captured by the local/ethnic unemployment rate – plays a crucial role in explaining transitions out of unemployment.

The work by *Shing-Yi Wang* (New York University) presented evidence that seems to reject the hypothesis of statistical discrimination based on height: Wage gains associated with height are almost twice as large for immigrants, for which employers are likely to have less reliable signals of productivity, than for native-born individuals. The paper by *Albrecht Glitz* (Universität Pompeu Fabra) demonstrate on the basis of German data that the provision of labor market information by a larger network of former co-workers has a positive effect on the employment probability one year after displacement but no effect on starting wages in the new job. *Anna Laura Mancini* (ZEW) presented a study

that suggests that Italian children “imitate” their parents in the sense that they are more likely to read and study when they live with parents that are used to reading. Mothers seem to be more important than fathers in this type of intergenerational transmission.

René Böheim (University of Linz and IZA) explored whether the presence of social security insurance against workers' sickness absences creates inefficient monitoring of absences or an under-investment in the prevention of absences. The investigation exploited a legislative change in Austria that only affected blue-collar workers: Their sickness in small firms dropped by almost 10 percent, and sickness durations were substantially shorter than among white-collar workers. Using data from Sweden, *Martin Ljung* (University of Copenhagen and SITE) estimated a compensated price elasticity of sickness leave, which corresponds to an intensive margin of labor supply where individuals are free to adjust. The study exploits variation in tax rates and finds a substantial price elasticity of sick leave with respect to the net of tax rate (-0.7), suggesting that high tax rates significantly reduce work effort.

Emma Tominey (University of York and IZA) used administrative data to measure household income and human capital outcomes of children in Norway: Human capital outcomes are highest when incomes in early childhood and early adolescence are balanced. Among the more likely explanations for these findings are income uncertainty and child endowments. The last paper of the conference by *Matt Dickson* (University of Bristol and IZA) provided further insight on the causal role of education on labor market outcomes. Exploiting changes in the UK institutional rules to identify whether the measured returns to education reflect the extra length of schooling or an increase in qualifications, the findings provide robust evidence of returns to academic qualifications.

The relevance of the topics presented, the quality of the presentations, and the enthusiastic discussion among scholars once again confirmed the great success of the IZA/SOLE Transatlantic Meeting of Labor Economists. The program and the presented papers are available online:

▶ www.iza.org/link/TAM2011

Economics Meets Criminology: Risky Behaviors Analyzed in Bonn

The 3rd Annual Meeting on the Economics of Risky Behaviors (AMERB), a joint event funded by IZA, DIW DC and the Andrew Young School at Georgia State University, was held for the first time in Bonn this year. Again organized by its co-founders *Amelie F. Constant* (DIWDC, George Washington University and IZA) and *Erdal Tekin* (Georgia State University and IZA), the conference brought together 40 top-notch economists and criminologists from all over the world, who presented their cutting-edge research on the causes and consequences of risky behaviors ranging from substance abuse to obesity.

Daniel Roemer (University of Heidelberg) analyzed the dependence of recidivism on juvenile and criminal law. Using a unique sample of German inmates, the study disentangled the selection into criminal and juvenile law from the subsequent recidivism decision of the inmate. The results suggest that sentencing adolescents as adults reduces recidivism in Germany. *Brendon McConnell* (University College London and IZA) presented an evaluation of the effects of a localized policing experiment in London, in which the decriminalization of cannabis led to a surge in drug-related offenses, and a decrease in arrests. The authors found, however, that nationwide decriminalization does not lead to a growth

in drug-related crime, but allows the police to reallocate efforts towards non-drug related crime. *Christopher Carpenter* (University of California, Irvine) studied the Public-Place Smoking Laws in Canada using data on respondents' smoke exposure in public and private places. He found these laws had no effect on smoking, but induced large and statistically significant reductions in public-place smoke exposure, especially in bars and restaurants. These results indicate wide latitude for health improvements from banning smoking in public places.

Timothy J. Moore (University of Maryland at College Park) analyzed the employment effects resulting from the removal of drug and alcohol addictions as disabling conditions for disability benefits. Terminated beneficiaries' employment increased by 20-30 percentage points, with the largest effects among the young, those with high pre-application earnings, and those who received benefits for around three years prior to termination (as compared to shorter and longer periods). The findings are consistent with health improvements initially increasing beneficiaries' employment potential, before being outweighed by the negative consequences of an extended period out of the labor force. *Baris Yoruk* (University at Albany, State University

of New York) showed that granting legal access to alcohol at age 21 leads to an increase in several measures of alcohol consumption, including up to a 10 percent increase in the probability of drinking. There is evidence that the discrete jump in alcohol consumption at age 21 has negative spillover effects on marijuana use but does not affect the smoking habits of young adults.

