



IZA COMPACT

Shaping the Future of Labor

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Family-Friendly Flexible Work Arrangements Key Instrument to Alleviate the Skilled Labor Shortage

Providing better options to combine family and career is one of the most important approaches for policymakers to address the growing shortage of skilled workers. The vast human capital resources of young women and mothers remain largely unused because there is still a lack of flexible work arrangements and childcare facilities.

A recent IZA study on behalf of the Federal Ministry of Family Affairs, Senior Citizens, Women and Youth (BMFSFJ) reaches the conclusion that if public and private childcare facilities were sufficiently expanded, mothers with children under 16 would increase their working hours in the magnitude of about 1.5 million full-time equivalent jobs. Three out of four jobs would be in the skilled labor segment. The largest part of the gap is made up by non-employed mothers. According to the study, 830,000 full-time equivalents could be realized for women with completed vocational training and about 310,000 for female university graduates. Part-time employed mothers who would choose to increase their working time under more flexible arrangements offer an additional potential of 117,000 full-time equivalents.

The research report calls on employers to implement: (1) flexible working hours, (2) telecommuting and job-sharing, (3) more part-time positions close to full-time, i.e. between 20 and 35 hours per week (4), offers of part-time work and further training during parental leave, (5) initiatives to advertise new flexible arrangements in order to explicitly attract non-employed mothers. This IZA Compact article summarizes the most important findings of the study.

High-skilled mothers: Untapped human capital resources

Making family and work compatible is not a new policy goal. But it should be pursued with a higher sense of urgency in light of

the existing and impending shortage of high-skilled workers in the German labor market. Obvious strategies to meet this challenge include qualification programs for school leavers and low-skilled workers, as well as an extension of the working life by postponing retirement or increasing weekly working hours. These approaches, however, are either difficult to implement in the short run (qualification initiatives), have already reached their limits (full-time working hours), or are well on their way (increased labor market participation of older workers). Among the most promising policy tools that still remain are an immigration reform based on labor market needs and, most importantly, the stimulation of female labor market participation – especially since the average education level of women has surpassed that of men quite some time ago.

Over the past decades, employment rates of women have generally increased. However, the share of full-time employment has actually dropped since women tend to go into part-time and “mini” jobs. As a consequence, average female working hours have decreased. Compared to other European countries, working mothers in Germany are more likely to stay home due to a lack of childcare arrangements. They return from parental leave later and mostly go back into part-time. Their true potential therefore remains largely untapped. In view of the demographic trend, this amounts to a dramatic economic and political failure.

The IZA study identifies the unused labor potential of qualified but not (full-time) employed mothers and develops a strategy to tap these resources. On the basis of data from the German Socio-Economic Panel (SOEP), the authors estimate the group of mothers with children in different age groups who could and would like to increase their working hours but are not able

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ANONYMIZED JOB APPLICATIONS

IZA monitors and evaluates a German pilot project for anonymized job applications. The goal is to prevent conscious or subconscious discrimination by employers. Participants include corporations, government agencies and municipalities. [Page 4](#)

IZA PRIZE CEREMONY IN DENVER

The first female economist to receive this honor, Francine Blau was awarded the IZA Prize in Labor Economics for her analysis of gender inequality in the labor market. The award ceremony took place during the ASSA annual meeting in Denver, Colorado. [Page 6](#)

NEW IZA PRIZE BOOKS

Two new books have just been released in the IZA Prize Book Series: “Job Matching, Wage Dispersion, and Unemployment” by Nobel laureate Dale Mortensen and Christopher Pissarides, and “Happiness, Growth and the Life Cycle” by Richard Easterlin. [Page 8](#)

COGNITIVE VS. NON-COGNITIVE SKILLS

An IZA workshop with Nobel laureate James Heckman held in Bonn provided a forum for current research on the influence of personality traits and non-cognitive skills on labor market outcomes. [Page 9](#)

IDSC: “IT’S ALL ABOUT DATA”

The International Data Service Center of IZA constantly expands its dataset inventory, refines its innovative analytic tools, systematically networks within the research community, and contributes to the standardization of dataset documentation. [Page 14](#)

to do so because they lack childcare opportunities.

According to the most recent SOEP data from 2009, approximately 8.03 million German families have children under the age of 16, of which 6.53 million were couple households (81%), 1.42 million single mothers (18%), and about 73,000 single fathers (1%). One-third of all mothers in couple households with children under 16 did not work at all, 14 percent worked full-time (more than 35 hours per week), and 50 percent worked part-time (less than 35 hours). Half of the part-time employed (25% of the total) worked close to full-time (more than 20 hours per week).

Among single mothers, 37 percent were not employed. This share is slightly higher than among mothers living with a partner. Single mothers are also more likely to work full-time (22%), while working part-time (40%) is less common than for mothers in couple households.

Employment status by age of the youngest child (in percent)

	Employment status of mothers by age of the youngest child					TOTAL
	under 3 years	3 to 6 years	6 to 10 years	10 to 12 years	12 to 16 years	
full-time >35h	8.3	13.7	16.3	21.3	21.2	15.9
near full-time >20-35h	8.5	28.1	28.1	27.9	30.1	24.7
part-time up to 20h	16	25.3	30.9	29.2	23.8	24.8
occasional/"mini" job	0.2	1.9	0.2	0.7	0.5	0.7
in training	0.4	0.2	0.1	1.3	0.2	0.3
maternity/parental leave	49.4	6.4	0.3	0	0.1	11.4
non-employed	17.3	24.4	24.3	19.7	24.1	22.4
total	100	100	100	100	100	100
TOTAL	19.8	23.2	21.6	11.5	23.9	

Figures based on 2009 SOEP data and own calculations.

As the table ▲ shows, the age of the youngest child has an important influence on the employment status of mothers.

Parental leave accounts for about half of total non-employment when children under three are present, but is irrelevant thereafter. While this is to be expected, a striking observation is that the participation rate of mothers remains largely unchanged with increasing age of the youngest child. Non-employment remains relatively stable between 17 and 24 percent for all age groups of the children.

About 70 percent of all mothers on parental leave return to their jobs within the first three years. Part-time work remains the predominant model of choice even after the youngest child's third birthday. Reduced working hours persist throughout the child-rearing years. One possible explanation is that qualifications, experience and professional contacts lose their value

during longer periods of inactivity, which makes it more difficult to return to a full-time position.

Qualifications have a strong impact on the labor market participation rate. For high-skilled individuals, employment is more worthwhile in relation to non-employment than for the unskilled (see table ►). This also holds for the participation decision of parents. Mothers with a university degree are more often employed than those who only hold a high school diploma or vocational training certificate.

The share of full-time employment also rises with the level of education. Still, about 15 percent of university graduates and more than 20 percent of those with vocational training are non-employed. Among all economically inactive mothers, 70 percent completed at least some form of medium-level education, such as vocational training. This share is slightly higher among those on parental leave.

Many mothers want to work (more)

Changing the working hours of all employed mothers according to their preferences (either expansion or reduction) would result in 2.8 million additional work-

Employment status by qualification (in percent)

	Employment status of mothers by level of education				TOTAL
	no answer	no formal qualification	vocational training	higher education	
full-time >35h	17.8	13.1	13.7	22.1	15.9
near full-time >20-35h	20.3	15.7	26.8	25.3	24.7
part-time up to 20h	20.7	18.9	26.8	23.8	24.8
occasional/"mini" job	0	2.3	0.6	0.1	0.7
in training	1.1	1.1	0.2	0.2	0.3
maternity/parental leave	14.5	8.1	11.2	13.2	11.4
non-employed	25.7	40.8	20.7	15.4	22.4
total	100	100	100	100	100
TOTAL	2.3	14.5	57.5	25.7	

Figures based on 2009 SOEP data and own calculations.

ing hours per week, which is the equivalent of 75,000 full-time jobs with the average desired working week of 36.8 hours. This difference is mainly due to those who currently work part-time (20 hours per week or less) wishing to expand their hours. A much greater potential, however, lies with mothers who are currently not employed at all. This potential can be estimated assuming the same number of desired working hours as for the employed. Among non-employed mothers, 17 to 23 percent would seek full-time employment; 45 to 68 percent would prefer part-time employment (see table ▼). Projecting these figures on Germany's total population yields about 1.4 million desired part-time positions and another 576,000 full-time positions.

With the average desired working week reported at 36.8 hours for full-time jobs and

Desired and actual employment status (in percent)

Actual employment status of mothers	Desired employment status* of mothers						total
	no answer/unclear	no employment desired in the near future	full-time >35h	part-time		part-time or full time (no preference)	
				>20-35h	up to 20h		
full-time >35h	5.6	-	56.5	35.7	2.3	-	100
near full-time >20-35h	3.3	-	8.7	63.6	24.4	-	100
part-time up to 20h	3.3	-	4.1	20.9	71.7	-	100
occasional/"mini" job	0	-	43.3	29.8	26.9	-	100
in training	0	-	53.5	46.5	0	-	100
TOTAL (employed)	3.8	-	19	40.6	36.7	-	100
maternity/parental leave	1.6	12.9	3.8	68.1		13.6	100
non-employed	3.7	27.4	7.9	45.7		15.3	100
TOTAL (non-employed)	3	22.5	6.5	53.2	14.8	-	100

Figures based on 2009 SOEP data and own calculations.

