

# IZA Research Program

Research Director: Gerard A. Pfann (University of Maastricht; IZA)



Research activities at IZA rest on two pillars: Basic research and labor market policy advice. While the IZA Research Director is in charge of coordinating the research program, the IZA Director of Labor Policy handles all policy-related matters. Developing the global vision of IZA belongs to the responsibilities of the IZA Director.

IZA provides its researchers with excellent research and working conditions. The targeted integration and support of potentially innovative young researchers is seen as particularly important. As Research Fellows or Research Affiliates they are employees of IZA and contribute to the institute's vitality. The high qualitative level of IZA's research methods and results is also shown by the wide international reputation of the institute's discussion paper series.



IZA's research activities consist of four larger methodological fields:

- Innovative empirical basic research through econometric evaluation of anonymous individual data sets.
- Focus on microeconomic research including firm-specific issues.
- Orientation towards international comparative research in close cooperation with foreign research institutes.
- Reappraisal, documentation and evaluation of new concepts in labor market policy and employment initiatives carried out by firms (accompanying research and evaluation).

Six thematic areas comprise IZA's research activities. In each area, larger internationally oriented research projects and individual research are coordinated and placed within a larger framework. A special IZA focus area deals with labor market policy.

With its wide variety of research projects, IZA addresses current issues in labor market research and policy in its six research areas. Projects are financed by IZA and other institutions. In the following, IZA's central research areas and their most important research projects between 1998 and 2001 are presented.

# (1) Mobility and Flexibility of Labor

Program Director: Thomas K. Bauer (IZA)



The causes of current crises in modern labor markets are often seen in their lack of mobility and flexibility. The main goal of this research area is to analyze different dimensions of mobility and flexibility of labor markets and to evaluate in how far these aspects can provide explanations for the unemployment problem. The research program is divided into four sub-programs.



## Measuring Labor Market Flexibility

This sub-program analyzes the ways of measuring and recording labor market flexibility in its various dimensions (wage flexibility and working time flexibility).

## Geographical and Job Mobility

What are the effects of regional, occupational and internal labor force mobility? What are the factors that affect mobility or are affected by it? Another issue that is central to this sub-program is the impact of immi-

gration on the labor market and its potential effects on economic policy. Finally, the role of hiring and lay-off costs is analyzed in order to better understand the adjustment of employment to cyclical fluctuations and exogenous shocks.

## Working Time Flexibility

Work sharing is often regarded as a promising strategy to reduce unemployment. This sub-program studies the determinants and labor market effects of working time regulations, overtime, part-time work, early retirement and new working time schedules such as life-time working accounts. In particular, the program deals with the question whether work-sharing policies are an effective way to reduce unemployment.

## Wage Flexibility

It has been argued that the lack of wage flexibility in Europe is the main cause of the unemployment problem. This sub-program analyzes the labor market effects of different wage-bargaining systems, wage indexation and minimum wages as well as non-wage labor costs.

## Projects within the Research Focus (1)

### Illegal Immigration

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The general attitude towards legal immigration has become more and more hostile over the past decades. As a consequence, EU countries increasingly have to face the problem of illegal immigration. Labor market implications play an important role with regard to both the causes and the consequences of this development. The research project thoroughly analyzed the economic aspects of illegal migration. With the internationally renowned *Journal of Population Economics*, IZA provided a forum for the findings of leading experts in this field.

### The Integration of Immigrants into the Labor Market: The German and the Israeli Experience

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Both Germany and Israel have experienced large immigration flows from CIS countries, particularly during the first half of the 1990s. The research project examined the impact of education and labor market experience as well as the role of migration networks with regard to the integration of immigrants into the German and Israeli labor markets. The analysis focused on the labor market performance of migrants. The findings include determinants of job mobility, the development of wages, and the role of language skills of migrants. The objective of analyzing the assimilation process was to draw conclusions for an economically motivated immigration and integration policy.

Project Team:

**Michael Vogler** (IZA), **Klaus F. Zimmermann** (IZA)

Project Period:

**1995-1999**

Project Institution:

**CEPR; IZA**

Selected Publication:

**Journal of Population Economics, 12 (1999)**

Project Team:

**Evgeny Agronin** (Tel Aviv University), **Thomas K. Bauer** (IZA), **Zvi Eckstein** (Tel Aviv University), **Yoram Weiss** (Tel Aviv University), **Klaus F. Zimmermann** (IZA), **Eric Zwintz** (SELAPO, University of Munich)

Project Period:

**1997-1999**

Project Institution:

**German-Israeli Foundation for Scientific Research and Development (G.I.F.); IZA**

Selected Publications:

Bauer, T. K./K. F. Zimmermann (1999), **Occupational**

### Migration in Europe: What Do We Know?

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In this project, leading researchers in the area of migration from Europe and North America have come together to write a book on the migration experience in the respective countries. For each country, the book will provide a chapter that surveys the development of migration as well as the assimilation of immigrants in the labor market of the receiving country and the effects of immigration flows on wages and employment of natives. Most articles have already been published as IZA Discussion Papers.