Nicholas Wilson (Williams College) presented a paper on the effect of a large and sustained economic shock, the copper boom in Zambia, on sexual behavior and the spread of HIV/AIDS. The results indicate that the copper boom substantially reduced rates of transactional sex and multiple partnerships in the copper mining cities. These effects were partly concentrated among young adults, and in-migration to mining areas appears to have contributed to these reductions. *Christer Gerdes* (SOFI, Stockholm University and IZA) explored the relationship between attractiveness and risk-taking in chess. His paper showed that male chess players choose significantly riskier strategies when playing against an attractive female opponent, even though this does not improve their performance. Women's strategies, however, are not affected by the attractiveness of the opponent.

Matthew J. Lindquist (SOFI, Stockholm University) used Swedish adoption data combined with police register data to study parent-son associations in crime. Both pre- and post-birth factors are important determinants of sons' convictions, while there is little evidence of interaction effects between biological and adoptive parents' criminal convictions. Having a more highly educated adoptive mother, however, does appear to mitigate the impact of biological parents' criminality. *Giovanni Mastrobuoni* (Collegio Carlo Alberto) analyzed 5,000 Italian bank robberies to identify the distribution of criminals' perceived disutility of jail or value of freedom. The grand major-

investing in an understanding of how the markets operate or what makes them distinctive. We believe that investment is essential."

In a paper on obesity, *Wang-Sheng Lee* (MIT University and IZA) analyzed differences in job search behavior and labor market outcomes between overweight and healthy-weight individuals. The only group that experiences labor market discrimination is obese women, who exhibit lower employment rates despite having lower reservation wages and submitting more job applications. The study presented by *John Cawley*

Dave E. Marcotte (University of Maryland, Baltimore County and IZA) used panel data for all fifty U.S. states to show that the elasticity of teen pregnancy with respect to high school dropout is 0.13 for white teens and 0.25 for black teens. Put differently, black teenagers are twice as likely to get pregnant and drop out of school. *Matthias Pary* (University of Essex and IZA) studied the intergenerational effects of maternal education on children's cognitive achievement, behavioral problems, grade repetition and obesity. The study found that an additional year of mother's schooling increases the performance of children aged 7-8 on standardized tests by almost 0.1 of



ity of criminals face relatively low disutilities of apprehension while a few face very high ones, which suggests that anti-poverty measures targeted towards potential low-skilled criminals might lead to a great reduction in the number of bank robberies. Deterrence has the largest effect on more professional robbers.

In his keynote speech on drug markets, *Peter Reuter* (University of Maryland and IZA) relayed to economists that they need to invest in learning the distinctive characteristics of the participants that these markets attract and the environment in which they operate. He argued that "most of the economics literature on drug markets has aimed at finding clever theoretical solutions to problems that trouble academic economists without

(Cornell University and IZA) was the first to measure the impact of exposure to deceptive advertising on consumption of the advertised product and its substitutes. For women, exposure to non-deceptive advertisement is associated with a higher probability of consuming OTC weight loss products. Moreover, there is some evidence that exposure to deceptive advertising is associated with a lower probability of consumption by women. The association of advertisement exposure with consumption is greater for women than men, and greater for white females than African-American females. *Rusty Tchernis* (Georgia State University) showed that having a trail near a home reduces children's weight. However, the significant reductions occur only in low-crime areas.

a standard deviation, and reduced the incidence of behavioral problems.

The AMERB organizers underlined the paramount importance of this line of research in economics, in other social sciences, and in society. They decided to "take the risk" of co-organizing the next conference, which will be held in Istanbul, Turkey, in April 2012.

Download this year's program at:

▶ www.iza.org/link/AMERB2011

Call for papers for the 2012 event:

▶ www.iza.org/link/AMERB2012

British Government Commissions IZA to Analyze Labor Markets in Low-Income Countries

IZA has recently received a major commission from the British Government. Over the next five years IZA is to manage research funding in the amount of 10.6 million pounds for the UK Department for International Development (DFID) for research projects on growth and labor markets aimed at improving the living conditions of people in countries with particularly low income levels. Among other topics, the focus will be on which strategies are especially

helpful for economic growth and job creation under the specific conditions found in the countries under study.

To date there have been hardly any empirically data or studies on the poorest regions of the world upon which policy recommendations can be based. Hence, the efficacy of policies to promote employment and stable economic structures in these countries has so far been very limited. IZA and DFID will

support up to 30 different research projects in the coming five years. In cooperation with independent international experts, IZA will coordinate the selection of individual projects.

More information soon to be available online:

▶ <http://glm-lic.iza.org>

IZA Director Awards Kuznets Prize to Japanese Economists

The Japanese economists *Makoto Hirazawa* (Nagoya University) and *Akira Yakita* (Nagoya City University) received the 5th Kuznets Prize for their paper “Fertility, child care outside the home, and pay-as-you-go social security”, which was selected as the best published article in the Journal of Population Economics during the period 2007-2009. Established in honor of Simon Kuznets, a pioneer in population economics, the prize was presented by the journal’s Editor-in-Chief, IZA Director *Klaus F. Zimmermann*, during the ESPE 2011 conference in Hangzhou, China.