* Employed are categorized by desired working hours per week; non-employed only by full-time/part-time/no preference.

23.2 hours for part-time, the additional employment potential amounts to 20.34 million working hours per week for mothers on maternity or parental leave, and 34.4 million hours for the non-employed. The total of 54.7 million extra working hours translates into 1.48 million full-time jobs. Thus, the employment potential of non-working mothers substantially exceeds that of already (part-time) employed mothers.

The comparison of desired and actual working hours of employed mothers with children under 16 shows that those with higher education wish to decrease their working time by an average of 1.5 hours in order to reduce their overtime. Those with vocational training, on the other hand, would like to increase their hours by approximately the same amount (about 1.4 hours per week).

Mothers on parental leave and non-working mothers with medium-level and higher education have a slightly higher participation desire (76%) than mothers with no vocational training (69%, see table ▲). The latter, however, tend to have higher preferences for full-time employment. Evaluating the employment preferences of the non-employed by qualification level shows that the potential among high-qualified mothers is particularly large. In view of the impending skilled labor shortage, this should be a highly relevant target group for public and private-sector activation initiatives.

If their desired working hours were realized, mothers with children under the age of 16 represent a potential of about 1.56 million full-time equivalent jobs. About 950,000 of these jobs would be filled by mothers with vocational training, and about 250,000 by those with higher education (see table ▼). Non-employed mothers account for the largest share (830,000 with vocational

training; 310,000 with university degree). Employed mothers with vocational training express a strong desire to expand their working hours, which would amount to about 117,000 full-time positions if realized. However, this potential effect is dampened by a large number of working mothers, many of them high-skilled, who would like to reduce their hours. This would amount to 62,000 full-time positions less. However, it needs to be considered that the

one hand, and corporate personnel and working time policies on the other.

As far as the regulatory framework is concerned, the establishment and funding of all-day, year-round childcare facilities for children of all ages should be a top priority. Moreover, the tax disincentives for the full-time employment of mothers need to be removed.

In terms of personnel and working time policies, Germany is already quite flexible. However, this mainly applies to working time flexibility from the employer's perspective, which was implemented to enhance competitiveness and has helped Germany to weather the financial crisis. The problem is that flexible working hours are not per se family-friendly. Employers' needs often have priority over the needs of families,

who are interested in flexibility and, most of all, planning reliability. This is especially true for those who work long or odd hours. In this respect, significant differences exist across firms and industries. Family-friendly working time arrangements should aim to strike a proper balance between the needs of firms and families.

There are number of good examples for personnel policies that come close to reaching this goal:

- Individual agreements regarding the duration of the working day, flexible hours in practice, working time accounts, or trust-based working hours
- Telecommuting and job-sharing
- Abolition of excessive working hours and the widespread "culture of workplace presence" in favor of near full-time employment at 20 to 35 hours per week
- Keeping in touch with mothers during parental leave and efforts to facilitate their return to work, at least part-time, in combination with further training programs
- Initiatives to attract non-working mothers, possibly with qualification programs and in-work training
- Employer support during working time problems caused by the family (e.g. flexible leaves of absence in case of child's sickness or elderly care; firm-sponsored childcare facilities, espe-

Desired employment by qualification level (only for non-employed; in percent)

Qualification level of non-employed mothers	Desired employment			
	no answer/ don't know yet	no employment in the near future	full-time or part-time	part-time
no answer	13.7	11.8	25	49.5
no vocational training	3.5	27.8	27.2	41.5
with vocational training	2.4	20.5	20.6	56.5
higher education	0.5	23.6	16.9	57
TOTAL (non-employed)	3	22.5	21.3	53.2

Figures based on 2009 SOEP data (only non-employed mothers) and own calculations.

desire to reduce hours is expressed in the status quo situation with often inflexible work arrangements. More family-friendly arrangements would probably lead to different results.

The above-mentioned figures represent an upper bound since the successful realization of the employment desires depend on specific qualifications as well as regional demand and mobility. In practice, corporate policies concerning personnel structure, work organization and childcare facilities also play a key role. Allowing high-qualified full-time employees to reduce their working hours, on the downside, may even aggravate the skilled labor shortage if those who wish to take up work or expand their hours are not adequately qualified.

How to unleash the potential?

What can be done to encourage mothers to work (more)? To answer this question, two separate policy fields must be distinguished – the regulatory framework on the

Total potential in full-time equivalents by employment status, desired employment and qualification

Qualification level of mothers	Total potential in 1,000 full-time equivalents*								
	Desired employment of inactive mothers			Desired employment of working mothers					TOTAL
	full-time	part-time	subtotal	no answer	full-time >35 h	near full-time >20 to 35h	part-time up to 20h	subtotal	
no answer	19	23	42	0.2	-0.5	1	0.2	1	43
no vocational training	155	149	304	0.5	-7	16	8	17	321
with vocational training	303	524	828	4	32	83	-1	117	945
higher education	100	212	311	-3	-9	-45	-5	-62	249
TOTAL	576	909	1,485	3	16	55	1	75	1,560

Figures based on 2009 SOEP data and own calculations.
* Average desired full-time working week at 36.80 hours.

cially in the afternoon, at night, on weekends and during school breaks).

These measures have become more common recently. About one-third of all working mothers (and about half of those with higher education) have some degree of flexibility in determining their own working hours (see table ►). Family-friendly arrangements are more prevalent among high-qualified mothers: one out of three has the opportunity to work from home, at least to some extent.

Firms increasingly incorporate flexible work arrangements into their strategy for personnel recruitment and development. If such initiatives are tailored to people's needs and communicated appropriately, they are recognized and appreciated by the employees. Potentials benefits for firms include higher employee satisfaction

Working time arrangements for employed mothers (in percent)

Qualification level of employed mothers	Working time arrangements for mothers by qualification level						telecommuting possible
	no answer	fixed start and end of working day	sometimes changing daily working hours determined by employer	no formal working time arrangement, self-determined hours	flexible hours with working time accounts and some degree of self-determination	total	
no answer	0.0	28.4	23.4	1.4	46.8	100	8.0
no vocational training	0.6	48.8	22.2	17.1	11.4	100	9.8
with vocational training	1.6	40.9	25.1	16.1	16.3	100	13.2
higher education	2.9	30.3	18.3	25.4	23.1	100	33.3
TOTAL (employed)	1.8	38.6	22.9	18.5	18.3	100	18.3

Figures based on 2009 SOEP data and own calculations.

and hence higher productivity, lower employee fluctuation and reduced absenteeism. Family-friendly policy initiatives are therefore a great tool for firms to develop and retain the skilled labor potential of mothers, to promote a more productive use of human capital in general, and ultimately to generate more revenue for the social security system.

Werner Eichhorst
Paul Marx
Verena Tobsch
Familienfreundliche flexible Arbeitszeiten – ein Baustein zur Bewältigung des Fachkräftemangels
IZA Research Report Nr. 33
www.iza.org/link/report33.pdf



Anonymized Job Applications Tested in Practice IZA Participates in Evaluation of Pilot Project

Members of ethnic minorities in Germany often face problems with economic integration even when they are highly qualified. Since conscious or subconscious discrimination already affects the screening of job applications, the “best” candidate may not always end up getting the job. From an economic as well as from a social perspective, it is therefore important to implement proactive measures to prevent discrimination.

Against this background, the German Federal Anti-Discrimination Agency (ADS) started the pilot project titled “Apply anonymously – because qualification counts” in the fall of 2010. The 12-month project will be scientifically monitored and evaluated by IZA. Participating employers include four large corporations, one medium-sized enterprise, as well as two government agencies and one municipality. For the duration of the project the institutions have modified their application procedures by removing from incoming applications any photos and other personal details such as name, age, sex, marital status and (implicit) indications of ethnic origin. All of these are currently common for job applications in Germany. The purpose of this experiment is to test the practicability and effectiveness of anonymized application procedures.

International experience shows that this sort of process may help reduce the systematic discrimination of members of certain demographic groups, such as ethnic minorities, at least in the first step of the application procedure. Once given the chance to interview, the applicants may be able to dispel potential prejudice against their qualifications or suitability for the job.

IZA discussion paper sparks debate

A study on the subject that triggered the current debate was an IZA discussion paper published in 2010 by IZA Research Fellow *Leo Kaas* and *Christian Manger* (both at the University of Konstanz). They found that human resource managers in German firms systematically discriminate against applicants with Turkish-sounding names. In their field experiment, a German name raises the average probability of a call-back by about 14 percent, despite otherwise identical resumes. This extent of discrimination is particularly surprising because the study analyzed internship offers for university students. Studies from other countries have shown that highly educated labor market groups are less affected by discrimination than the low-skilled. This would suggest that overall discrimination in the German labor mar-



Antidiskriminierungsstelle des Bundes

ket may be even higher. Another finding of the paper is that the unequal treatment of applicants is more substantial in smaller-sized companies.

