



# IZA COMPACT

Considering the Future of Labor

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April / May 2006

## IZA Publishes Evaluation of “Hartz” Reforms Promotion of Further Vocational Training Constitutes a Promising Instrument

An important element of the recent “Hartz” reforms of the German labor market is a complete reorganization of further vocational training programs (*Förderung der beruflichen Weiterbildung* or FbW). The reform proposals have been implemented since early 2003. Under the direction of IZA, a joint research group with DIW Berlin and infas Bonn has conducted the first scientific evaluation of FbW.

Previous evaluation reports on further vocational training measures yield ambiguous results for East and West Germany. The unique feature of the joint study “Evaluation of the Measures to Implement the Suggestions of the Hartz Commission” is that it clearly distinguishes between different kinds of measures. The data also permit a differentiation between regional types and thus significantly contribute to improving current knowledge.

### Quality Improvement through Competition among Providers and Personal Responsibility of Participants

In the course of the “Hartz” reforms, legal foundations for the promotion of further vocational training have undergone several changes. The superior aim of reorganizing the promotion of further vocational training is to better integrate transfer recipients into the general labor market. This aim is to be achieved by widely improving the quality and general conditions of these training measures. Among other things, the education voucher has been introduced as a new tool to match eligible individuals and providers of such measures. With this recalibration, the government fosters more personal responsibility of potential participants in such mea-

asures by granting them the freedom to choose among providers of further training. Quality management, including the certification of providers and measures, and an improved quality control through competition among providers establish a closer link between further training and placement.

### Strong Decline of FbW after the Reform

The reform of 2003 brought about a strong decline in FbW measures due to the introduced regulations, which changed entry rules on the demand side and led to increased competition among providers. In this process, major structural shifts within participant cohorts occurred, pertaining to individual types of measures. The structural changes of measures also led to substantially above average cutback in FbW in the eastern part of Germany, where measures for participants without vocational qualifications had been much more important before the reform. Furthermore, there were structural changes in participant cohorts. In particular, the shares of elderly and long-term unemployed dropped.

### Implementation Difficulties of the Reform in Local Employment Agencies

Central aspects of the sociopolitical focus of FbW have changed significantly due to the Hartz Reform. During the implementation of



Hilmar Schneider, Karl Brenke, Lutz Kaiser, Jacob Steinwede, Birgit Jesske, Arne Uhlendorff

### Evaluation der Maßnahmen zur Umsetzung der Vorschläge der Hartz-Kommission

IZA Research Report No. 7

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

February 2006

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#### EVALUATION OF FURTHER VOCATIONAL TRAINING

As part of the “Hartz” evaluations, IZA has conducted a joint study with DIW Berlin and infas Bonn analyzing the changes in the promotion of further training. The overall assessment is positive. [page 1](#)

#### HUMAN RESOURCE MANAGEMENT

A recent IZA report on “Human resource management strategies of German companies to avoid demographic shortages of executives” finds lack of preparedness for impending challenges. [page 5](#)

#### NEW RESEARCH PROGRAM AREA

In cooperation with the World Bank, IZA has established a research program on “Employment and Development” to be officially launched during an international conference in Berlin, May 2006. Intensive training programs for labor economists in Kenya are planned. [page 10](#)

#### IZA TOWER TALK

At the 12th IZA TowerTalk, Deutsche Telekom CEO Kai-Uwe Ricke discussed issues of technology and personnel management in the age of globalization. [page 13](#)

#### IZA PRIZE-WINNER BECOMES ADVISER TO THE U.S. PRESIDENT

Edward Lazear, winner of the 2004 IZA Prize in Labor Economics, has been appointed as chairman of the influential U.S. Council of Economic Advisers in March 2006. [page 15](#)

the reform, the agencies first had to solve socialization and information problems. New demands on placement officers required training courses, but these were not always sufficient. By now, compared to pre-reform times, integration targets and efficiency considerations have received a higher priority in FbW policy. Demand by employers, the connection of aims and the focus of job placement have been given more weight by the reform. In contrast, sociopolitical motives have lost their significance.

The former allocation of measures by FbW has obviously been replaced by the training target schedule. The agencies' plans now center on the availability of funds and the short-term demand of regional labor markets. However, the demand projections in the training target schedules appear to be problematic. On the one hand, agencies can act more autonomously, but on the other hand, they lose control over customers with education vouchers due to the way these vouchers are redeemed. Therefore, placement officers have to face adjustment problems when training measures are canceled for lack of participants.

**Selection Effects of the Education Voucher**

The education voucher is judged controversially by the agencies, but criticism prevails. While the new freedom of choice is certainly an advantage, it also tends to overwhelm customers. From the agencies' point of view, the strict selection of customers by the education voucher is its central drawback. Its allocation is based on several more or less objective criteria. Among these are a projection of the individual reemployment likelihood (70%

rule), the result of an assessment test, or the integration rate previously achieved by the respective FbW program type.

In addition, practical problems arise with regard to the issue of education vouchers, such as technical IT problems and problems with the validity period due to an obviously inconsistent practice of issuing three- or one-month vouchers. Furthermore, placement officers are uncertain how to deal with the freedom of choice because of insufficient guidelines, especially with respect to the 70% rule. They tend to go by established integration rates of measures and the assessment tests of applicants for education vouchers. The individual likelihood to integrate and the new market-oriented perspective are considered the central criteria for decisions on issuing education vouchers. This presupposes "honest" decision-making and the ability to turn customers down. These competences are central requirements for placement officers.

As a result of the education voucher, agencies as well as training providers report a social division in access to FbW. Previous qualifications are considered to be the line of separation. Higher qualified individuals can more easily cope with the requirements of the education voucher. They also have better eligibility prospects. Less qualified, disabled and less mobile individuals, as well as persons with language deficiencies, immigrants and long-term unemployed are often overwhelmed by the requirements. These groups have lower FbW access prospects. Given the intended purpose of this instrument to increase effectiveness and efficiency, it is up to other preventive or interventive programs of active labor market policy and other fields

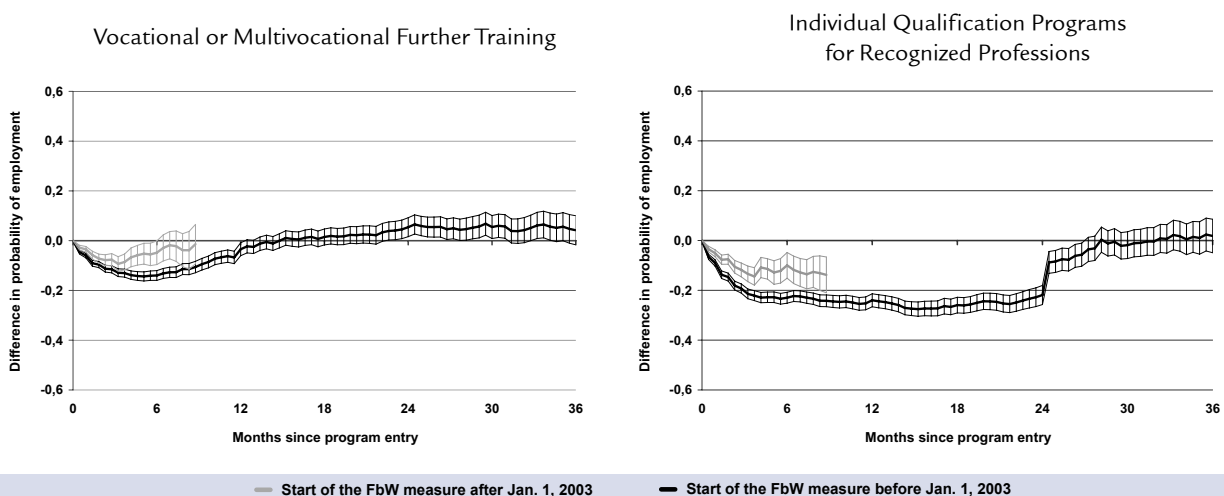
of politics to (re)integrate the Federal Labor Agency's customer base that is no longer covered by FbW in order to offset an overall negative fiscal performance.

**Competition among Training Providers Has Triggered a Shakeout**

Due to the FbW reform, the relations between agencies and training providers have also changed noticeably. Obsolete forms of cooperation are disappearing. Communication is increasingly unidirectional with the rising importance of the internet as a means of communication. Existing networks also appear to be dissolving. Training providers criticize this development and point to existing information shortages. Agencies regard the frequent failure of measures and the trend towards an economically induced cost reduction of measures, accompanied by a decline in quality, as problematic. Nonetheless, holders of education vouchers are quite satisfied with training providers and generally pleased with the measures as such. What they criticize most is the group composition in educational courses.

The desired change in quality control of further training has not yet been completed on the organizational level. The expert bodies according to §87 Social Code III are still being assembled. Yet, on-site quality control by the agencies has visibly declined in the transitional period of the reform. A decline in meetings with training providers and interviews of participants or applicants has also been witnessed. In contrast, activities concerning written agreements on objectives between the Federal Labor Agency (BA) and the providers of FbW have increased.

**Probability of Employment after Participation in**



The figures show the differences in the probabilities of employment among program participants and comparable non-participants from the point of program entry. The hatched areas around these lines depict the range of statistical error. The results are statistically significant where these areas do not overlap for post- and pre-reform phases, or where the boundaries are clearly above or below zero.