### Integration of Ethnic German Immigrants into the Labor Market and Society

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The aim of this project, which combines empirical findings with economic and social policy aspects, was to study the particular problems and mechanisms characterizing the integration of ethnic German immigrants into the labor market from an economic and a social policy perspective. One focus of the project was the analysis of the structural changes of ethnic German immigration and the integration of the respective immigrant cohorts into

**Mobility of Ethnic Germans**, IZA Discussion Paper No. 58

Eckstein, Z./K. F. Zimmermann (1999), **Ethnic Germans and Jewish Immigrants from Eastern Europe: A Comparative Study of Labor Market Adjustments**, mimeo. Tel Aviv University/IZA

IZA Project Team:

**Klaus F. Zimmermann** (IZA), **Thomas K. Bauer** (IZA)

Project Period:

**1997-2002**

Project Institution:

**CEPR; IZA**

Publication:

Bauer, T. K./K. F. Zimmermann (eds.) (2002), **European Migration: What Do We Know?**, Oxford (forthcoming)

Project Team:

**Thomas K. Bauer** (IZA), **Barbara Dietz** (Osteuropa-Institut, Munich), **Klaus F. Zimmermann** (IZA), **Eric Zwintz** (SELAPO, University of Munich, until 1999), **Liilo Locher** (IZA, since 2000)

Project Duration:

**1998-2000**

## Projects within the Research Focus (1)

society and the labor market. A second focus concentrated on the question whether the structural changes of ethnic German immigration influenced the development and usage of migration networks. Finally, the project examined the impact of integration into migration networks and social integration on the economic performance of ethnic German migrants. On the basis of the results of these three research focuses, official integration policy in Germany was evaluated.

### Labor Demand, Education and the Dynamics of Social Exclusion

Under the TSER Program of the European Union, researchers within a network of European partner institutions analyzed the impact of technological change and market integration on the demand for employees with different educational levels and qualifications. Furthermore, the project focused on the dynamics of social integration and exclusion. As part of the network, IZA completed the following tasks: It provided an analysis of the effects of technical progress in the German labor market, studied the role of education in determining labor market success, and analyzed specific integration problems of immigrants into German society and labor market. In this context, IZA researchers analyzed the effects of immigration on wages and employment of the native population and thereby provided some

Project Institution:

**Volkswagen Foundation; IZA**

Selected Publications:

Bauer, T. K./G. S. Epstein/I. N. Gang (2000), **What Are Migration Networks?**, IZA Discussion Paper No. 200

Dietz, B. (1999), **Ethnic German Immigration from Eastern Europe and the Former Soviet Union to Germany: The Effects of Migrant Networks**, IZA Discussion Paper No. 68

Zimmermann, K. F. (2000), **Aussiedler seit 1989 - Bilanz und Perspektiven**, Jahrbuch für Wirtschaftsgeschichte, 1, 225-237

Zwintz, E. (2000), **Arbeitsmarktqualität und Arbeitsmarkterfolg von Zuwanderern**, Frankfurt/Main

Project Team:

**Thomas K. Bauer** (IZA), **Regina T. Riphahn** (University of Munich), **Anja Thalmaier** (IZA), **Michael Vogler** (IZA), **Klaus F. Zimmermann** (IZA), **Eric Zwintz** (SELAPO, University of Munich)

Project Duration:

**1998-2000**

Project Institution:

**TSER Program of the European Union; CEPR; IZA**

Selected Publications:

Bauer, T. K./A. Million/R. Rotte/K. F. Zimmermann (1998), **Immigrant Labor and Workplace Safety**,

explanations for the social, economic and political integration of immigrants into the society of the receiving country.

### Canadian International Labour Network

The Canadian International Labour Network (CILN) was a joint research project of the Social and Humanities Research Council (SSHRC) and McMaster University, Hamilton. Under the heading "Labour Market Institutions and Outcomes: A Cross-National Study" the analysis focused on the effects of laws and institutions on the labor market. The international framework of cooperation enabled the project group to work on a broader statistical basis.