Such discrimination may be detrimental for the labor market prospects of the affected groups. When applicants are effectively excluded from the very start due to outright prejudice against their achievement potential or ability to integrate, this may result in a self-fulfilling prophecy: These individuals will at some point reduce their search efforts or withdraw completely from the labor market because

they feel that their abilities are not valued adequately. This will ultimately confirm the prejudice. For the sake of integration, it is therefore paramount to break this vicious cycle.

IZA expertise on international experience and action proposals

In cooperation with the Federal Anti-Discrimination Agency, IZA has analyzed the international experience with anonymized application procedures. It must be noted that despite past experience with comparable projects in a number of countries (including Sweden, France, Switzerland, and the Netherlands), the causal effects of introducing such measures are yet to be empirically studied. Most of the projects were not designed to empirically test their implications. While there is evidence that some of the intended goals had been achieved, i.e., a higher call-back or hiring probability for discrimination-prone groups, causality was usually not the explicit subject of investigation.

Nonetheless, the IZA Research Report was able to derive a number of recommendations from the international experience in this area, particularly with regard to the method of anonymization. The ADS project tries to avoid the mistakes or shortcomings of projects in other countries. One of the proposals from the IZA expertise is to implement a procedure that uses a standardized form which omits several personal characteristics. Human resource managers then screen these applications solely based on the information provided in the form. The applicants are identified by anonymous identifiers rather than by name. If the standardized forms are well-designed, no further personal documents are needed for the screening process.

Evidence of effectiveness based on counterfactual situation

Before the practical implementation of the anonymized procedure, it is important to thoroughly consider the methodological approach for the evaluation. Experience from abroad indicates the need to develop clear evaluation criteria right from the beginning. In general, evidence of effectiveness and causality is hard to obtain, given short project durations, small sample sizes, and additional problems that lie in the experimental nature of the project. Of great importance is the comparison with the counterfactual situation, i.e., what would have happened if the application procedure had not been anonymized.

The standard approach is to construct a treatment group and a control group consisting of individuals with similar characteristics. A comparison of the two groups will show whether individuals fared better by participating in the program. In the context of job applications, there are different ways to reach this goal. One option is to randomly apply the anonymization procedure to different job postings so that some are continued to be handled using personal documents. However, it is conceivable that human resource managers will adjust their behavior when aware of the experimental situation. This may distort the findings on the effectiveness of the process. An alternative solution would be to use data from the period prior to the experiment as a counterfactual situation.

The ADS project: “Apply anonymously – because qualification counts“

The recommendations from the IZA expertise served as the starting point for the implementation of the project initiated by the ADS. Within the project duration of 12 months, all incoming applications for about 225 different jobs and apprenticeships will be anonymized in three different ways. Some of the participating companies simply adjust their existing online application forms. Others send prospective applicants a standardized form on request. And a third group of companies anonymizes the applicants' personal data ex post. Employing different methods will make it easier for the evaluators to identify the best practice for each context.

Apart from the goal to test the practicability of anonymized application in Germany, a sound methodological approach will also yield conclusions on the effectiveness of these procedures. Comparisons with the counterfactual situation can show, for example, whether the call-back and hiring probability actually increases. One interesting question will be whether anonymized application procedures merely defer discrimination to the interview phase. It could also be studied whether companies offering anonymized application procedures experience an increase in minority applicants or particularly qualified applicants as a result of self-selection.

Outlook: Evaluation by IZA

IZA will monitor the entire implementation process of the project. For this purpose, IZA experts will be in close touch with both the ADS and the participating employers. While IZA will focus on the

quantitative effects, the qualitative effects will be analyzed by the “Kooperationsstelle Wissenschaft und Arbeitswelt” (KOWA) at the European University Viadrina in Frankfurt/Oder.

First results of the evaluation are expected after the end of the project in late 2011. The evaluation will show whether and how anonymized application procedures can contribute to reducing discrimination in the pre-interview phase – and possibly beyond. It already seems clear that a better integration of immigrants in the labor market requires a change in employers' mindsets. If the project can help accelerate this change, the first goal will be reached. Legal provisions mandating anonymized applications would be counterproductive, however, because they cannot adequately account for firm-specific interests and would interfere with the strategy of some firms to hire predominantly minority employees. Ultimately, it lies in each employer's own interest to hire the best-qualified applicant. In this context, anonymized application procedures may be helpful in pointing out instances of conscious or subconscious discrimination, which might disadvantage companies in the impending “war for talent.”

Regardless of the outcome of the pilot project, the public debate surrounding its implementation shows that there is a growing sensitivity in Germany with regard to discrimination in hiring. Anonymized application procedures should also be viewed as an element of a broader discussion about the issues of integration and immigration, which will have a large impact on the future of the German labor market.

Leo Kaas
Christian Manger
**Ethnic Discrimination in
Germany's Labour Market:
A Field Experiment**
IZA Discussion Paper Nr. 4741
<http://ftp.iza.org/dp4741.pdf>

Annabelle Krause
Ulf Rinne
Klaus F. Zimmermann
**Anonymisierte
Bewerbungsverfahren**
IZA Research Report Nr. 27
www.iza.org/link/report27.pdf



IZA Prize Presented at ASSA Meeting in Denver

Francine Blau (Cornell University) Honored for Her Outstanding Contributions to the Analysis of Gender Inequality in the Labor Market

On January 8, 2011, the prestigious IZA Prize in Labor Economics was awarded for the first time during the Annual Meeting of the Allied Social Science Associations (ASSA), which took place in Denver, Colorado. The conference, which regularly draws a crowd of more than 7,000 attendees, is the most important meeting for economists worldwide. Before an audience of about 100 invited guests, IZA Director *Klaus F. Zimmermann* and *Jan Svejnar* (University of Michigan; Member of the IZA Prize Committee) awarded the prize to

Francine D. Blau (Cornell University) for her seminal contributions to the analysis of gender inequality in the labor market. The award carries a cash prize of 50,000 euros.

Francine Blau has written extensively on the role of women in the labor market and on gender differences in pay and many other aspects of economic life. Her work has profoundly shaped the view of scholars and policymakers on the causes and consequences of gender differences in economic outcomes, and on policies for advancing women's labor market position and well-being. Her findings underscore the importance of policy initiatives to improve the compatibility of family and work.

In his welcome address, the current president of the American Economic Association (AEA) and 2003 IZA Prize laureate



IZA Prize laureate Francine Blau with Jan Svejnar and Klaus F. Zimmermann

Orley C. Ashenfelter (Princeton University) highlighted the outstanding role of IZA as the leading global network of labor economists. The keynote lecture was delivered by last year's Nobel laureate *Dale T. Mortensen* (Northwestern University), who had been awarded the 2005 IZA Prize jointly with *Christopher A. Pissarides* (London School of Economics). The 2006 IZA laureates *David Card* (University of California, Berkeley) and *Alan B. Krueger* (Princeton University) joined Ashenfelter, Mortensen and Blau in a panel discussion about current trends and future challenges in labor economics. The discussion was moderated by *Shelly Lundberg* (University of California, Santa Barbara).

In her laudation speech, *Jane Waldfogel* (Columbia University) praised the first female IZA Prize-winner as an excellent economist, who has not only studied the role of women in the labor market but also serves

as a perfect example of how to successfully combine family and career.

During the same event, *Raj Chetty* (Harvard University) was awarded the IZA Young Labor Economist Award for his article "Moral Hazard Versus Liquidity and Optimal Unemployment Insurance," published in the *Journal of Political Economy*. IZA Research Director *Marco Caliendo* and his predecessor *Daniel S. Hamermesh* (University of Texas at Austin) presented the award, which carries a cash prize of 5,000 euros.

In the exhibition hall of the ASSA conference, several prominent guests visited the IZA booth, among them *Richard A. Easterlin* (University of Southern California), who received the IZA Prize in 2009 and used this opportunity to present fresh copies of his new book "Happiness, Growth, and the Life Cycle." This collection of his most important articles in an updated form was published in the IZA Prize Book Series by Oxford University Press. The next volume in the series authored by Nobel laureates Dale Mortensen and Christopher Pissarides just came out (see page 8 of this IZA Compact issue).

The award ceremony for this year's IZA Prize will be held in Europe again. Nominations from the IZA network members have already been submitted.

► www.iza.org/prize



Orley Ashenfelter, Shelly Lundberg, Dale Mortensen, Jane Waldfogel, Raj Chetty

Award Statement of the IZA Prize Committee

The 2010 IZA Prize in Labor Economics is awarded to Francine D. Blau (Cornell University) for her seminal contributions to the economic analysis of labor market inequality. Professor Blau has written extensively on the role of women in the labor market and on gender differences in pay and many other aspects of economic life. Her work has profoundly shaped the view of scholars and policymakers on the causes and consequences of gender differences in economic outcomes, and on policies for advancing women's labor market position and well-being.