Source: Integrated employment biographies by the Federal Labor Agency; own calculations

The reorientation of further vocational training has significant effects on the landscape of training providers. Due to a lack of demand, the market of providers operating in the field of measures promoted according to Social Code III is split into providers with a low number of courses and those who offer FbW measures on a large scale. These dynamics mainly affect providers in eastern Germany and in areas with high unemployment. The providers who incur financial losses respond with layoffs and more flexible employment relationships through freelance contracts. Eastern German providers have little leeway. Apart from cutting costs, the massive drop in numbers of participants also requires a reorientation of business focus. In the end, providers enhance the scope of their services and rely on fields of general further education. The importance of measures in the field of specific vocational training tends to continually decrease in the array of services offered by training providers.

The shakeout between training providers naturally creates winners and losers. In areas with a good employment situation, providers will be able to hold their ground and to get the maximum out of the market of subsidized measures. The size of the provider is not the least important aspect in this enterprise. The providers' expectations for the next two years point to a further aggravation of the situation. Many providers want to counter the market pressure by coordination and cooperation with employers and chambers of commerce.

### FbW Leads to Reemployment But Not for Long

The effect resulting from participation in the measures consists of two opposing compo-

nents: the so-called lock-in effect and the program effect. The lock-in effect is due to the fact that participants usually exhibit a lower likelihood to seek employment during the measure, which is certainly in line with the intention of the program. It is not until after the program that its expected impact sets in, which must not only make up for the reduced search effort during participation, but also has to exceed it in order for the measure to be effective.

Observing the employment probabilities of participants and comparable non-participants, starting from the point of program entry, shows that some pre-reform measures have failed while others were moderately successful. After approximately 24 months, the employment probability is significantly higher (about 5 percentage points) for participants of vocational and multivocational further training compared to non-participants. In contrast, no positive effects are found for individual measures. However, the analogous observation of the unemployment probability suggests that most pre-reform measures had no significant positive effect. (↪ Figures p. 2/3).

The reform has, nonetheless notably improved the effects on the probabilities of employment and unemployment for most program types. For instance, a total reduction of the unemployment risk by an average of 10 percentage points is observed for participants of vocational and multivocational further training after the reform. This development is clear evidence of a positive reform effect.

However, the resulting effects do not prove to be sustainable. Even though the separation rate shows that the exit from unemployment

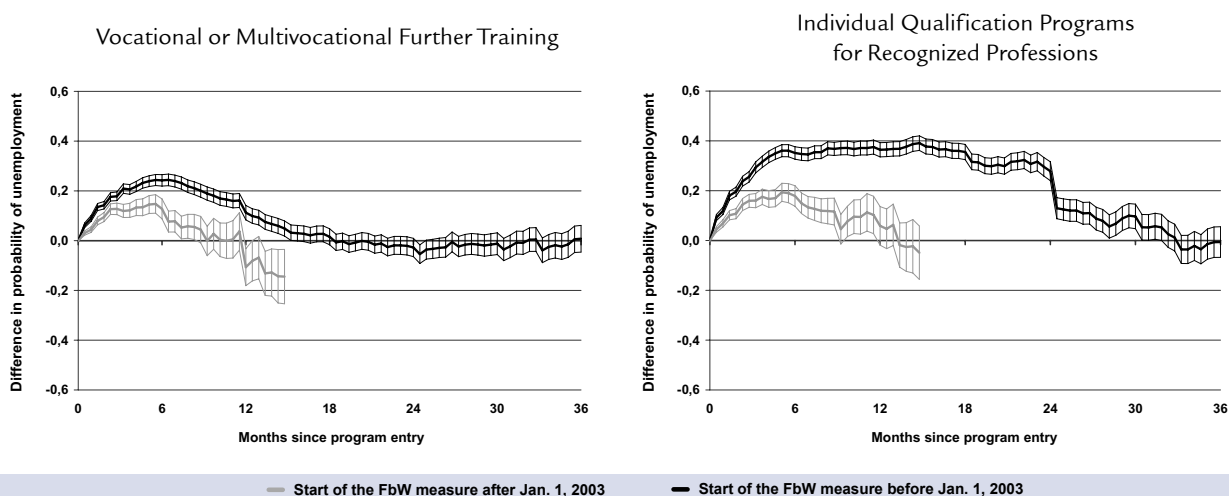
occurs sooner after completion of an FbW than without participation, in combination with the outcomes for the employment and unemployment probabilities it must be concluded that leaving unemployment is of no particular advantage to the program participants over the medium term as they do not tend to find long-term employment. If exit from unemployment were lasting, the outcomes for the employment and unemployment probabilities would speak more strongly in favor of the measures. This explains why most previous studies have yielded ambiguous results because they only focused on one of the indicators observed here.

### Reform Improves Matching of Participant and Measure

As to the duration of FbW measures, in the post-reform phase all measures are completed earlier. This is not necessarily a disadvantage since a decrease in the dropout rate partially offsets the shortened duration of measures. This may indicate that participants and measures are better matched after the reform. It may also mean that the quality of the measures has improved, and the lock-in effect is now less detrimental to participants than before.

In the past, the fiscal cost-benefit analyses of FbW measures tended to exhibit a negative balance. It is still too early for a concluding assessment of the post-reform phase as the observation period is too short. However, current trends show first signs of a remarkable improvement of the cost-benefit ratio. This must be attributed to the shorter average duration of the measures. Long-term measures fare rather

Probability of Unemployment after Participation in



The figures show the differences in the probabilities of unemployment among program participants and comparable non-participants from the point of program entry. The hatched areas around these lines depict the range of statistical error. The results are statistically significant where these areas do not overlap for post- and pre-reform phases, or where the boundaries are clearly above or below zero.

Source: Integrated employment biographies by the Federal Labor Agency; own calculations

badly in this evaluation because the lock-in effect strongly dominates the program effect. But as the empirical analysis also shows negative balances for shorter measures, a reduction of the duration cannot be the solution.

#### Categorization and Timing Are of Crucial Relevance

In sum, an across-the-board judgment on the effect of FbW measures is impossible. Some measures certainly show a positive balance in terms of effectiveness as well as cost-benefit considerations. Based on the

categorization used in the IZA evaluation, it is at least possible to separate successful from less successful measures. Apart from the program type, timing is also crucial. Applying measures right at the beginning of an unemployment spell has the effect that too many participants receive assistance although they would have found reemployment without program participation just as quickly. If program participation takes place too late, the measure must not only overcome initial placement obstacles, but it must also cope with the loss of skills and knowledge due to unemployment.

It is safe to say, according to the implementation analysis, that the full effects of the reform have not yet set in. Although general points of criticism remain, the reform of FbW has improved the overall impact of this labor market policy instrument. The average duration of measures has been shortened, thus weakening the lock-in effect, and the measures lead to a stronger improvement of the separation rate from unemployment than before the reform. Due to the continuing certification of training providers, increasing competition and the resulting selection of measures according to quality, the performance of the programs is expected to improve further.

### Two Decades of **Experimental Economic Research** in Bonn

## 20th Anniversary of Bonn Laboratory for Experimental Economics

Founded 20 years ago by Nobel Laureate and game theory pioneer *Reinhard Selten* (University of Bonn), the Bonn Laboratory for Experimental Economics is still one of the world's most prominent institutions of this kind. It is currently headed by IZA Research Director *Armin Falk*, who is also Professor of Economics at the University of Bonn. Since 1986, the experimental research conducted at BonnEconLab has greatly contributed to correcting the one-sided image of the rationally acting homo economicus. "The combination of game theoretic predictions and experimental testing as promoted by the Bonn Laboratory has become an integral component of economic science," said Armin Falk in recognition of Reinhard Selten's intellectual legacy.

As a well-established subdiscipline of its own, behavioral economics takes psychological aspects into account when predicting, for instance, the decisions made by labor market participants. Congratulating on the anniversary, IZA Director *Klaus F. Zimmermann* commented, "The analyses

performed at the Bonn Laboratory have provided modern economics with important insights. It is no mere coincidence that IZA has established its own research program dedicated to behavioral economics, which perfectly complements Armin Falk's work at the Lab."



Reinhard Selten



Armin Falk



▶ [www.bonneconlab.uni-bonn.de](http://www.bonneconlab.uni-bonn.de)

### New Book on Controversial Topic

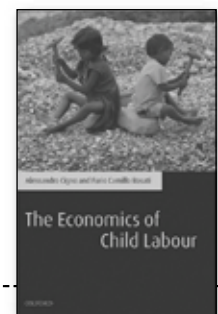
## Recommended Book: "The Economics of Child Labour"

IZA Research Fellow *Alessandro Cigno* (University of Florence) and *Furio C. Rosati* (CEIS University of Rome) have published the first book on the sensitive issue of child labor that is grounded on economic analysis.

Children throughout the world are engaged in a great number of activities classifiable as work. Only a small minority of less than 4 percent (in absolute terms nonetheless a stunning 8.4 million) of all working children are estimated to be engaged in what the ILO defines as the "unconditional" worst forms of child labor. Leaving out these morally and physically dangerous variants like soldiering and prostitution, many economic activities of children have valuable learning-by-doing

elements and produce important family income, which in turn has positive effects on the child's health and future earning capacity. The trade-off between present and future consumption may therefore be lower than is generally assumed.

This book provides a blend of theory, empirical analysis and policy discussion. Related variables like fertility and infant mortality are also taken into account. Other chapters contain cross-country comparisons, the effects of trade, and latest developments in microeconomic methodology for dealing with endogeneity, unobserved heterogeneity, and the evaluation of public intervention.