IZA Program Director Armin Falk Wins Prestigious Science Prizes

Armin Falk (University of Bonn), IZA Program Director for “Behavioral and Personnel Economics” and former Director of Research (2003-2007), was awarded the Prize of the Berlin-Brandenburg Academy of Sciences and Humanities, funded by the Commerzbank Foundation, in October. Worth 30,000 euros, the Prize is awarded biennially for outstanding achievement in research on the foundations of economics and law. The academy highlighted the relevance of Falk’s contributions to behav-

ioral research for economic policy advice. Behavioral economics has been one of IZA’s key research areas in the past years. “With our research in this field, we provide important insights into the mechanisms of the working world,” said IZA Director *Klaus F. Zimmermann*.

Among other science prizes, Armin Falk also received the 2011 Yrjö Jahnsson Award for the best European economists under the age of 45.



IZA Research Director Marco Caliendo Becomes Professor in Potsdam

In October 2011, IZA Research Director *Marco Caliendo* started his new position as Professor of Empirical Economics at the University of Potsdam. IZA Director *Klaus F. Zimmermann* congratulated him on this career move: “One of IZA’s key objectives is to support and promote promising young researchers. We thank Marco Caliendo for his excellent job as IZA Director of Research and look forward to our continued cooperation in the future.”

Caliendo joined IZA in Bonn as a Senior Research Associate in 2007 before becoming Director of Research in 2009. His work focuses mainly on unemployment, entrepreneurship, and the influence of personality traits on economic decisions. He will continue to cooperate closely with IZA as Program Director for Evaluation (together with *Gerard van den Berg*). In addition to several IZA projects on evaluation and entrepreneurship, he will also be responsible for the scientific coordination of the IZA Evaluation Data Set.



Policy Forum in Beijing Discusses Challenges for the Chinese Labor Market

On September 17, 2011, a policy forum was organized at the China Institute for Employment Research (CIER) in Beijing to discuss some of the key challenges for Chinese labor market policy. The event was organized as part of the 3rd CIER/IZA workshop.

The panel of speakers consisted of five distinguished experts on the Chinese labor market: *Deqiao Hu* (National Development and Reform Commission), *Shi Li* (Beijing Normal University and

IZA), *Danhua Liu* (Ministry of Human Resources and Social Security), *Xiangquan Zeng* (Renmin University of China and IZA) and *Klaus F. Zimmermann* (IZA and University of Bonn).

CIER 中国就业研究所
China Institute for Employment Research

The event produced a stimulating debate about crucial issues in China, from the structural unbalance between labor sup-

ply and demand, to rural-to-urban migration, and the need for intensifying labor market reforms and promoting wage increases. Several themes, such as labor flexibility, shortages of high-skilled workers, and the impact of the financial crisis were discussed comparing the cases of China and Germany, and emphasizing similarities and differences between the two countries.

Alan Krueger to Head U.S. Council of Economic Advisers

IZA Research Fellow *Alan B. Krueger* (Princeton University) was nominated by U.S. President *Barack Obama* to lead the White House Council of Economic Advisers. The nomination is subject to Senate confirmation. Alan Krueger served as chief economist of the Treasury Department for two years before returning to Princeton last November.

IZA Director *Klaus F. Zimmermann* has been in close touch with him over the past years through IZA's partner institution DIW DC in Washington. "Alan is a brilliant and in-

sightful economist who is dedicated to a better understanding of the labor market. Given the vast economic challenges ahead of the United States, he is certainly an excellent choice for this influential post," said Zimmermann.

Alan Krueger received the IZA Prize in Labor Economics together with *David Card* in 2006. Their joint volume "Wages, School Quality, and Employment Demand" is currently in press as part of the IZA Prize Book Series.

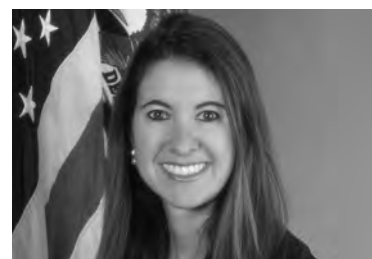


IZA Fellow Adriana Kugler Serves as Chief Economist at the U.S. Department of Labor

IZA Fellow *Adriana Kugler* has become Chief Economist to U.S. Labor Secretary *Hilda L. Solis*. She is currently on leave from her position as Full Professor of Public Policy at Georgetown University. Dr. Kugler has been an IZA Research Fellow for more than 10 years and has published 15 papers in the IZA DP Series. She is also affiliated with NBER, CEPR and CReAM, and serves on

the editorial boards of several major economics journals.