From the very beginning of her academic career, Francine Blau's work has concentrated on issues related to gender and inequality. In her first book, "Equal Pay in the Office" (published in 1977), she was one of the first scholars to study gender differences in labor market outcomes using detailed micro-level data on the occupational level. This approach allowed her to assess the relative importance of a wide range of potential causes for gender pay differentials, such as differences in qualifications between men and women, differences in the returns to skills, occupational segregation, and labor market discrimination. Her pioneering results were also published in the book "The Economics of Women, Men, and Work" (with Marianne Ferber), which has since become a standard textbook for scholars interested in gender issues in the labor market. In a later study with Lawrence Kahn, published in the *Journal of Economic Perspectives* in 2000, Francine Blau documented that the gender pay gap has narrowed since the 1970s. Their analysis shows that this change is attributable to a reduction in occupational segregation, whereby new cohorts of younger women have started to enter traditionally male dominated occupations, which tend to be better paid than jobs in predominantly female occupations. Despite this trend, her work has shown that there is little reason for euphoria: although the overall gender pay gap has decreased somewhat over time, the share of this gap that is unexplained by differences in qualifications and skills is increasing. This phenomenon may be due to labor market discrimination and the fact that women are still primarily responsible for childcare and housework duties, which in turn lowers women's labor market attachment and limits their employment opportunities. Policies aimed at facilitating the integration of work and family responsibilities are therefore essential to ensure more equal opportunities for men and women in the labor market.

In a series of papers with Lawrence Kahn, Francine Blau has further shown that gender inequality in pay is closely related to differences in labor market institutions. A comparative analysis for several OECD countries reveals that in about half of the countries studied, the gender pay gap is smaller than in the United States. According to Professor Blau, gender-specific factors, such as female qualification levels, labor market participation and occupational segregation by gender, could not explain why the U.S. does not perform better in an international comparison, since these factors are often more favorable than in other countries. Instead, her evaluation shows that country differences in gender pay gaps are intimately linked to the level of wage dispersion in a country (*American Economic Review*, 1992). In a later co-authored paper in the *Journal of Political Economy* (1996), Francine Blau investigates how the relationship between gender wage gaps and the degree of wage dispersion in a country can be explained by differences in labor market institutions. Compared to other countries, union coverage and the minimum wage are rather low in the U.S. Both centralized pay-setting institutions tend to reduce wage variation across firms and industries. The lack of such institutions in the U.S., where wages are more likely to be determined at

a decentralized level, creates a much larger wage penalty for those with lower qualifications. Hence, the study shows that higher rewards to skills, rather than gender differences in skill levels as such, are among the main reasons for the relatively large gender pay gap in the U.S. compared to other industrialized countries with a more condensed wage distribution.

Apart from her ground-breaking work on gender and inequality, Francine Blau has also published influential studies on various other topics in labor economics, such as migration and racial discrimination. For instance, in her 1984 paper in the *Industrial and Labor Relations Review*, she challenged the prevailing view that immigrants constitute a burden on the U.S. welfare system by showing that, when controlling for all relevant characteristics, immigrant households are actually less likely to rely on social assistance than native households. Her sensitivity to fairness, which sparked her interest in gender inequality, also led to an important contribution in the area of racial discrimination, where she showed in a joint paper with Andrea Beller that black women performed better than black men in terms of annual earnings and estimated wages, but that both lagged behind compared to the earnings and wages of whites (*Review of Economics and Statistics*, 1992).

Francine Blau is a strong advocate of equity in the labor market. However, her work on gender differences in pay and labor market outcomes is not only inspired by a firm conviction in fairness. She also believes that social welfare can be maximized when all productive resources, including human labor resources, are fully utilized. In this respect, discrimination by gender implies a waste of otherwise equally skilled labor and hence lower economic efficiency. This strong belief in equity and efficiency is not only expressed in her published work, but also in her active role in various professional organizations and committees, such as the American Economic Association's Committee on the Status of Women in the Economics Profession (CSWEP). Searching for ways to reduce the under-representation of women in economics at the tenured level, she published an article in the *American Economic Review* (2010) in which she shows that mentoring programs for female assistant professors have positive effects on female academic productivity, and as such may help promote women's advance in the profession.

For almost four decades, Francine D. Blau has brought gender differences in the labor market to the attention of the public, both in her impressive body of research as well as through her professional activities in numerous institutions. The IZA Prize in Labor Economics 2010 honors this pioneering work, which has laid the foundation for more equality and equity in the labor market.

George A. Akerlof
University of California, Berkeley; IZA

Marco Caliendo
IZA

Richard Portes
London Business School; CEPR

Jan Svejnar
University of Michigan; IZA

Klaus F. Zimmermann
IZA; University of Bonn

New IZA Book by Nobel Laureates Mortensen and Pissarides

Under the title “Job Matching, Wage Dispersion, and Unemployment,” a new book with contributions from *Dale T. Mortensen* (Northwestern University) and *Christopher A. Pissarides* (London School of Economics) has now been published as part of the IZA Prize Book Series. Mortensen and Pissarides, recipients of the 2010 Nobel Prize in Economics, were awarded the IZA Prize in Labor Economics five years earlier for their groundbreaking contributions to the analysis of markets with search and matching frictions. The new book is their first publication since they received the Nobel Prize.

The contributions by these outstanding economists have led to a better understanding of labor market behavior in the face of technological progress and global-

ization. Both employers and employees have to decide upon their optimal search intensity – how long to search, how much effort to put into the search, and whether it makes sense to keep searching for a better match. The Mortensen-Pissarides model outlines the factors that shape this decision process. Labor market institutions such as unemployment insurance, minimum wage regulations and placement agencies play a key role in this respect.

Edited by *Konstantinos Tatsiramos* and *Klaus F. Zimmermann*, the volume is a collection of the five major papers written by the Nobel laureates, which are presented in an updated version. Mortensen and Pissarides have added an introduction and a conclusion that puts their findings in today’s per-

spective. The book thus provides a comprehensive overview of the two Nobel and IZA laureates’ work, which remains of high relevance for the ongoing discussion on international labor market reforms.

Dale T. Mortensen
Christopher A. Pissarides
Job Matching, Wage Dispersion, and Unemployment
(edited by *Konstantinos Tatsiramos* and *Klaus F. Zimmermann*)
Oxford University Press
220 pages
ISBN: 978-0199233786



IZA Expands Activities in Happiness Research New Book by Richard Easterlin – Andrew Oswald Moves to IZA

Research on the economics of happiness and the development of innovative welfare indicators are becoming increasingly popular in Germany, too. Apart from the IZA network, a number of other German research institutes and scholars have boosted progress in this field. German policymakers have also taken to the subject of “growth, wealth, and quality of life” by instituting a federal commission to investigate “ways to achieve sustainable development and societal progress in the social market economy.”



Klaus F. Zimmermann and Richard A. Easterlin

New Easterlin book on “Happiness, Growth, and the Life Cycle”

One of the pioneers in scientific research on life satisfaction is the U.S. economist *Richard A. Easterlin*. In 2009, he received the IZA Prize in Labor Economics for his outstanding contributions to the analysis of subjective well-being and the relationship between demographic developments and economic outcomes. Today, Easterlin’s work is more relevant than ever and influences the current debate about alternative welfare indicators. A commission recently instituted by France’s President Sarkozy to develop a new welfare indicator cited his work as a major source of influence.

Richard Easterlin was the first to show that increasing material wealth does not automatically translate into higher life satisfac-

tion. He found that in a society people with higher incomes are more likely to report being happy. However, in international comparison, the average reported level of happiness does not vary much with national income per person, at least for countries with income sufficient to meet basic needs. Social comparisons and the rising individual standard of living, on the other hand, seem to matter a lot. These mechanisms, known as the “Easterlin Paradox” help explain such phenomena as search behavior among the unemployed or labor market participation of women. Modern labor economics draws to a large extent on Easterlin’s findings.

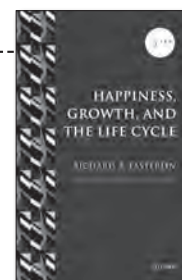
As part of the IZA Prize Book Series, a new volume “Happiness, Growth and the Life

Cycle” has now been published by Oxford University Press. It presents eleven of Richard Easterlin’s most important studies in a newly edited and commented version. In close cooperation with the co-editors of the book, *Klaus F. Zimmermann* and *Holger Hinte* (IZA), it was possible to put together a highly interesting collection, which places each of Easterlin’s works into context. The book will certainly have a great impact on the debate on the measurement of welfare and life satisfaction.

Top economist Andrew Oswald joins IZA staff

The growing importance of this topic is also reflected in the composition of IZA’s research staff. In May 2011, the renowned British labor economist *Andrew J. Oswald* (Warwick University) will begin a two-year full-time appointment at IZA in Bonn (see page 14).