Alessandro Cigno  
Furio Camillo Rosati

**The Economics of Child Labour**

Oxford University Press, 2005

264 pages

ISBN: 0 199 264 457

# Human Resource Management Strategies of German Companies to Avoid Demographic Shortages of Executives

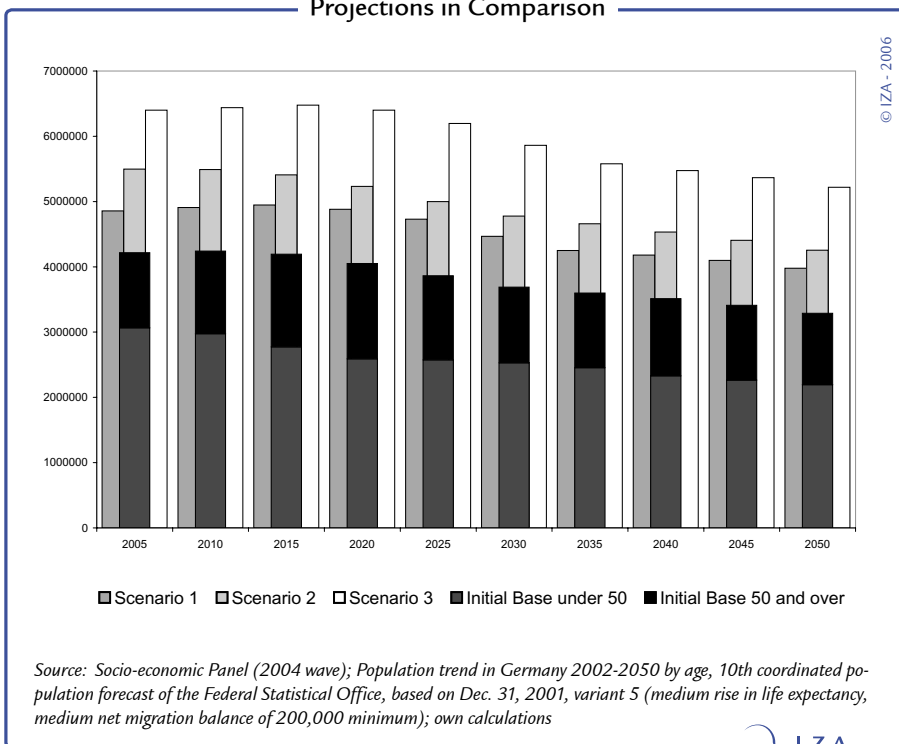
Over the next years, the impending demographic change in Germany will have dramatic consequences in many areas of life. Corporate human resources management, for instance, will face substantial challenges particularly in recruiting young skilled workers and executives, who will soon become short in supply. The public perception of these problems, however,

stands in stark contradiction to the obvious facts. As a consequence, policymakers lack a clear-cut agenda.

On the initiative and in cooperation with Ray & Berndtson, IZA has therefore conducted an online survey among large German companies to assess their current situation, problem awareness, and possible

strategies to deal with the demographic challenges. The resulting study by IZA Director of Labor Policy *Hilmar Schneider* and *Dieter Stein*, Managing Partner at Ray & Berndtson, depicts the personnel management strategies of German companies with regard to the demographically caused difficulties in recruiting high-skilled workers and executives. IZA Compact presents the major findings of this study, which is unparalleled in Germany.

Projections in Comparison



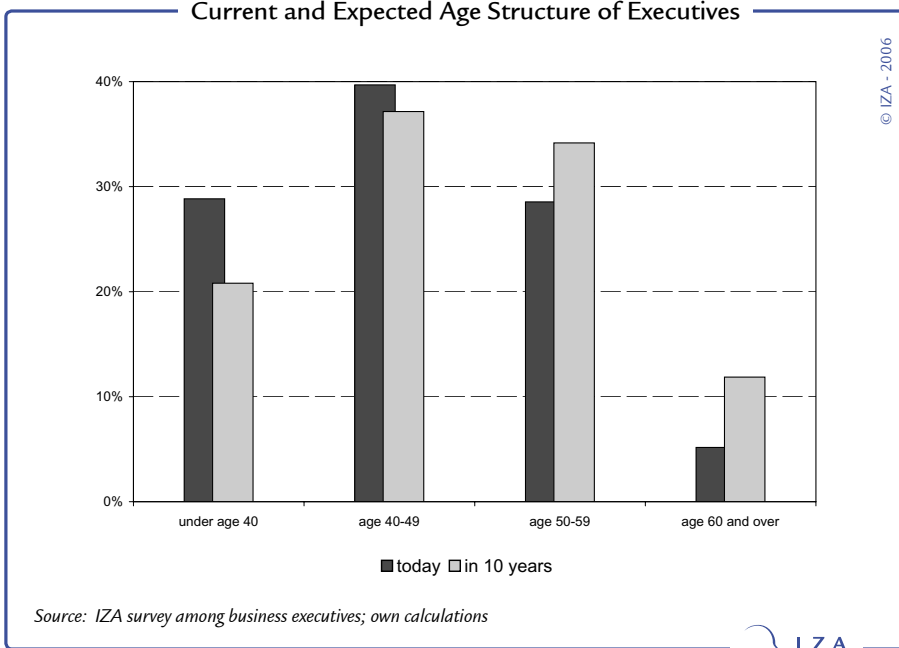
Source: Socio-economic Panel (2004 wave); Population trend in Germany 2002-2050 by age, 10th coordinated population forecast of the Federal Statistical Office, based on Dec. 31, 2001, variant 5 (medium rise in life expectancy, medium net migration balance of 200,000 minimum); own calculations

## Demographic Change and Recruitment Difficulties

At first glance, the problems seem unlikely to surface in the near future. Assuming age structure and gender ratio to remain constant, the supply of skilled workers and executives will not decrease until 2015 but cause a gap of 350,000 people by 2025, which corresponds to a decline of 8 percent. Until 2050, the gap is expected to increase to up to one million people, with about one-fourth fewer skilled workers and executives on the market than today (Figure).

The associated changes in the age structure, however, will be noticeable much earlier (Figure). While today about 27 percent of high-skilled workers and executives are older than 50 years, by 2015 every third person will belong to this age group. The share of young skilled workers and executives will decrease accordingly. The current ratio of 1:3 will turn into a ratio of 1:2, or 300,000 less in absolute terms. Thus, Germany is facing serious challenges with regard to its innovativeness and competitiveness.

Current and Expected Age Structure of Executives



Source: IZA survey among business executives; own calculations

## Problem Awareness of Companies and Possible Solutions

The survey shows that the companies are well aware of the demographic problems. More than three-fourths of the interviewed companies see themselves affected by demographic changes in the long run, if only to an average extent. Almost one-fourth consider the problems to be serious. At present, about one-third of the companies regularly face recruiting difficulties in filling a management position. 60 percent encounter this problem occasionally, and only 7 percent of the companies classify this problem as rarely occurring. Remarkably, 80 percent recruit their executives internally. A thorough selection of career entrants is therefore of great relevance.

Among the strategies to avoid these recruiting difficulties are retention of older employees, better utilization of female employment potential, increased hiring of foreign skilled workers and executives, and enhanced recruitment of young professionals at colleges and universities. But the success of these strategies depends on an early implementation. Any hesitation would be detrimental even if the demographic problems do not seem to set in any time soon.

Calculations show that the quantitative potential of the first two solution strategies already exceeds the projected future demand. If both the gender adjustment and the extended employment of older workers were implemented in a consistent manner, the pool of available skilled workers and executives would exceed today's number by one million in 2050. Thus, even moderate variants of the described strategies should be able to overcome the looming problems. Of course, there is a downside to any of these approaches.

**Extended Employment of Older Executives**

In quantitative terms, an extended employment of older executives is a feasible option, but the qualitative aspect involves serious drawbacks. Important for the continued employment of older skilled workers and executives in the company are their qualities and deficits in relation to other age groups. According to the company survey, older workers are described not only as less productive but also as characterized by a performance profile that is strikingly different from that of young management staff. While 'networking', 'mental capacity', 'work experience' and 'social skills' are among the strengths of older executives, these characteristics cannot offset their lower 'mobility', 'physical capacity' and 'innovativeness'. Moreover, the widespread seniority pay principle impedes prolonged employment. While this serves to explain why companies increasingly try to lay off older management staff, it also reveals the drawback of this reform proposal. An entire abolishment of seniority pay schemes is certainly not a feasible option since companies are unlikely to give up this important instrument of employee retention.

Tapping the potential of older executives therefore requires creative measures to reduce the discrepancy between their wages and productivity. Project-based retirement is an option that may become more prominent in future. It would also help maintain the motivation of young personnel as the retention of older executives delays their

own career advancement opportunities, which could have a negative impact on the work atmosphere. For Germany, the Japanese system of a second career in the same company could serve as an example. While senior managers (and their knowledge) stay with the company, they perform advisory functions associated with lower pay and possibly lower workloads. Due to the specific performance profile of older workers, qualification programs must aim increasingly at maintaining their innovative skills.