Adriana Kugler has published widely about the impact of public policies on employment and earnings. She has also written on the topic of immigration and its impacts on both receiving and sending countries.



New IZA Research Staff

Four young researchers have joined IZA during the past two months to support the institute's research activities in program evaluation, migration, and development economics.

Costanza Biavaschi finished her Ph.D. at Rutgers University in October 2011. Her research interests are in labor economics, applied microeconomics/microeconometrics, and public economics. Her current work focuses on migration issues, such as return migration, self-selection of migrants, and immigrant academic achievement.

Patrick Arni received his Ph.D. in 2011 from the University of Lausanne, HEC. He was previously a visiting scholar at Tilburg University. His research interests include labor economics and applied microeconometrics. In his dissertation he analyzes incentive policies in unemployment insurance. A further research focus is on evaluating the impacts of beliefs and of networks on social insurance schemes. He will serve as Deputy Program Director for IZA's Evaluation program area.

Mathias Dolls is currently completing his Ph.D. at the University of Cologne. His main research interests are in the fields of empirical public economics and labor economics with particular reference to the redistributive and insurance effects of tax and transfer systems. He has been affiliated with IZA since September 2009.

Janneke Pieters is about to receive her Ph.D. from the Faculty of Economics and Business of the University of Groningen. Her main field of research is development economics, with a focus on inequality and labor markets. Currently, she works on trade and wage inequality in developing countries, female labor force participation, and employment in informal manufacturing in India. At IZA she will also serve as Deputy Program Director for "Growth and Labor Markets in Low Income Countries" (see page 15).



Costanza Biavaschi, Patrick Arni
Mathias Dolls, Janneke Pieters

Forthcoming IZA Events

April 23–29, 2012	15th IZA European Summer School in Labor Economics	Deadline: January 18, 2012
April 27–29, 2012	4th Annual Meeting on the Economics of Risky Behaviors (AMERB)	Deadline: January 13, 2012
May 31– June 3, 2012	11th IZA/SOLE Transatlantic Meeting of Labor Economists	Deadline: January 16, 2012
September 20–22, 2012	24th Annual Conference of the European Association of Labour Economists (EALE)	Deadline: February 1, 2012

Job Strategies for the Young

Western countries face unprecedented difficulties in generating jobs for their young generation. This is also becoming a problem for developing countries. In terms of policy options, what it boils down to is the question: Do you basically want to follow the American or the German model? In the United States, it is usually taken as a given in working life that the road to success leads through a four-year college. Given the profound cost of attending university, some parents begin saving for a child's tuition while he or she is still in diapers. But is this really the best path to success for most people?

Recent U.S. data paint a questionable picture. About 70% of U.S. high school graduates go on to study at a four-year college. If a large number of these students were earning degrees in chemistry, computer science and electrical engineering, the United States would probably not be looking nervously over its shoulder at the burgeoning economies of India and China.

The sad reality is that only about 60% of U.S. university students actually complete a bachelor's degree (or its equivalent) in any field within six years of matriculation. That means a high percentage of America's young people are entering the labor force armed only with a high school diploma – and little or no work experience. Not surprisingly, America's youth unemployment is more than double the rate for the overall population. In Germany, youth unemployment is barely above the rate for the overall population. These stark differences may, in fact, have quite a lot to do with school-to-work transitions.

Roughly two-thirds of Germans under the age of 22 choose to enter into apprenticeships, typically a three-year period of training at a firm. Along with related technical instructions at a vocational school, a young worker learns the skills required for

a given occupation. What this tells us is that the best guarantee to ensure future employability lies in obtaining real job skills.

There are those, especially some prominent American economists, who claim that apprenticeships are an insufficient form of preparation given the complex demands of the contemporary economy. As a matter of fact, apprenticeships increasingly involve a fairly complex course of training, both in trade schools and at the company level. Along the way, apprentices learn key concepts of technology, business management, applied analysis and an ever higher degree of analytical reasoning.

Apprenticeships are therefore far more than on-the-job training. They instill employable skills, as well as provide a transition to a young person's first job. At a time when public and private budgets are very stretched, a determined focus on providing real, future-oriented job training can pay huge dividends. It is not expensive and does not require young people and their families to take on a lot of debt.

The record indicates that the German strategy, which mixes academic excellence with plenty of well-thought out professional options that do not require attending university, has the upper hand over the approach of the United States. The latter overemphasizes academic training and, by comparison, almost disregards non-academic training for jobs of the future. What the German model further underscores is that the key to a successful jobs strategy lies in aligning the longer-term interests of citizens, companies and communities alike to create a prosperous future for individuals and the nation as a whole.




Klaus F. Zimmermann



Institute for the Study of Labor



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 Printing: Güll GmbH, Lindau
 Layout: IZA