Richard A. Easterlin
Happiness, Growth, and the Life Cycle
(edited by *Holger Hinte* and *Klaus F. Zimmermann*)
Oxford University Press
304 pages
ISBN: 978-019959709



Personality Characteristics and Labor Market Success

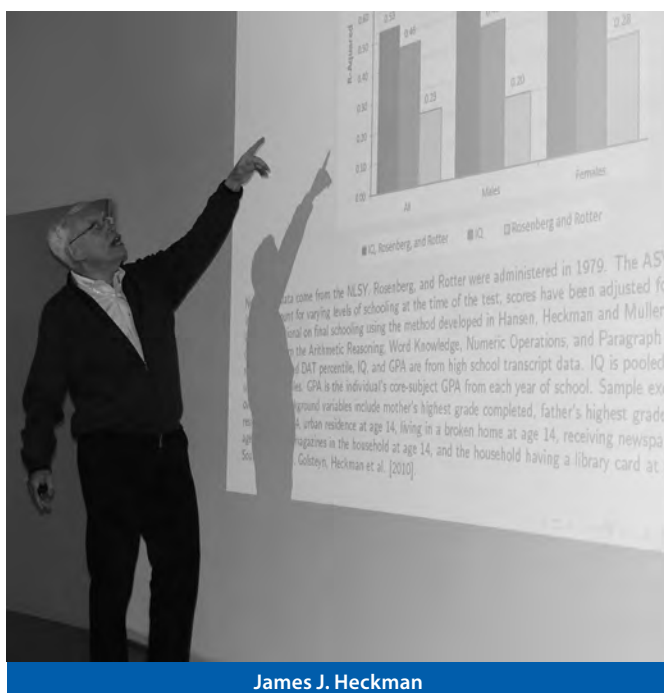
IZA Workshop on Cognitive and Non-Cognitive Skills

How do personality characteristics influence individuals' preferences and economic success? To which extent are these personality traits and other forms of non-cognitive skills influenced by biological factors, the family environment and the educational system? Is it possible to distinguish between cognitive and non-cognitive skills, and how are they related? How should targeted intervention programs be designed to improve students' achievement and labor market success? These were some of the core questions of the IZA Workshop on Cognitive and Non-Cognitive Skills, held at the Center for Economics and Neuroscience in Bonn on January 25-27, 2011. The workshop was organized by IZA Program Director *Armin Falk* (University of Bonn) and IZA Senior Research Associate *Steffen Altmann*.

The importance of cognitive abilities for economic success and social outcomes has long been acknowledged by academics and policymakers. More recently, research by economists, psychologists and sociologists has started to document that non-cognitive factors, such as risk attitudes, patience and perseverance, or extraversion, are equally important for predicting a wide range of economically relevant outcomes such as school performance, wages, or unemployment duration. These findings have shifted the discussion to a more integrated analysis of determinants of success in life that focuses on the interplay between personality, intelligence, and preferences. Acknowledging the importance of this approach, the IZA conference was entirely devoted to discussing some of the core open questions in this research field.

The keynote lecture of the conference was delivered by Nobel laureate *James J. Heckman* (University of Chicago), one of the leading advocates of an integrated perspective on personality, cognition, and economic preferences. With his work, Heckman aims at unifying the language of psychology and economics in order to enhance our understanding of individual behavior, economic outcomes, and the usefulness of policy interventions. Heckman pointed out that any action of a person should be viewed as the outcome of the interplay between per-

sonality traits, motivation and effort, and the situational context. This is important both for scientists interested in measuring intelligence or personal achievement, and for policymakers who want to implement and evaluate educational reforms. For instance, Heckman demonstrated for the case of a U.S. pre-school program for disadvantaged children that the positive and long-lasting program effects were mainly due to the impact of the program on children's socio-emotional rather than cognitive abilities.



James J. Heckman

Several presentations at the workshop were devoted to the issue of measuring cognitive and non-cognitive traits and the question how the different measures are related to each other. *Solomon W. Polachek* (Binghamton University, New York) studied whether economists and psychologists measure ability in the same way. Comparing estimates from a traditional economic lifecycle earnings approach to measures of ability obtained through psychology-based tests, he concluded that both approaches tend to elicit a common component of individual ability while there are also important differences between the concepts. *Bart Golsteyn* (Maastricht University) demonstrated that achievement tests which intend to measure cognitive skills are often more strongly related to individuals' motivation and personality rather than to pure measures of IQ. *Aldo Rustichini* (University of Minnesota) returned to Heckman's ideas and presented

first results concerning an integration of classical decision theory and personality theory. Using data on American truck drivers he showed that personality traits have a stronger predictive power than economic preferences for life outcomes such as truck accidents, Body Mass Index and smoking habits.

A second set of presentations at the workshop analyzed the role of biological factors in preferences formation and economic behavior. *Camelia M. Kuhnen* (Northwestern University) investigated the neurobiological foundations of learning in risky environments and showed that different affective learning systems are related to individuals' accumulation of financial assets and debt. *Luigi Guiso* (European University Institute) studied the size and profitability of firms based on biological factors of entrepreneurs. *Matthias Wibral* (University of Bonn) found that, since testosterone increases one's striving for high social status, enhanced levels of testosterone decrease lying when lies threaten social status.

Another core focus of the workshop was on schooling and educational decisions. A series of presentations discussed the impact of teachers and mentors on student achievement. *Pedro Martins* (Queen Mary, University of London) presented the evaluation of a Portuguese program intended to improve student achievement and erode early school leaving by improving study skills as well as personality-related factors such as motivation and self-esteem. The results indicate that the program reduced grade retentions by at least 10 percentage points. *Nuria Rodriguez-Planas* (Universitat Autònoma de Barcelona) complemented this discussion by demonstrating some partly unexpected long-term effects of a U.S. intervention study, while *Ludger Woessmann* (Ifo Institute for Economic Research) highlighted the importance of teachers' subject knowledge for understanding student performance. *Christian Belzil* (Ecole Polytechnique, Paris) and *Didier Fourage* (Maastricht University) underlined the importance of individual preferences for educational decisions and job choices. Belzil demonstrated how risk attitudes and social preferences affect schooling decisions, whereas Fourage

pointed out that the same preferences play a key role for occupational choices and job stability after students have left school.

Finally, a number of papers outlined the importance of early-life environmental conditions for individual labor market success, health status, and social achievements. For instance, using data on toxic releases and plant closures in the United State, *Janet Currie* (Columbia University) demonstrated that disadvantageous prenatal environmental conditions can have significant detrimental effects on health at birth and outcomes later in life. The role of fathers and mothers in children's skill formation

was studied by *Anders Björklund* (SOFI, Stockholm University) using a rich Swedish data set to investigate cases of parental death. *Amanda Agan* (University of Chicago) showed that it is crucial to focus on non-cognitive abilities at young age to understand adolescents' engagement in criminal activities.

In addition to the thirteen plenary talks, the conference program included two poster sessions that provided a forum for lively discussions and feedback for ongoing research projects. The growing interest in the topics of the workshop was underlined by the fact that the event attracted almost

50 national and international scholars, in addition to the 30 presenters. The conference thus provided a great opportunity for leading researchers in the field of cognitive and non-cognitive skills to engage in valuable discussions and explore future avenues of research. Apart from incorporating even more concepts from the field of psychology, an important task will be to unify the psychological and economic languages.

The papers presented during the conference are downloadable from the IZA website:

► www.iza.org/link/CoNoCoSk2011

Evaluation of Labor Market Policies

Third Joint Conference by IZA and IFAU

The evaluation of labor market policies and programs has always been among the most important fields of research at IZA. Not by coincidence it is the first of the institute's seven program areas. Every two years, the annual conference of this IZA program area is organized jointly with the Institute for Labour Market Policy Evaluation (IFAU) in Uppsala, Sweden, which hosted the most recent conference in October 2010. The 3rd IZA/IFAU Conference brought together senior and junior scholars representing different strands of evaluation research and facilitated a fruitful exchange between the highly diverse fields of investigation.

After the welcome speech by IFAU Director Erik Mellander, *Jeffrey A. Smith* (University of Michigan) opened the conference, addressing fundamental questions regarding the methodology of the non-experimental evaluation approach. *Pål Schone* (Institute of Social Research, Norway) then presented a hands-on public policy evaluation study, investigating the effect of reduced childcare costs on the labor supply of mothers in Norway. Exploiting variation of the eligibility to cheap childcare across time and municipalities, he found that the reform increased labor supply of women on the extensive, but not the intensive margin.

Having established the importance of parents' decisions regarding labor supply, fertility and family dissolution on children's labor market outcomes, *Ari Kang* (University of North Dakota) investigated the effects of public policies on the respective choices of parents. Recovering the preferences of parents from a dynamic discrete choice model, she experimentally studied the effect of several policy interventions and found that a marriage bonus is the most promising policy

to improve labor market outcomes of children. *Debopam Bhattacharya* (University of Oxford) focused on the subject of binary treatment assignment in which only a decision maker has the discretion to choose treatment, and where taste-biased assignment might lead to inefficient assignment. In particular, he provided a theoretical framework from which testable implications can be derived to detect and analyze the type of discrimination during treatment assignment.

The next session focused on the effects of public employment policies targeted at specific demographic groups. *Ricarda Schmidl* (IZA) and *Patrick Arni* (University of Lausanne) presented two evaluation studies, respectively assessing the effects of various ALMP for unemployed youth in Germany, and the effect of training and intensive monitoring on individuals above 45 years in Switzerland. While Schmidl used non-experimental administrative data and matching estimators to investigate the effect of treatment participation on employment probabilities, Arni analyzed survey data of randomly assigned unemployed, using parametric and non-parametric survival analysis to investigate potential increases in the speed of leaving unemployment. Both studies found substantial positive effects for the majority of the policy components.