**Increasing the Share of Women in Management**

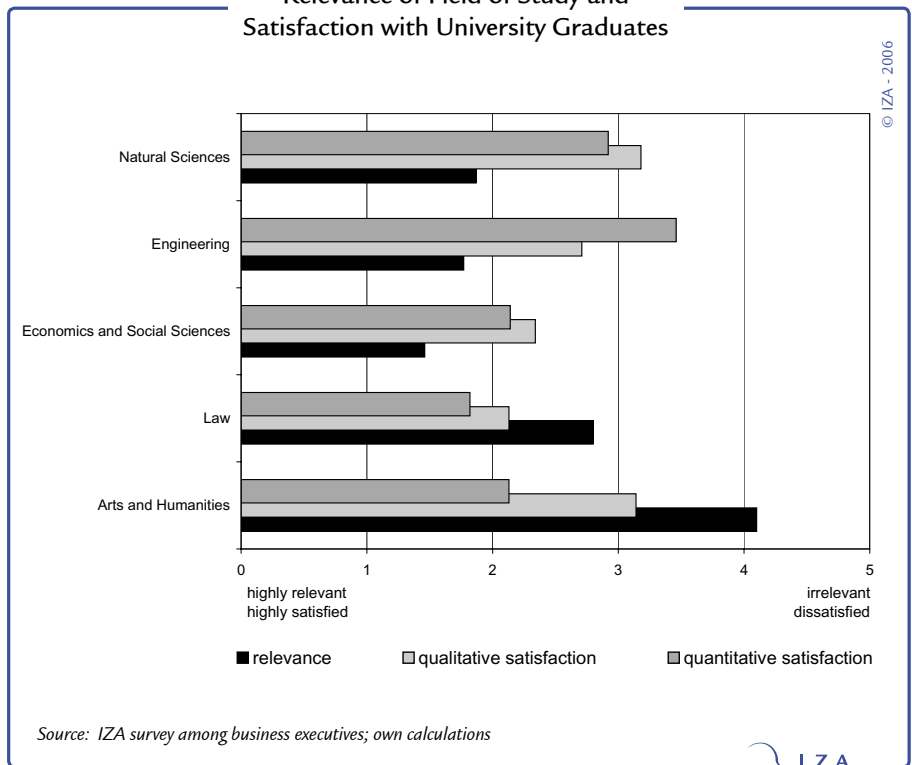
At 66.1 percent, the labor force participation rate of women in Germany is strikingly low compared to other industrial countries (U.S. 69.2%, Switzerland 73.9%, Norway 75.7%). Higher female participation could at least alleviate the potential demographic shortages of skilled workers and executives. The interviewed companies ranked an increased female labor force participation rate as highly significant and considered this option to be underdeveloped in comparison to other approaches. The current share of women who take up a management position for the first time is about 16 percent and equals the overall share of female executives. This indicates that women, while underrepresented in management positions, are not unduly impeded in their further career advancement. Thus, the problem seems to stem from the access to entry-level positions.

According to the survey, companies already claim to support women in reconciling family and work by offering, for instance, reduced working hours during child-rearing, provision of day care facilities, and parental leave. It is difficult to assess whether the quality of these services is sufficient, but the current female participation rate speaks against it, and about half of the surveyed companies stated they do nothing to support mothers in management positions. Further efforts are certainly necessary in order to increase the attractiveness of executive-level positions to women with family plans.

**Enhanced Recruitment of Young Professionals**

For the interviewed companies, the most important option to overcome demographic problems is an enhanced recruitment of young qualified personnel. Many have apparently undertaken steps in this direction, as this approach ranks highest in terms of importance, rate of implementation, and priority. This option, however, is only feasible if an increased share of younger workers actually qualifies for a management position. Demographic change thus also has important implications for the educational system. Apart from a better quality of education, institutional reforms (e.g. a shorter schooling duration) could countervail demographic shortages of labor supply and substantially alleviate recruitment problems.

**Relevance of Field of Study and Satisfaction with University Graduates**



In addition, formal qualifications will gain significance in the future. Even today, about half of the executives in German companies hold a university degree, while other qualifications play a minor role. Therefore, companies regard the promotion of young university students as an effective tool to improve the chances of recruiting highly qualified young professionals at a later stage. In this context, it is interesting to see how companies evaluate the supply of young labor in terms of qualification and quantity. According to the survey, only law and economics graduates rank as “good” in both quality and quantity (🔗 [Figure p.6](#)). While natural sciences and engineering are assessed as highly relevant, companies are not satisfied with the availability of graduates in these fields – both in quantity and, alarmingly so, in quality. This could mean that Germany’s competitive advantage in this area will be in danger over the medium term.

#### Increased Share of Foreign Executives

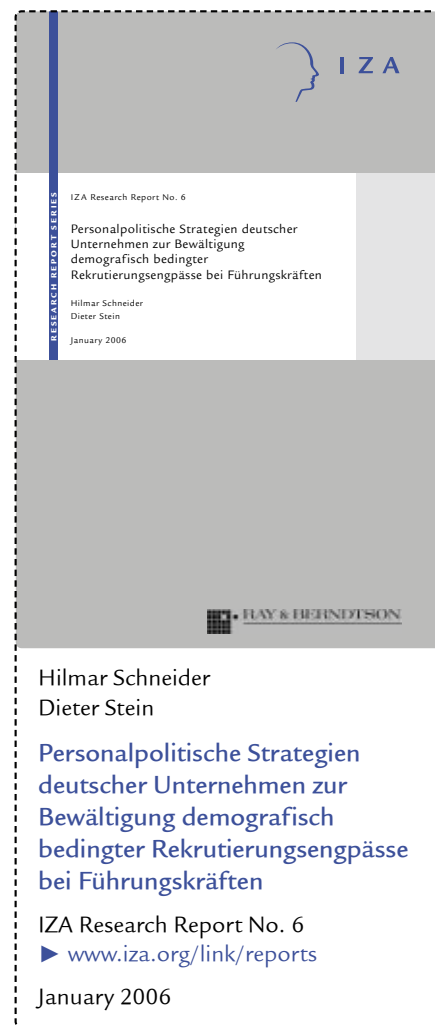
The current share of foreign executives in the surveyed companies ranges just above 10 percent, which indicates that their recruitment still plays a minor role. On the other hand, the large number of job advertisements targeted at foreign executives (about one-fourth of all job offers) shows that companies increasingly fill their openings for high-skilled workers and executives

with personnel from abroad. In view of the increasingly international orientation of companies, this trend is not surprising.

A major requirement for a feasible strategy of recruiting foreign executives is their successful integration, which is impeded by the complicated and non-competitive German tax and social security legislation. One-fourth of the interviewed companies have already run into problems with these regulations. Cultural and linguistic difficulties, each mentioned by one-third of the companies, should be manageable since the internationalized business environment increasingly follows Anglo-Saxon standards.

#### Companies Must Act

In conclusion, the demographic challenge is serious, but it can be dealt with if the necessary steps are taken early enough. Once the looming problems become reality, it will be too late for short-term adjustments. Shortcomings in education are difficult to correct at a later stage. Older workers in early retirement can hardly be reactivated, and women who did not get the chance to develop managerial skills will be unable to catch up when manpower has already become short. Although the surveyed companies have recognized the roots of the problem, the implementation of adequate solution strategies is still insufficient.



#### New IZA Discussion Paper

## IZA Publishes 2000th Discussion Paper – Study on the Parlous State of German Unions

The publication of the 2000th IZA Discussion Paper marks another milestone in this successful series of working papers in labor economics. Founded in 1998, the IZA DP Series has long become the most recognized and influential series in the field. Monthly downloads now average at more than 30,000 hits, not including downloads from the Social Science Research Network (SSRN), with which IZA has established a fruitful partnership. Most IZA Discussion Papers have already been published, or are forthcoming, in renowned journals or edited volumes.

Although the paper numbers are assigned in the order of submission, it is not a mere coincidence that the 2000th paper was submitted by IZA Research Fellow *John T. Addison* (University of South Carolina). The most frequent contributor to the series, Addison has now published a total of 31 IZA Discus-

sion Papers. His co-authors are *Claus Schnabel* (University of Erlangen-Nuremberg) and IZA Research Fellow *Joachim Wagner* (University of Lueneburg), one of the most widely cited German economists. Their joint paper examines “The (Parlous) State of German Unions” in the light of declining membership and changing labor market conditions.

#### Declining Union Density

Union density among German workers continues to decline. Today, less than one quarter of German employees are members of a trade union. The sustained reduction in union membership has damaged union bargaining power in the economic market place and in the political sphere as well. The fall in density and membership is not only attributable to external factors – such as globalization, compositional changes in the

workforce and the transition process in Eastern Germany – but also to the unions’ own structures and policies. Some more recent responses on the part of unions and collective bargaining to ongoing decline include mergers, decentralization, and wage setting that is more responsive to unemployment. But the limited effectiveness of these measures, in conjunction with the decline in works council coverage, means that unions are now at the crossroads. IZA Discussion Paper No. 2000 traces this profound decline and the lines of a potential pathology.

The German ‘model’ rests upon two foundations: centralized, industry-level collective bargaining and plant-level codetermination via works councils. The central wage agreements are designed to take the wage out of competition, while the works councils are intended to facilitate flexible implementation

of the master agreements and to represent workers' interests at the workplace. The law provides the works councils with far-reaching rights of information, consultation and participation and, despite their formal independence from unions, they maintain close ties to them. Historically, this dual system has aimed at a high degree of consensus and cooperation, and it has recorded a low strike rate over decades.

### Union Membership and Works Council Coverage

Between 1970 and 1990 union membership grew modestly. Unification caused a spurt in membership – to around 13.7 million in 1991 – but this proved temporary and by 2001 there were fewer members in a united Germany than in West Germany in 1990, and the decline has persisted. The corollary is declining density: estimates for 2004 vary between 20 and 25 percent, according to whether one includes retirees and unemployed members in the union count. The costs of organizing the east, along with the decreasing revenues from shrinking membership, led unions to scale down their regional and local presence and services with knock-on membership effects. German unions have not been able to adjust their membership composition to structural and occupational change. The majority of union members are still blue-collar workers, whereas employment has been dominated by white-collar workers for about two decades.

### Union Structure

Traditional industrial unionism with decentralized systems of interest representation in Germany faced a process of mergers and takeovers after 1989. The process culminated in 2001 with the creation of the almost 3 million-member strong United Services Union (*Vereinte Dienstleistungsgewerkschaft, ver.di*). All mergers were a response to losses in membership and density, and reduced dues income and bargaining power. At issue is whether these essentially defensive mergers will stimulate membership and replenish the unions' coffers. The bald facts in the ver.di case are that membership of the new union fell by 15 percent (to 2.53 million members) between 2000 and 2004, exceeding by 3 percentage points the contemporaneous decline in membership of the German trade union movement as a whole. Side issues raised by the emergence of a true multi-sector unionism are heightened demarcation disputes among unions and attenuation of the authority of the peak organization, the German Federation of Trade Unions (*Deutscher Gewerkschaftsbund, DGB*).

### Collective Bargaining

Traditionally, collective bargaining in Germany has been rather centralized and closely

coordinated by the appropriate sectoral trade union and employers association. There is even a measure of cross-sectoral coordination by unions and employers. Historically, wages have advanced in line with productivity and prices, with unemployment playing a minor role. By pushing through excessive wage increases in good times and establishing downward nominal wage rigidity in bad times, German unions came to behave like classic insider organizations. The corollary was a sustained increase in unemployment. Although the past decade has witnessed the emergence of a more employment-oriented wage policy, collective bargaining remains overly prescriptive. As a result, an undocumented number of employers have resigned from their employer associations while others have opted for firm-level agreements.

### Decentralization and Deregulation

This erosion in collective bargaining coverage has stimulated a growth in works agreements negotiated between the works council and firm management. Sectoral contracts have made explicit allowance for local bargaining through opening clauses, including 'hardship agreements' and employment pacts/alliances for jobs. Such clauses first covered working time and only latterly the core of wages and salaries. They differ in the degree of permanence accorded to hours and wage flexibility. At the same time, some companies have simply paid lower wages than specified under the relevant contract, after informal agreements with their workforces often with the tacit agreement of the bargaining parties.


The heightened pace of technological and organizational change has drawn works councils into codetermining strategic decisions. If this enhanced role is not a problem for the trade union movement itself, the decline of the works councils certainly is. As works councils have historically supervised the implementation of collective agreements, their erosion means that unions will be less able to perform their regulative and distributional function. Indeed, noting the tendency for wage concessions within existing collective agreements to take the form of reductions in special bonuses mostly by large companies, some observers have equated the ongoing process of decentralization with deregulation as smaller companies exit the collective bargaining system.

### Unions in Parlous State

Union membership and density have hemorrhaged. Recent attempts by some unions to negotiate special wage benefits and employment security clauses that apply exclusively to their members – as well as strike action in 2006 against the relocation of plants to Eastern Europe and against a lengthening of

the working week in the public sector – can be interpreted as attempts to win new members. In general, however, the unions have failed to identify promising and successful strategies for attracting younger workers, women, and increasingly heterogeneous other groups of employees. At a more fundamental level, the crucial issue is whether unions and employer associations can sufficiently modernize and decentralize the German system of collective bargaining. There is no suggestion that the needs of companies for flexibility have grown less, so that the system will have to accommodate further flexibility if it is to retain influence.

Not only in industrial and labor relations but also in the political arena, German unions face difficult decisions; in particular, whether to behave more pragmatically and try to influence reforms or to strictly oppose them for ideological reasons. It does not help matters that the views and strategies of individual unions range from 'social partnership' to 'countervailing power' against employers and government alike. If the German unions do not soon define what they stand for in the twenty-first century, if they do not increase their presence at the workplace, and if they do not come up with convincing strategies for coping with the various economic and political trends working against them, they would seem to be on the road to oblivion.



IZA

IZA DP No. 2000

The (Parlous) State of German Unions

John T. Addison  
Claus Schnabel  
Joachim Wagner

March 2006

Forschungsinstitut  
zur Zukunft der Arbeit  
Institute for the Study  
of Labor

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The (Parlous) State  
of German Unions

IZA Discussion Paper No. 2000  
▶ [ftp.iza.org/dps/dp2000.pdf](http://ftp.iza.org/dps/dp2000.pdf)

March 2006



## IZA Ranks High in Handelsblatt Survey on Research Output by Leading German Institutes

In its February 20 issue, the German business daily “Handelsblatt” compares the research output in terms of publications in renowned journals by Germany’s nine most important economic research institutes. According to Handelsblatt, IZA was able to expand its share of publications in the journals selected for the study to 9 percent over the past years. This is a great achievement

considering that IZA is the only institute which focuses exclusively on one subdiscipline of economic science.

The Handelsblatt study also finds an “above average productivity per researcher” for IZA. In this category, IZA ranks second behind the Social Science Research Centre Berlin (WZB). The analysis is based on a selection

of 42 journals drawn from a survey among German economists. As this selection contains only one journal in the field of labor economics, no more than about one-fifth of all IZA publications were taken into account. In this light, IZA’s top ranking position is all the more remarkable.

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

### New IZA Discussion Paper

## Can Increased Fertility Rates Offset Demographic Changes?

Demographic developments – in particular, population aging and migration – are gaining increasing importance in the domestic and international policy debates. While essentially all societies in the world are aging, the demographic transition is most advanced in the rich and developed economies of the North. In these countries, this process will lead to low or even negative population growth, a declining labor force, and a rising share of elderly in the population, while in the countries of the South, the demographic momentum will create opposite effects.

The evolving discrepancies in demographic, economic and political development have contributed to rising South-North migration, which has become a politically charged topic in many countries. The recent terrorist attacks in the United States and Europe have quite likely strengthened the reservations that citizens in these countries have about further, more massive migration. But in the absence of strong (managed) migration, low or even negative labor force growth, together with an even higher share of elderly, comes at a price for a country and its individuals.

A recent IZA Discussion Paper by *Robert Holzmann* (Director of the Social Protection Unit in the Human Development Network of the World Bank) investigates alternatives to continued and enhanced migration in order to compensate for demographic changes in the North. Besides the commonly proposed increased labor force participation, the study analyzes the achievable effects of increased fertility rates among the domestic population and reviews the policy implications for these demographic adjustments.

At the beginning of the millennium, fertility rates reached a new low in many countries and regions. Even assuming some recovery in

total fertility rates for Russia, Europe, Japan and China, the replacement level would not be reached by 2050. One potential policy option is to attempt to reach the replacement-level total fertility rate as soon as possible and keep it there. This would stabilize the labor force in the long run and, assuming a higher life expectancy, create long-term population growth. The short- and medium-term effects, however, would be limited since the past decline in the total fertility rate has already reduced the number of women of child-bearing age. And any increases in the number of births would need some 15, 20, and more years before they have an effect on the labor market.

Despite the potential long-run effects of increased fertility rates, there seems to be less grasp of what governments can do to influence the fertility decision of women in a cost-effective manner. A number of countries provide monetary transfers to families with children for the purpose of income support, pro-natal considerations, or both. But the long-run effects of such transfers seem to be very small since the present value of such transfers is dwarfed by the direct costs of raising children and the opportunity costs of forgone labor force participation and career opportunities of women.

A measure to reduce opportunity costs concerns the access of families with children to day care centers or the availability of nannies or live-in maids at reasonable prices and non-intrusive administrative procedures. Here government actions can be very supportive and apparently equally effective. A second set of measures concerns the link between the level of partnership in family decisions and child rearing and in the marriage and fertility decisions of women. But influencing such behavior through government action is much more difficult and controversial.

The study concludes that more knowledge is needed about the effectiveness and efficiency of policy measures to influence fertility and labor force participation and to better accommodate migratory flows because neither of these approaches will, on its own, be able to cover the population gap. But the assessment also points out the need to investigate measures beyond demography, or to simply prepare for a shrinking population in a number of countries, which some claim has advantages on its own.



## IZA Launches Program Area on “Employment and Development” in Cooperation with the World Bank – First Conference in Berlin

Job creation and employment are issues of growing concern worldwide, particularly so on the African continent. Despite improved economic performance in many African countries, formal sector employment has not expanded significantly. In many places, poor labor market conditions still lead to high unemployment levels, increased inequality and exclusion. Furthermore, many workers continue to face very low wages, poor conditions, insecurity, and limited opportunities. Well-functioning

markets that promote the creation of more and better jobs are also needed to guarantee the success of structural reforms, to maintain public support for these reforms, and to ensure that the benefits are widely distributed. Achieving these targets is crucial to an effective implementation of poverty reduction strategies.

Against this background, IZA has launched a new Program Area on Employment and Development in collaboration with the

Bank and IZA) and IZA Director *Klaus F. Zimmermann*. They are assisted by IZA Research Associate *Olivier Bargain*. A key task of the new Program Area is to analyze the determinants of sound, sustainable labor market policies for developing countries. The research in this field will benefit from the synergies with other IZA Program Areas, particularly with the work done on Institutions, Transition Economics, and Migration.