During the last session of the first day, *Erik Grönqvist* (IFAU) and *Pierre Koning* (CPB Netherlands Bureau for Economic Policy Analysis) presented evidence for the impact of privatizing previously publicly managed employment and welfare services. Grönqvist focused on the increased use of private contractors to get hard-to-place individuals back into the regular labor market. Based

on the analysis of experimental data, his co-authored study found that although overall satisfaction with private support is higher, the probability of reemployment does not increase significantly. Koning in contrast looked at the private placement agencies with performance-based incentives in the Netherlands. He used variations in the legislations over time to investigate potential negative effects of wrongly aligned incentives. He discovered evidence of cream-skimming and behavior intended to increase the measured placement rate. The job placement rates of individuals, however, did not seem to be affected.

Stephen Kastoryano (University of Amsterdam) contrasted the performance of various treatment effect estimators of public job search programs in the Netherlands, particularly focusing on dynamic treatment assignment. *Todd Pugatch* (University of Michigan) estimated the structural components of a standard job search model of school-leavers in South Africa. The persistently high levels of unemployment among this subgroup may be explained by poorly matched labor demand and supply for this group, leading to a high level of offer refusal. A policy simulation of wage subsidies indicates that they might reduce unemployment levels by increasing acceptance rates.

Francis Vella (Georgetown University) provided an estimation framework for the estimation of binary dependent variable models with two endogenous regressors, a setup that is often encountered in the evaluation of a binary treatment on a binary outcome and an endogenous selection process. Simulation results show that the estimation framework performs well in finite samples. *Per Johansson* (IFAU) proposed the

use of “quasi-instruments,” i.e., instruments whose relation to the treatment is allowed to be confounded by unobservables, in order to test whether the assumption of unconfoundedness holds in cases where no instruments are available. The study provides a test-statistic and derives mild conditions under which the method should work.

Oana Calavrezo (DARES, French Ministry of Labour) investigated the performance of the short-time compensation scheme during economic downturns on the survival probability of enterprises in France. Taking into account non-random selection into the compensation scheme, she qualifies previous findings on the positive effect on firm

survival by showing that treated firms face significant exit rates in the year after take-up. *Anne C. Gielen* (IZA) focused on spill-over effects from increasing eligibility requirements in one social assistance program (disability insurance) to other social assistance programs in the Netherlands. She found significant evidence for this effect and quantified it using variations in the eligibility criteria for different age cohorts over time.

Xavier de Luna (Umeå University) proposed a solution to the established problem that classical bootstrapping techniques do not work to estimate the standard errors in the case of multiple nearest neighbor matching techniques. He showed that the resampling

scheme provides correct inference even under effect heterogeneity and provided methods to construct confidence intervals.

The conference papers are downloadable from the IZA homepage:

▶ www.iza.org/link/EVAL2010

The next annual IZA evaluation conference will be held October 7-8, 2011, co-organized and hosted by the Institute for Quantitative Social Science (IQSS) at Harvard University. Paper submissions are invited until May 15 through the conference homepage:

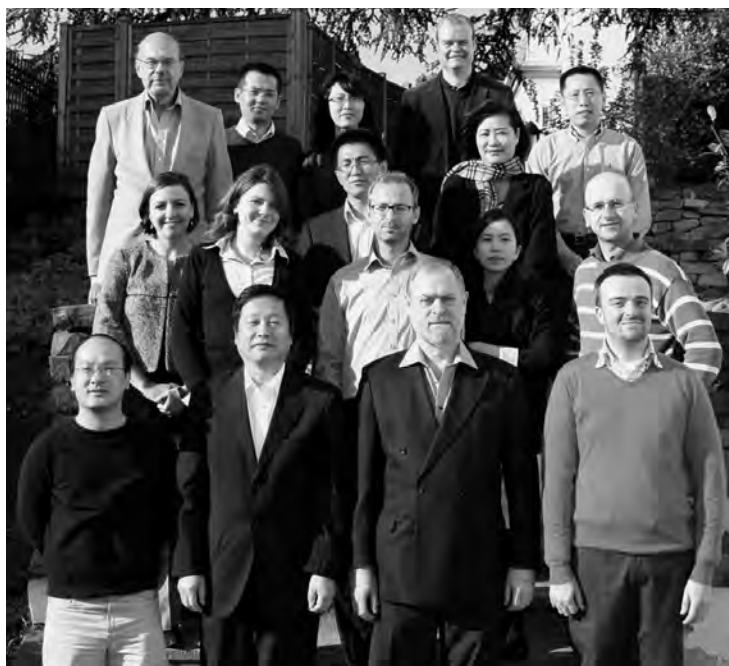
▶ www.iza.org/link/EVAL2011

Comparing Chinese and European Labor Markets

Second CIER/IZA Annual Workshop in Bonn

Owing to China’s rapid economic growth, the country’s labor market has to meet a number of challenges, among them rural-to-urban migration and growing income disparities. To discuss these trends and compare them to labor market developments in Europe, IZA organizes an annual workshop in cooperation with the China Institute for Employment Research (CIER) at the Renmin University of China. The second workshop was held at IZA in Bonn on October 7-9, 2010. The event was co-organized by *Xiangquan Zeng* and *Zhong Zhao* (Renmin University of China) with IZA Director *Klaus F. Zimmermann* and IZA Deputy Program Director *Corrado Giulietti*. The workshop program covered a variety of topical themes in labor economics, with both theoretical and empirical contributions.

Zeng and Zimmermann opened the conference emphasizing the importance of knowledge transfer on labor market issues between China and Europe. *Elaine M. Liu* (University of Houston) presented a paper which aims at eliciting risk preferences of urban migrants in China. The analysis was based on a laboratory experiment conducted within the Rural-to-Urban Migration in China and Indonesia (RUMiCI) project. The main finding indicates that migrants from larger households are more willing to take risks and exhibit a higher probability of self-employment. The same



data source was used for the presentation contributed by *Olivier Bargain* (University College Dublin; IZA Visiting Research Fellow). One of the unresolved nodes in the subjective well-being literature is to whom individuals compare to. This paper used migrants to understand their “positional concerns” with respect to the income of other migrants and of urban residents. The regression analysis found that migrants’ happiness is negatively affected by the income position of peer migrants (suggesting the existence of a “status effect”), while it exhibits a positive association with the income position of urban residents (which is compatible with a “signaling effect”).

The subsequent two papers analyzed the impact of reforms on intergenerational

outcomes in China. *Zhong Zhao* examined the consequences of the massive layoffs by state-owned enterprises on children’s health. Using data from the China Health and Nutrition Survey, he showed that fathers’ unemployment had a detrimental effect on children’s health, whereas mothers’ lay-off was not associated with adverse health outcomes on children. One channel considered in the presentation was that while household income is substantially reduced in the case of fathers’ layoff, mothers who lost their job spent more time in childcare. The consequences of housing windfalls on intergenerational transfers were discussed in

the presentation by *Maria Porter* (University of Oxford). She analyzed the reforms that led to the transition towards a private housing market in China in the late 1990s. For the urban residents who were assigned houses from their employers, the reforms produced unanticipated windfalls, as these individuals obtained the right to sell the property. This exogenous increase in wealth was found to reduce children’s transfers to their parents, demonstrating that these transfers are normally triggered by altruism in this country.

Three presentations were devoted to the analysis of the wage and income gaps in China. *Lina Song* (University of Nottingham) used quantile regression to investigate the widening of the wage gap

among urban residents in China for the period 1980-2002. The analysis, based on the Chinese Household Income Project surveys (CHIPs), showed that part of the wage gap is attributable to increasing returns to education in the upper part of the wage distribution, as well as to the growing gender disparity in earnings. However, it was also demonstrated that inequality progressively decreased in the period under consideration. In his study of Hong Kong's labor market, *Yuhao Ge* (Renmin University of China) showed that the increase in female labor force participation was accompanied by a contraction of the gender wage gap. The paper investigated the causes of higher female participation, concluding that the quality of the female labor force, as measured by education, increased in the past few years, hence reducing earning disparities between males and females. *Junfu Zhang* (Clark University) presented a study based on the RUMiCI dataset. After outlining a theoretical model of multiple migration choices, he provided empirical evidence that migrants face a tradeoff between the income they can attain if they were to migrate and the geographical distance between their home village and the destination cities.

The effect of the reform of the household registration system in China (hukou) on marriages was considered by *Chunbing Xing* (Beijing Normal University). The reform abolished the regulation according

to which children's hukou had to be registered in their mother's locality of residence. The analysis showed that after the reform, intermarriage between rural and urban individuals (especially between urban men and women from the countryside) increased substantially. *Björn Gustafsson* (Göteborg University) discussed the dynamics of the rapid increase of non-workers in China. A larger fraction of non-workers was found among the recent cohorts of young adults, who are more likely to study or to be unemployed. However, this did not cause income inequality to grow, most likely because these individuals come from wealthier households.