### First International Conference on Employment and Development in Berlin

To underscore the significance of this new program area, IZA is organizing an international conference, jointly with the World Bank, to be held in Berlin from May 25-27, 2006. The conference provides an excellent opportunity to discuss topical questions of international economic cooperation and labor markets in developing countries with renowned experts in the field. For more information, please refer to the IZA conference homepage.

► [www.iza.org/conference\\_files/worldb2006](http://www.iza.org/conference_files/worldb2006)



Klaus F. Zimmermann



Robert Holzmann



Olivier Bargain

labor markets can be the key to a business climate where new firms are created and private agents find the proper incentives to invest and innovate. But sound labor

World Bank to support the international research community in addressing the proposed priority research. Interim Program Directors are *Robert Holzmann* (World

## IZA Organizes Intensive Training Program for Young Labor Economists in Kenya

In view of the need for successful labor market reforms in African countries, the World Bank Human Development Network also manages a multi-year project on “Labor Markets, Core Labor Standards, and Poverty Reduction in Africa”. It is funded by the German Trust Fund, an organization that aims at providing a deeper analytical foundation for future research on pro-poor labor market policies and interventions in low-income countries. The project’s key components are cross-country and country-level labor market research as well as capacity building for African officials, researchers, and other stakeholders to provide a stocktaking on labor market issues in Africa and a pilot implementation of labor market initiatives in selected African countries. The project seeks to shed light on the problems of labor markets in Africa, assess promising policy interventions, and build local capacity to conduct analysis, implement and evaluate labor market interventions.

Since the capacity for qualified labor market research in Sub-Saharan Africa, as in many other low-income regions, is currently underdeveloped, the project further aims at intensively training young African labor economists to contribute to the capacity building in this area. In contrast to macroeconomic topics, labor economics has not yet been featured prominently, if at all, in the curricula of Masters’ and Ph.D. programs. In view of its research experience in this area, IZA has been awarded the responsibility to supervise ongoing research, coordinate short-term research stays for selected students, and establish a Labor Economists Intensive Training Program for graduate students at the University of Nairobi, Kenya.

The goal of this two-week intensive course is to enable African graduate students in economics to conduct policy-oriented research on labor market topics. It is hoped that building local capacity will strengthen

teaching and research capacity in Sub-Saharan Africa, increase the pool of potential researchers and policy analysts, and thus improve diagnosis, policy formation, program design, and impact evaluation. The IZA Labor Economics Intensive Training Program operates as a pilot project with possible renewal if further donor country support becomes available.

The design and organization of courses is done jointly with the African Economic Research Consortium (AERC). The consortium offers a Ph.D. Training Program which aims at integrating theory, tools and African applications in the academic program. The intensive training program will feed into this curriculum. Courses will be designed to provide fundamental knowledge in labor economics, research methods and their application to relevant policy issues. The organization of the project has already been started, with first courses planned for the second half of 2006.

# IZA Workshop: Structural Econometric Analysis of Labor Market Policy

Active labor market policies are often used to reduce individual unemployment durations and to increase subsequent wages. Job search models are excellent tools to model the behavior of unemployed workers, including the way in which behavior responds to current and future policy parameters. Recently there has been a growing interest among researchers to use job search models for studying the quantitative effects of specific labor market policies empirically.

On November 12, 2005, the IZA Research Program "Evaluation" held an international workshop at IZA in Bonn to discuss a series of papers performing structural econometric analyses of labor market policy, with a special focus on policies targeting the unemployed. The program of the workshop, organized by IZA Program Director *Gerard van den Berg* (Free University of Amsterdam) and *Holger Bonin* (IZA), included studies based on partial or general equilibrium models. The invited papers were based on structural estimation with individual records, but also on the calibration of models.

*Bruno van der Linden* (Catholic University of Louvain and IZA) presented an extension of the search-matching model suited for an equilibrium evaluation of labor market policies when those policies are targeted at some labor market groups. In his setting, workers' productivity depends on employment levels in all markets. Thus the standard juxtaposition of labor markets is replaced by a model of interactions between them. The model pays careful attention to the effects of employment subsidies and in-work benefits, and to their interaction with the profile of unemployment benefits and with active labor market programs. Calibration results show that at least in countries with large tax wedges, employment subsidies targeted at low-skill workers perform well. They can simultaneously raise employment, wages and income of all groups.

*Susan Vroman* (Georgetown University and IZA) analyzed a Swedish adult education program known as the Knowledge Lift. Unprecedented in size and scope, the program probably changed the labor market equilibrium. Econometric evaluation using fixed effect methods and allowing for treatment effect heterogeneity provides evidence of remarkable program effects: the training has indeed been effective in lifting the employment probability of participants. Moreover, training worked for men but not for women. Calibration of an equilibrium search model with heterogeneous worker skills and simulation of the policy change shows that the treated gain most from the program. Those

who remain medium skilled also benefit due to a shifting skill distribution of vacancies, whereas those who remain low skilled suffer. The equilibrium effects are substantially larger than the partial effects.

*Denis Fougère* (CREST-INSEE and IZA) presented empirical estimates based on a partial equilibrium search model in discrete time with three states: unemployment, employment, and active labor market programs corresponding to subsidized jobs with or without workplace training and training programs in training centers. In his model, the previous experience of active labor market programs is allowed to modify the arrival rate of job offers, the offered wage distribution, and the job separation rate. The results show that the estimated arrival rate of a regular job offer is higher after an employment spell, while the arrival rate of a program offer is higher after a program spell. Moreover, separation rates are generally higher after participation in an active labor market program. Wage offers are generally higher after an employment spell.

*Shannon Seitz* (Queen's University) presented evidence on the presence and magnitude of feedback effects associated with "make work

that reverse the cost-benefit conclusions implied by the partial equilibrium experimental evaluation.

*James Albrecht* (Georgetown University and IZA) examined the effects of labor market reforms in a developing economy. His model extended the standard search and matching framework by adding an unregulated, informal sector in which low-productivity workers decide to operate, and by allowing for worker heterogeneity: workers differ in what they are capable of producing in the regulated sector. Numerical solution and simulation of this model shows that the introduction of a firing tax reduces overall unemployment, attracts more workers to the formal sector, but also leads to more workers accepting any job, formal or informal. In contrast, introduction of a payroll tax greatly increases the size of the informal sector; total unemployment rises. Under both policies, output falls.

*Christian Belzil* (CNRS, GATE and IZA) investigated individual labor market histories and human capital investment over a period covering both schooling and post-schooling labor market experience in a structural statistical analysis. In an elaborated empirical



pay" policies currently under consideration in many countries. Her evidence from a general equilibrium model of the labor market is particularly convincing as its partial equilibrium implications are tested using data from a randomized experiment: the calibrated model predicts program group outcomes and experimental impact estimates very well. An application of this methodology to the evaluation of the Canadian Self-Sufficiency Project (SSP), a policy providing financial incentives for welfare recipients to obtain stable employment, reveals feedback effects

model describing schooling, post schooling unemployment, the contractual nature of the first job, on-the-job training outcomes, promotions to a permanent job, and the subsequent duration of unemployment, he found that for those who have started in a limited term job, the most important determinant of finding a new and permanent job, is the incidence of training on the job.

*Gerard van den Berg* (Free University of Amsterdam and IZA) analyzed monitoring of unemployment insurance recipients searching

for a new job. The data are from a randomized social experiment where the monitoring intensity varies across individuals with relatively good chances in the market. For these individuals, he used register data on unemployment durations and wages and merged these with survey data on search activity to estimate a job search model with

multiple search methods. The results show that individuals respond to tighter monitoring by substituting search effort from informal methods to formal methods. Unemployment durations and wages are barely affected. To generate strong effects on the exit rate to work, monitoring has to be much tighter than at present.

This IZA workshop gave momentum to an exciting new strand of evaluation research. The diversity of the presentations shows that the search and matching framework, developed by last year's IZA prize-winners Dale Mortensen and Christopher Pissarides, can provide a first-rate tool for evaluating the performance of labor market policies.

### Analyzing the Effects of **Employment Protection Legislation** and **Severance Payments**

## IZA Workshop on Employment Protection and Labor Markets

On December 2-3, 2005, the IZA Workshop on Employment Protection and Labor Markets, organized by IZA Program Director *Pierre Cahuc* (University of Paris I) and IZA Senior Research Associate *Winfried Koeniger*, brought together leading researchers at IZA to discuss topical issues in the area of labor markets and institutions. The workshop targeted at recent theoretical and empirical contributions with specific analyses of employment protection legislation (EPL) or severance payments. The papers presented at the workshop can be structured into four main themes: (1) the determinants of EPL and the complementarities with other policies, (2) the effect of EPL on employment dynamics, (3) on contract types, and (4) on different worker types by quasi-natural empirical experiments.

Four papers analyzed the determinants of EPL and its coexistence with other regulatory policies. In the first session the two papers by *Björn Brügemann* (Yale University and IZA), *Julien Prat* (University of Vienna and IZA) and *Winfried Koeniger* (IZA) were presented. Brügemann analyzed why the stringency of EPL is persistently different across developed OECD countries. He argued that delayed implementation of changes in EPL can make both high and low EPL a stable policy outcome. Prat and Koeniger investigated how these differences in EPL interact with product market regulation. They found that barriers to entry help incumbent firms to bear the firing costs but prevent less productive firms from entering the market with adverse effects on employment. Moreover, fixed costs and firing costs have opposite effects on job turnover. This might explain why job turnover is similar across countries with both more regulated product and labor markets.

In a related session, *Yann Algan* (University of Marne-la-Vallée, Montpellier and IZA) and *Pierre Cahuc* as well as *Michael Neugart* (Social Science Research Center Berlin) analyzed why EPL and the generosity of unemployment insurance appear to be policy substitutes across developed OECD countries.

Algan and Cahuc argued that the design of labor market institutions is influenced by civic attitudes rooted in cultural values. They showed that unemployment benefits are lower and job protection is stricter when individuals feel less guilty when they cheat on unemployment insurance. Neugart instead argued that if household members that are out of the labor force depend on intra-family transfers of other employed household members, the jobless household members have an interest in protecting jobs.

The second session investigated the effect of EPL on employment dynamics. *Julián Messina* (University of Salerno and IZA) and *Giovanna Vallanti* (London School of Economics) showed that more restrictive firing laws increase the cyclical job turnover by reducing the sensitivity of job destruction and increasing it for job creation. *Pietro Garibaldi* (University of Turin and IZA) and *Tito Boeri* (Bocconi University, Milan and IZA) pointed out that, in the short run, the effect of firing laws on job creation depends on the contract type of the marginal hires. This may explain the short-term employment growth in many EU countries that have relaxed the stringency of EPL by allowing more flexible contract types for new hires.

The second day of the workshop started with papers by *Marloes De Graaf-Zijl* (University of Amsterdam) and *Lawrence M. Kahn* (Cornell University and IZA) that analyzed the effect of EPL on contract types in more detail. Using an innovative methodology to evaluate contract characteristics, De Graaf-Zijl found that employers value temporary employment contracts to relax firing costs. In general, however, employers prefer regular contracts to reduce hiring costs, especially if they employ workers with firm-specific human capital. Kahn used an international micro dataset to test whether more stringent employment protection for regular jobs increases the relative incidence of temporary employment for less experienced and less skilled workers. He found that the strictness of EPL is positively associated with the relative incidence of temporary employment

for young workers, native women, immigrant women and those with low cognitive ability, controlling for demographic factors and country-specific effects influencing the overall incidence of temporary jobs.

In a related theoretical contribution *Giulio Fella* (Queen Mary, University of London) showed that in an environment with incomplete contracts, government legislated EPL might not be effective. EPL can induce reductions in privately negotiated severance payments which take into account the fall in life-time wealth in the aftermath of a job loss. For an empirically plausible strictness of employment protection, the welfare loss of government intervention is small.

In the final session, *William Kerr* (Harvard Business School), *David Autor* (MIT) and *Adriana Kugler* (University of Houston and IZA) as well as *Bentley MacLeod* (Columbia University and IZA) and *Voraprapa Nakavachara* (University of Southern California) investigated the effect of EPL on different worker types in quasi-natural experiments using U.S. data. Autor, Kerr and Kugler found that the adoption of wrongful-discharge protection in the U.S. reduced employment flows, induced capital and skill deepening but had no significant effect on total factor productivity. MacLeod and Nakavachara showed that the effect of employment protection depends on the characteristics of the job, and the degree of job specific investments in particular. They found that EPL tends to have negative effects on employment for occupations with low human-capital investment and positive effects on employment for occupations with high human-capital investment.

With this successful Workshop on Employment Protection and Labor Markets, IZA underscores the crucial importance of empirical and theoretical research in this field. Thorough analyses and innovative research in this area help to understand and deal with the effect of institutions on labor market outcomes against the background of recent reforms of labor market institutions in different countries.

## Towards a Service Culture? Deutsche Telekom CEO Kai-Uwe Ricke at IZA Tower Talk

On February 1, 2006, the CEO of Deutsche Telekom, *Kai-Uwe Ricke*, was the invited speaker at the IZA Tower Talk. In front of a record audience, Ricke spoke on "Innovations for tomorrow's markets – how technology and personnel management must interact in the age of globalization".

According to Ricke, the key challenge for the telecommunications industry in the near future will be the shift from obsolete technology-centered business models towards customer-oriented multimedia service packages. It will be inevitable for the market to focus not only on high-quality technology, but equally on service and flexibility. For the service providers, this means complementing telephone and internet access with custom packages tailored to the changing demands of their customers.

Deutsche Telekom is eager to be at the forefront of this trend, Ricke said. In order to achieve this goal in a market with extremely short product cycles, the company must further accelerate the transformation of innovations into new products. This is also a task for personnel managers at Deutsche Telekom as they are facing increasingly stiff competition aggravated by regulatory restraints. While the establishment of new high-speed data networks creates jobs for high-skilled workers, the increasingly dynamic technological change makes entire

sections of the corporate workforce redundant and radically changes the task profiles of those who have not fallen victim to the unavoidable job destruction. The CEO asked for some understanding with regard to the plan to reduce the Telekom workforce by 30,000 employees, some of which will be able to switch to other employers after parts of the company have been sold. At the same time, Ricke is planning to hire 6,000 new workers in other segments. He

*"increasingly stiff  
competition aggravated  
by regulatory restraints"*

expects the "face" of the entire company to change significantly due to personnel fluctuation and internal competition between sections as a desired means to enhance performance.

During the subsequent discussion with *Hilmar Schneider* (IZA Director of Labor Policy) and the audience, Kai-Uwe Ricke underscored the pressure that changing market conditions exert on the telecommunications industry as a whole, and Deutsche Telekom in particular. He sees no alternatives to the undertaken modernization program as even comprehensive retraining strategies offer no solution to the employment crisis in individual corporate

segments due to strong competition and new technologies. Trying to evade these tasks by refraining from the necessary reorganization would only necessitate even more drastic cuts in the future. In the context of these restructuring processes, however, Deutsche Telekom in particular faces substantial problems in motivating its employees in the light of announced staff reductions, Ricke explained. The company still lags behind not only in terms of service quality, but also with regard to establishing a corporate culture in which "employees are proud to be part of the 'T'." According to the Telekom CEO, technology and personnel management must interact effectively in order to deal with the "massive" challenges ahead.



IZA  
Tower Talk

*Kai-Uwe Ricke has been Chairman of the Board of Management of Deutsche Telekom AG since November 2002. As Chief Operating Officer he has been responsible for the company's mobile and online businesses since 2001.*

### Dataset Documentation and Remote Processing

## IZA Data Service Center Continues to Expand Documentation

IZA has now fully implemented its virtual data service center as part of a program funded by the Federal Ministry of Education and Research. Launched last fall, the center facilitates the search for and within datasets relevant for labor economics. It also allows authorized researchers to analyze datasets through controlled remote data processing.

In the first few months of the center's existence, a large number of projects using the German Microcensus have already been conducted by international research teams.

Often initiated by IZA network members, such projects include long-term analyses of labor market participation, wage increases and vocational training in Europe. Other projects focus on wage and employment structures, immigration issues or educational attainment. All these research activities rely on datasets made accessible to the scientific community only recently.

The documentation available at the IZA data service center is continuously expanded, now including the on-site scientific use

file of the Microcensus 1985-2003 from the Federal Statistical Office, and the German Times Use Surveys 1991/92 and 2001/2002. In addition, the variable time table, which offers a correspondence overview list for all variables of the survey, is now available for the German Microcensus and will soon be offered for all German datasets.

► <http://metadata.iza.org>

## IZA Organizes Topic Week on Migration

The “Migration Topic Week 2006” is a newly initiated gathering of migration scholars at IZA. The idea is to create a new forum of discussions on migration, to provide the opportunities to have useful interaction with both young scholars and established

researchers in migration, to have stimulating and provocative meetings, and to pave the way for fruitful collaborations. This year’s “Migration Topic Week”, which is organized within the IZA research program on Migration and takes place at IZA on May 13-21,

2006, is bookended by the 2nd Migrant Ethnicity Meeting (MEM, May 14-16), in conjunction with a meeting of practitioners, and the 3rd Annual Migration Meeting (AM<sup>2</sup>, May 20-21).

### Call for Papers

## IFAU/IZA Conference on Policy Evaluation

**Deadline: May 1, 2006**

As a joint initiative of the Institute for Labor Market Policy Evaluation (IFAU) in Uppsala and IZA, a Conference on Labor Market Policy Evaluation will be held in Uppsala, Sweden, on October 6-7, 2006. The meeting also represents IZA’s second Social Policy Evaluation Annual Conference, SPEAC 2006. Submissions from academic researchers in all areas of labor market policy evaluation are invited until May 1, particularly papers that include methodological, economic, and/or policy innovations.

► [www.iza.org/conference\\_files/SPEAC2006](http://www.iza.org/conference_files/SPEAC2006)

### Call for Papers

## 8th IZA/CEPR European Summer Symposium

**Deadline: May 19, 2006**

The 8th IZA/CEPR European Summer Symposium in Labour Economics (ESSLE) will take place at the conference center of Deutsche Post World Net in Buch at Lake Ammersee near Munich on September 14-16, 2006. This expert conference offers an ideal forum for discussion among both eminent labor economists and aspiring young researchers. The submission deadline for papers to be presented at the symposium is May 19. Further details are available on the IZA homepage.