To investigate the effects of active labor market policies for young individuals, *Ricarda Schmidl* (IZA) implemented propensity score weighting on unique administrative data for Germany. Her major finding was that programs such as vocational training and wage subsidies had a positive impact on employment and income of these individuals. *Ulf Rinne* (IZA) exploited German reunification as a natural experiment to investigate the consequences of the influence of the socialist regime on education. He showed that returns to education for East German university graduates in majors such as law and economics (disciplines highly influenced by the regime) were substantially lower after reunification. This result is taken as evidence in favor of the human capital theory of education.

The relationship between the size and the quality of social networks and the wage of rural to urban migrants was explored by *Martin Guzi* (IZA). His study based on RUMiCI data demonstrated that a larger network and having a close friend who is employed is associated with higher wages for migrants. The robustness of this result was tested by comparing the effects on individuals who found a job through friends and families and those who obtained a job through formal channels. *Tomáš Konečný* (CERGE-EI) outlined a gravity model of trade which allows deriving the share of trade attributable to immigrant populations. His estimates suggest that, although a substantial share of trade can be ascribed to immigrant networks, an increase in immigration is associated with a reduction of both imports and exports in OECD countries. *Corrado Giuliatti* (IZA) presented a paper about the measuring of social networks. In his analysis of UK data, he showed that traditional measures of social networks are not associated with employment outcomes once local labor market characteristics are controlled for.

With its high-quality and policy-relevant papers, the 2nd CIER/IZA Workshop repeated the success of the first edition. This year's workshop will take place at the CIER, Renmin University of China in Beijing on September 17-18, 2011.

► www.iza.org/link/ReLabEco2010

European Summer Symposium in Labour Economics 2010 Broad Perspective on Labor Market Issues

The 12th edition of the European Summer Symposium in Labour Economics (ESSLE) was hosted jointly by IZA and CEPR at the Deutsche Post Management Training Center in Buch/Ammersee, Germany, in September 2010. The organizers, *Giuseppe Bertola* (University of Turin), *Marco Caliendo* (Director of Research, IZA) and *Josef Zweimüller* (University of Zurich) had put together a program that spanned a wide array of microeconomic and macroeconomic topics in labor market research. Around thirty participants, including renowned international scholars as well as young talented labor economists, presented and discussed their current research results. Selected presentations are summarized below.

One core theme of the symposium was employees' reaction to workplace incentives. *Konstantinos Pouliakas* (University of Aber-

deen) investigated the effects of various forms of performance-related pay on employee absence rates and firm productivity. His findings suggest that firms are likely to use objective and subjective performance-related pay schemes in tandem in order to counteract any possible dysfunctional responses by their workforce. *Iwan Barankay* (University of Pennsylvania) presented work on feedback systems in employer-employee relations. Using an online field experiment, he analyzed how employees' effort choice is affected by the knowledge of their rank in the performance and earnings distribution. Barankay demonstrated that feedback can have dysfunctional consequences by decreasing worker productivity compared to a situation in which people do not know their rank in the wage distribution.

The fields of education and family economics were another major topic of the

conference. *Gill Wyness* (Institute for Fiscal Studies, London) focused on the impact of upfront college fees, grants and maintenance loans on UK higher education participation. Her findings demonstrated that tuition fees have a significant negative effect on student enrollment. Childcare costs and their effects on professional life, particularly among lone parents with low incomes, were examined by *Claire Crawford* (Institute for Fiscal Studies, London). Her results suggested that the expansion of public education programs to younger disadvantaged children may only encourage a small number of low-income lone parents to return to work. *Gianna Giannelli* (University of Florence) estimated the size and value of unpaid family caretaking activities at a European level, while *Andreas Steinhauer* and *Josef Zweimüller* (both from the University of Zurich) asked how employment pro-

tection and parental leave benefits affect mothers' post-birth careers. They found that the duration of parental leave benefits is central for mothers' time spent at home after childbirth.

Income inequality and stability, and their impact on individual well-being, were discussed by *Daniele Checchi* (University of Milan), *Peter Gottschalk* (Boston College), and *Jörn-Steffen Pischke* (London School of Economics). Checchi compared the extent of income inequality and inequality of opportunity in 25 European countries. His findings suggested that ex ante equality of opportunity exhibits a positive correlation with public expenditure in education, whereas ex post equality of opportunity is positively associated with union presence and fiscal redistribution. Gottschalk showed that the well-documented increase in family income instability seems to reflect changes in the underlying joint distribution of individual income components. In particular, the increase in income instability seems to be mainly driven by higher fluctuations in the household head's income, whereas the decrease in married women's earnings instability tends to smooth out income fluctuations at the family level. Pischke provided novel evidence on whether the positive correlation between life-satisfaction measures

and income reflects causality running from money to happiness or vice versa. Exploiting the fact that wages for similar jobs differ systematically across industries, he concluded that most of the association of income and well-being seems to be causal and seems to run indeed from income to well-being.

Parameter	(1)	(2)	(3)	(4)
λ	0.123 (0.379)	0.238 (0.349)	0.162 (0.857)	-
z	0.289 (0.254)	0.642 (0.086)	0.830 (0.025)	0.437 (0.186)
c	0.000 (0.267)	0.000 (0.137)	0.474 (2.673)	-
κ	0.000 (0.405)	0.000 (0.133)	1.000 (0.403)	0.428 (0.262)
γ	1.129 (4.278)	-	-	-
e	0.369 (0.176)	-	-	0.30
GMM objective	19.078	24.572	4	-
Hansen test p value	0.089	0.039	0.00	-

Table 3: Nested bargaining and efficiency wage models. eq. surplus sharing proportions, z is value of non-work activity, e non-shirking effort, c is vacancy posting cost and κ is fraction becoming active within the quarter. Standard errors in parentheses.

James Malcomson

A final group of presentations focused on institutional and macroeconomic aspects of labor markets. The strikingly different response of Spanish unemployment rates relative to other major EU economies during the recent recession was investigated by *Juan J. Dolado* (University of Madrid Carlos III). He concluded that a large fraction of the Spanish unemployment during the crisis could have been avoided

if Spain had adopted French employment protection legislation before the crisis started.

Pablo Agnese (Pompeu Fabra University) examined the main causes behind the structural fall in the labor income share during the lost decade and the subsequent mild recovery in Japan. His main finding was that the continuous loss in union power is the fundamental cause of the decline. The importance of jointly considering labor market institutions, individual incentives, and aggregate labor market outcomes was also pointed out in the keynote address delivered by *James Malcomson* (University of Oxford). Malcomson provided an innovative framework in which the empirical relevance of different wage bargaining mechanisms can be analyzed. Using data for the U.S. labor market over the past 50 years, he concluded that allowing for efficiency wages, which motivate workers through above market-clearing wages, is crucial to account for the developments in the U.S. labor market.

The list of presented papers at ESSLE 2010 is available online:

► www.iza.org/link/ESSLE2010

Federal Minister of Labor and Social Affairs Visits IZA

On the December 10, 2010, Germany's Federal Minister of Labor and Social Affairs, *Ursula von der Leyen*, visited the IZA premises in Bonn. She met with IZA Director *Klaus F. Zimmermann* and IZA Director of Labor Policy *Hilmar Schneider* to discuss important current issues in German labor market policy. Among the key topics of this fruitful exchange were the growing shortage of skilled labor, improvements in the measurement of its magnitude, and potential ways to deal with the consequences of an aging society.

There was a strong consensus that concerted policy action is necessary to meet the challenges of demographic

change. This includes policy measures to stimulate female labor market participa-



Ursula von der Leyen with Hilmar Schneider and Klaus F. Zimmermann

tion and corporate initiatives to retain and qualify older workers. Zimmermann emphasized the need for controlled labor migration while Schneider underscored the positive effects of a moderate expansion of the working life.

The meeting with the Labor Minister also provided an opportunity to present a new simulation model developed by IZA, which will allow better predictions of future skilled labor shortages. Still at a preliminary stage, the simulation is part of a long-term research project financed by the European Commission. First results are expected later this year.

IDSC of IZA Provides Constantly Improved Data Service and Data Documentation for the Scientific Community

The International Data Service Center (IDSC) of IZA is continuously approaching its goal to become the primary gateway to dataset documentation and analysis. At the core of its activities are the constant expansion of its dataset inventory, the refinement of its innovative analytic tools, and systematic networking within the research community. In addition, the IDSC collaborates with other institutions on defining and setting new standards in data documentation.

EDDI 2010: Towards standardized dataset documentation

Initiated by the IDSC in 2009, and in close cooperation with the Leibniz Institute for the Social Sciences (GESIS), an annual conference is held for the European members of the Data Documentation Initiative (DDI), an actively developed standard specification able to address the documentation and management of data across its entire life cycle: from concept and design to data publication, analysis research and beyond. On December 8-9, 2010, the second European meeting (EDDI 2010) was hosted by the Dutch SURF Foundation, the collaborative organization for IT innovations in higher education in the Netherlands. The event was co-organized by the IDSC, GESIS, CentERdata (Institute for Data Collection and Research), DANS (Data Archiving and Networked Services), and the Library and IT Service of Tilburg University. More than 70 experts from Europe, the U.S. and Australia found an excellent forum to exchange knowledge and create new professional links. The conference was accompanied by a software developers meeting and a SDMX course sponsored by the Open Data Foundation.