► [www.iza.org/conference\\_files/essle2006](http://www.iza.org/conference_files/essle2006)

### Guests at IZA

## New Visiting Researcher

*Emily Christi A. Cabegin* is currently staying at IZA as a Visiting Researcher from November 2005 until September 2006. She obtained her M.A. in Demography and Ph.D. in Economics from the University of the Philippines, Manila. She is also a recipient of the 2005/2006 Robert Solow Postdoctoral Fellowship granted by the Centre Cournot pour la Recherche en Economie. Her current research is on the “Effect of Filipino Overseas Labor Migration on Labor Market Dynamics, Consumption Patterns and Savings.”



Christi A. Cabegin

### IZA Administration under New Leadership

## Martin T. Clemens New IZA Director of Administration – Rainer Brandl Retires



Klaus F. Zimmermann, Rainer Brandl, Martin T. Clemens

As of February 1, 2006, *Martin T. Clemens* has become IZA Director of Administration. He will take over a number of tasks from former IZA Administrative Director *Rainer Brandl*, who has retired after five years of successful work at the institute. IZA Director *Klaus F. Zimmermann* praised Brandl’s important contributions to building a powerful infrastructure at IZA. “We owe him a great deal of gratitude for the magnificent support he has constantly provided to our researchers,” noted Zimmermann.

Before joining IZA, Martin T. Clemens held several personnel management positions at Deutsche Post World Net. He was Head of Human Resources at Deutsche Post Consult (1996-1999) as well as Director of Human Resources Management at Deutsche Post Express Europe (1999-2002) and Deutsche Post Mail International (2003-2005). “IZA will certainly benefit from his broad experience as an expert in the areas of HR development, staff management and efficient organization,” Zimmermann anticipated.

### Forthcoming IZA Conferences

May 14-16, 2006	Second Migrant Ethnicity Meeting (MEM)	IZA, Bonn, Germany
May 18-21, 2006	Fifth IZA/SOLE Transatlantic Meeting of Labor Economists	Buch/Ammersee, Germany
May 20-21, 2006	Third IZA Annual Migration Meeting (AM <sup>2</sup> )	IZA, Bonn, Germany
May 22-23, 2006	IZA Workshop: The Well-Being of the Elderly: Income, Consumption, and Health – Cross-Country Perspectives	IZA, Bonn, Germany
May 25-27, 2006	IZA/World Bank Conference on Employment and Development	Berlin, Germany
June 30 - July 1, 2006	IZA/PSE Workshop on Cultural Economics: Markets, Development and Institutions	Paris, France

## IZA Prize-Winner Edward Lazear to Chair U.S. Council of Economic Advisers

*Edward P. Lazear*, one of the most important IZA Research Fellows has been nominated as chairman of the U.S. President's Council of Economic Advisers. Lazear is Professor of Economics at Stanford University and has been active as a policy adviser in various positions. In 2004, he was awarded the IZA Prize in Labor Economics for his outstanding contributions to this discipline. Having pioneered the field of personnel economics, Lazear is an avid proponent of

Germany's system of employee participation. He has spent much time in Germany and visited IZA several times. "We can only applaud the decision of the U.S. Administration to nominate a proven expert on German issues to chair the Council of Economic Advisers. This is certainly beneficial to the future of German-American economic and political relations," commented IZA Director *Klaus F. Zimmermann*.



Edward P. Lazear

## IZA Program Director Bentley MacLeod Newly Elected Fellow of the Econometric Society

IZA Research Fellow *W. Bentley MacLeod* (Columbia University), Program Director for the IZA research area "Behavioral and Personnel Economics", has been elected a Fellow of the Econometric Society, an honorary designation highly valued by members of the economics profession. Also among the 14 most recently elected fellows of the society is IZA Research

Fellow *James Malcomson* (University of Oxford). The Econometric Society is the most prestigious learned society in the field of economics, with a worldwide membership and currently about 550 fellows. Its main objective is the advancement of economic theory in its relation to statistics and mathematics.



W. Bentley MacLeod

## IZA Program Director Barry Chiswick Elected President of ESPE

*Barry R. Chiswick* (University of Chicago), IZA Program Director for Migration, has been elected President of the European Society for Population Economics (ESPE) with more than 90 percent of all votes cast by ESPE members. Founded by IZA Director *Klaus F. Zimmermann* 20 years ago, ESPE is the most prominent

international association of researchers exploring the field of population economics. This subdiscipline of economic science has become more important than ever as societies around the world are facing the challenges of demographic change.



Barry R. Chiswick

## IZA Fellow David Blanchflower Appointed to the Bank of England's Monetary Policy Committee

IZA Research Fellow *David G. Blanchflower* (Dartmouth College) has been appointed to the Bank of England's Monetary Policy Committee (MPC) to succeed *Stephen J. Nickell* (London School of Economics and IZA) in June 2006. The MPC makes the operational decisions on British interest rate policy. It comprises top-

level staff of the Bank of England and four outside members with relevant expertise who are appointed by the Chancellor. The 54-year-old, British-born Blanchflower has lived and taught in the U.S. since 1989. He is internationally renowned for his work on the wage curve and the economics of happiness.



David G. Blanchflower

### IZA Guest Researchers

Between December 2005 and March 2006, the following economists stayed at IZA to discuss issues of labor market research and policy:

*Sherrilyn M. Billger* (Illinois State University and IZA); *Linda A. Bell* (Haverford College, Pennsylvania and IZA); *Tito Boeri* (Bocconi University, Milan and IZA); *Lex Borghans* (University of Maastricht and IZA); *Kerwin Charles* (University of Michigan); *Ernst Fehr* (University of Zurich and IZA); *Anton Flossmann* (University of Konstanz); *Guido Friebel* (University of Toulouse I and IZA); *Scott M. Fuess, Jr.* (University of Nebraska at Lincoln and IZA); *Simon Gächter* (University of Nottingham and IZA); *Uri Gneezy* (University of Chicago and IZA); *David A. Jaeger* (College of William and Mary, Williamsburg, Virginia and IZA); *Hartmut Lehmann* (University of Bologna and IZA); *Marco Leonardi* (University of Milan and IZA); *Alexandre Mas* (University of California, Berkeley); *Peter R. Mueser* (University of Missouri-Columbia and IZA); *Jan C. van Ours* (Tilburg University and IZA); *Jeff Richardson* (Monash University, Victoria, Australia); *Michael Rosholm* (University of Aarhus and IZA); *Mark Schaffer* (Heriot-Watt University, Edinburgh and IZA); *Olmo Silva* (London School of Economics); *Michael Svarer* (University of Aarhus); *Jonathan Wadsworth* (Royal Holloway, University of London and IZA); *Eyal Winter* (Hebrew University, Jerusalem)



## Immigration Policy at a Crossroads?

Developed economies around the world are becoming increasingly worried about migration issues. On the one hand, questions of homeland security and immigrant integration, often accompanied by new ethnic rivalries that give rise to violence and terrorism, are major causes for concern. On the other hand, policymakers are contemplating ways to promote economically motivated immigration. Despite a number of contradictory issues, this field offers tremendous scope for an improved immigration policy.

Still ahead of the crowd in this respect are the traditional immigration countries such as Canada, Australia and New Zealand, whose points systems have served well to achieve a proper balance of qualified, economically “fitting” labor immigrants. Even without any sophisticated system of selection, the United States has miraculously managed to attract the world’s best and brightest as well as the much needed low-skilled workers. Now the U.S. public debate is centering on whether to establish a guest worker system for the purpose of curbing illegal immigration, mostly from Mexico. In Europe, the United Kingdom has assumed a pioneering role by courageously implementing a points system to better select immigrants. Meanwhile, France and Germany, still pondering reforms of their immigration policies, are caught between a pessimistic stance towards integration, a stronger focus on language skills, and measures to attract foreign high-skilled workers.

Dynamic economies cannot evade the need for an economically motivated immigration policy. In the labor market, migrants are still in short supply, and their educational integration has been less than satisfactory even in the second and third generations. The overabundance of native low-skilled labor, coinciding with a lack of highly qualified personnel, forces all developed countries to compete internationally for an active redesign of immigration policy. The awareness of important economic realities must be increased particularly in countries, such as Germany, where immigration and integration policies have so far been confined mainly to patchwork regulations.

Economically driven immigrants gain more permanent and successful access to the labor market than other groups, and they tend to leave the country sooner if they fail. Moreover, qualified immigrants create jobs for low-skilled native workers, thus helping to reduce unemployment. Openness towards the ethnicity of the host country is a prerequisite to successful economic participation. But maintaining one’s own ethnicity while at the same time integrating into the society of the host country is economically more favorable than mere assimilation. It is their ethnic capital that makes migrants all the more valuable to the receiving country. Older immigrants, muslims, and those who have been decisively shaped by the education system of their home country tend to have difficulties with both integration and assimilation.

An economically motivated immigration policy based on the principle of selection can substantially improve the economic prospects of migrants and thereby also contribute to their acceptance in society. Integration policy must be an integral part of any economically founded immigration policy. It should identify problem groups and provide them with guidance and assistance. In this regard, language requirements and citizenship tests are useful tools. Fostering language acquisition remains important throughout the second immigrant generation. This is one of the reasons why high-skilled immigrants and foreign university graduates should be allowed to remain in the country without facing any restrictions once they have found employment. The German Federal Minister of the Interior must be applauded for announcing a reassessment of the German immigration law and a careful reduction of restrictions for high-skilled labor. But the political agenda in Germany should also encompass a points system combined with flexible immigration quotas – or else Germany will lose further ground to other nations.



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Web: **www.iza.org**  
Graphics/Photographs: IZA  
Printing: Verlag Andrea Dynowski, Cologne, Germany  
Layout: IZA