The philosophy of EDDI is to be an open, inclusive DDI community-building activity. In this spirit, while GESIS and the IDSC will be running EDDI, the goal is to take EDDI on the road across Europe so that every year the community converges at a differ-

ent institution where DDI is being adopted or considered for adoption. The host institution will then get a chance to appoint the third co-organizer for that year. EDDI 2011 will be hosted by the Swedish National Data Service in Gothenburg, Sweden. More information is available at: www.iza.org/eddi



Persistent identifiers for the social sciences

A convention for the proper, formal and machine-actionable citation of datasets used in empirical research is long overdue. This is at complete odds with the situation regarding publications, where both scholarly and technical conventions are well established and widely used and appreciated. The benefits of such a convention would be enormous in terms of bibliometrics and scientometrics, but also in terms of allowing the contribution of data providers and workers to become more evident. Extending the academic mechanisms of credit, where credit is due to the data world, would help the development of the field and would in turn provide benefits for evidence-based social science research. Persistent identifiers of digital and other objects are seen as an important ingredient in this context.

On February 1-2, 2011, a workshop co-organized by GESIS, the German Data Forum (RatSWD) and the IDSC of IZA brought together international experts who work in this area with representatives of initiatives, technologies and solutions in order

to inform participants on the current state of affairs. The goal of the workshop held in Bonn was to introduce the subject matter to the German social sciences. Besides presentations of the various technologies and initiatives, the event included discussions on governance, politics and community issues in order to prepare participants and stakeholders to debate the issue in an informed way.

Cooperation with Wage Indicator Foundation

The most recent example of the IDSC's successful networking within the international scientific community is an exclusive cooperation with the Wage Indicator Foundation (WIF) and the Amsterdam Institute for Labour Studies of the University of Amsterdam (AIAS) built around the Wage Indica-

tor data. WIF is a non-profit organization dedicated to labor market transparency by providing accurate wage and wage-related information. It was founded in 2003 as a joint initiative of FNV (Dutch Confederation of Trade Unions), AIAS and the career website Monster. The Wage Indicator data from 55 nations are highly relevant for labor market research and can now be accessed exclusively through the IDSC of IZA. While the data will be available to the research community at large, IZA network members get free access.

► <http://idsc.iza.org>

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New Staff: Andrew Oswald and Amanda Goodall Join IZA

In May 2011, the highly renowned Warwick economist *Andrew J. Oswald* will begin a two-year appointment as a full-time Visiting Research Fellow and Senior Advisor Research at IZA in Bonn. Oswald is a leading scholar in labor economics and in the economics of happiness and health (see also page 8). His current research lies at the borders between economics, psychology, and epidemiology. Having received a number of awards for contributions to economics and social science, he is one of the few economists to

have been invited to join the editorial board of *Science*. Also in May, *Amanda H. Goodall* (currently a Visiting Fellow at Cass Business School in London) will become a Senior Research Associate at IZA. Her academic work, which includes the book "Socrates in the Boardroom" published recently by Princeton University Press, focuses on leadership and performance in knowledge-intensive organizations. "We are thrilled to have researchers of this caliber join our team here in Bonn," said IZA Director *Klaus F. Zimmermann*.



Andrew J. Oswald



Amanda H. Goodall

Former Dutch Minister of Education Becomes IZA Policy Advisor

In February 2011, *Jo Ritzen* joined IZA on a part-time basis as Senior Advisor Policy. He previously served as President of Maastricht University, Vice President of the World Bank's Human Development Network, and Minister of Education, Culture, and Science of The Netherlands. During his term as one of the longest serving Ministers of Education in the world, Jo Ritzen enacted a series

of major reforms throughout the Dutch education system. Prior to taking up his government position in 1989, he held academic appointments at Nijmegen University, Erasmus University Rotterdam, the University of California-Berkeley, and the University of Wisconsin-Madison. He has also made significant contributions to several international agencies such as UNESCO and

OECD, especially in the field of education and social cohesion. He will now support IZA's policy networking activities on the European level while also pursuing his own research.



Jo Ritzen

New Book on Ethnic Diversity in European Labor Markets

Social and economic exclusion remains an everyday challenge for millions of members of ethnic minorities living in Europe. Being a member of an ethnic minority per se often bears a disadvantage in terms of relative labor market outcomes. Labor market segmentation is one of the greatest integration challenges facing European labor markets today. At the same time, most countries in the European Union need to deal with a stagnant or shrinking working-age population and an aging workforce, which creates economic incentives for labor immigration and the better labor market inclusion of ethnic minorities.

These important topics were addressed by IZA's Migration Program Area team within a research project on the social and labor market integration of ethnic minorities funded by the European Commission (see IZA Compact, July 2008). Edited by IZA Senior Research Associate *Martin Kahanec* and IZA Director *Klaus F. Zimmermann*, a new book presents a collection of studies by leading experts in the field, who have elaborated and expanded on these topics. The volume is forthcoming later this year at Edward Elgar Publishing under the title "Ethnic Diversity in European Labor Markets: Challenges and Solutions."

The book has three main objectives. First, it describes the labor market situation of ethnic minorities in the European Union as

a whole and in countries where the issue is most pressing. Special attention is devoted to the identification of the internal and external barriers which prevent ethnic minorities from fully participating in the labor market and to the current policies and practices aimed at overcoming the difficult situation of many ethnic minorities in Europe. Second, the volume identifies the key policy challenges of labor market integration of ethnic minorities and answers one of the central underlying questions in this context: What do ethnic minorities want? Third, it addresses the key policy issue of what works in integration practice. It scrutinizes a collection of integration initiatives across the European Union with regard to the determinants of their success.

In line with IZA's objective to inform the broader policy debates on important labor market issues, Zimmermann and Kahanec presented the main findings from this book at a workshop co-organized with the Friedrich Ebert Foundation and the Central European Labour Studies Institute in Bratislava on October 21, 2010. Among the prominent policymakers and stakeholders was State Secretary *Lucia Nicholsonová*, who is responsible for the integration and inclusion agenda at the Slovak Ministry of Labor. She praised the study for illuminating key issues also faced by the Slovak Republic and for providing a policy agenda for diversity and minor-

ity integration in the EU. The practitioners attending the workshop confirmed that the proposed policy principles closely resemble their experience in the field.

In a subsequent meeting, the Slovak Labor Minister and Deputy Prime Minister *Jozef Mihál* underscored the importance of this research and expressed interest in learning about the German labor market experience during the recent crisis. This turned into a policy advice project about the lessons for Slovakia from the German experience, which has already been delivered by IZA.

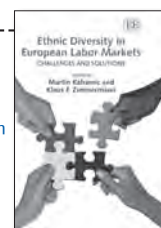
The book editors' mini-tour continued to Budapest, where the results were presented as a public lecture at Central European University. The successful event and the great interest in the forthcoming book reaffirm the prominent role of IZA in the international academic and policy debates about integration and inclusion challenges faced by modern societies.

Martin Kahanec
Klaus F. Zimmermann (Eds.)

Ethnic Diversity in European Labor Markets: Challenges and Solutions

Edward Elgar Publishing
384 pages

ISBN: 978-1848445598



New Freedom of Movement for Eastern Europe

As late as May 1st this year, Germany will finally open its labor market to workers from Eastern European countries that have joined the European Union back in 2004. After this much too long transition phase, full freedom of movement has reached Germany at last.

With their reluctance for fear of overburdening the labor market, Germany's policymakers have done the country no favor. High-skilled workers, which are urgently needed in many sectors, have instead moved to countries such as the UK, Ireland or Sweden, which opened up their labor markets much earlier for skilled labor from Poland, the Baltic States, the Czech Republic and Hungary.

Meanwhile, older and low-skilled workers from Eastern Europe have still continued to migrate to Germany through other channels. The closed-door policy pursued since 2004 has therefore produced a double negative effect.

This unfortunate situation is now misused as an argument to put the desperately needed reform of the German immigration law on hold once again until the effects of the May 1st liberalization can be evaluated. This further delay would be a waste of time because no major effects can be expected from the late opening of the gates.

Fears of Eastern European workers flooding the labor markets of Germany and other Western neighbors are completely unsubstantiated. The high potentials from Eastern Europe have long moved to other attractive regions of the world. There is no longer a sizeable demand even for seasonal jobs, although this market has been liberalized earlier this year.

Given the growing shortage of skilled labor in many industries, it is paramount that German policymakers and business leaders develop a joint strategy to put the new freedom to good use. The opening of the labor market can have a positive long-term impact on Germany if it leads to productivity gains that will increase income and wealth. The economic effects will be larger the more actively we try to attract high-skilled immigrants.

German firms are therefore well advised to set up information and service centers in cooperation with local partners in Eastern Europe to provide advice to prospective migrants who may become future employees.

Private business should lead the way in learning from the mistakes of past migration and integration policies. We need to establish a culture of welcome and openness to convince interested people from Eastern Europe of the advantages of working and living in Germany. This is not just about Germany's own economic strength – it is also about living up to the common market ideal. The success of the European project ultimately depends on a dynamic exchange of labor, which requires that people can migrate freely between EU member states in response to the needs of national and regional economies.



Klaus F. Zimmermann



Institute for the Study of Labor



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