### Temporary Migrants

This project is part of a worldwide research project resulting from the 3rd International Metropolis conference. The core issue investigated in all contexts is the question why countries prefer temporary versus permanent migration.

IZA Discussion Paper No. 16  
 Hansen, J./M. Lofstrom (1999), **Immigrant Assimilation and Welfare Participation: Do Immigrants Assimilate Into or Out of Welfare?**  
 IZA Discussion Paper No. 100

IZA Project Representative:  
**Klaus F. Zimmermann**

Project Duration:  
**1998-2001**

Project Institution:  
**Social Sciences and Humanities Research Council (SSHRC); McMaster University, Hamilton; IZA**

IZA Project Representative:  
**Thomas K. Bauer**

Project Period:  
**1998-2002**

Project Institutions:  
**IZA**

Selected Publication:  
 Bauer, T. K./I. N. Gang (1998), **Temporary Migrants from Egypt: How Long Do They Stay Abroad?**  
 IZA Discussion Paper No. 3

## Projects within the Research Focus (1)

### Immigration and Integration in the Metropolis

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The International Metropolis Project is a set of coordinated activities dealing with issues of immigration and integration carried out by members of research and policy organizations. The goal of the project is to develop policy options in order to better manage the challenges and opportunities of immigration, especially in cities.

### Assessment of Possible Migration Pressure and its Labour Market Impact Following EU Enlargement to Central and Eastern Europe

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In 1998, the European Union opened negotiations with six Central and Eastern European countries seeking membership. The project examined the extent and structure of the expected East-West migration. On the one hand, it analyzed in how far immigration of workers from designated member states will affect the labor markets of the current EU countries. On the other hand, the project examined whether such immigration may lead to a reduction of wages and employment of native labor. An expert opinion drafted on behalf of the British Department for Education and Employment is available as IZA Research Report No. 3.

Project Team:

**Thomas K. Bauer** (IZA), **Don J. DeVoretz** (Simon Fraser University, Burnaby), **Holger Hinte** (IZA), **Christiane Werner** (Simon Fraser University, Burnaby), **Klaus F. Zimmermann** (IZA)

Project Period:

**since 1998**

Project Institution:

**Research on Immigration and Integration in the Metropolis (RIIM)**

Project Team:

**Thomas K. Bauer** (IZA), **Klaus F. Zimmermann** (IZA)

Project Duration:

**1999**

Project Institution:

**Department for Education and Employment (DfEE), UK**

Selected Publication:

Bauer, T. K./K. F. Zimmermann (1999), **Assessment of Possible Migration Pressure and its Labour**

### Immigration Policy in Integrated National Economies

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The current debate about the growth of the global economy has mainly dealt with increased trade flows in the 1980s and 1990s induced by the global reduction of trade barriers, rapid transmission of technology across countries, and highly mobile capital. However, the question of increased labor mobility has been widely neglected in the debate on globalization. In this project, empirical and theoretical correlations between the growing global economy and the mobility of labor were analyzed. In addition, the theoretical and empirical labor market effects of globalization and labor immigration were compared. Based on an analysis of the native population's attitude towards immigration, the immigration policies of selected OECD countries were evaluated.

### Marginal Labor Markets

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In this project, a team of international scientists analyze to which extent the social exclusion of certain population groups can be attributed to the fact that these groups are marginalized in the labor market. In particular, immigrants and young people belong to this category because many of them do not have access to jobs that offer stability and

### Market Impact Following EU Enlargement to Central and Eastern Europe. A Study for the Department for Education and Employment, UK, IZA Research Report No. 3

Project Team:

**Thomas K. Bauer** (IZA), **Magnus Lofstrom** (IZA), **Klaus F. Zimmermann** (IZA)

Project Period:

**1999-2000**

Project Institution:

**American Institute for Contemporary German Studies (AICGS); IZA**

Selected Publication:

Bauer, T. K./M. Lofstrom/K. F. Zimmermann (2000), **Immigration Policy, Assimilation of Immigrants: Evidence from 12 OECD Countries**, Swedish Economic Policy Review, 7, 11-53

IZA Project Representatives:

**Thomas K. Bauer** (IZA), **Klaus F. Zimmermann** (IZA)

Project Period:

**1999-2002**



## Projects within the Research Focus (1)

career opportunities. This marginalization is often directly related to the phenomenon of urbanization and can lead to ghettoization as well as the emergence of an underclass. The results of the project will be published in the *Journal of Population Economics*.

### Overtime Work in Germany

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In the discussion about policy options for the solution of the German unemployment problem, the redistribution of work by means of reducing overtime work is an important issue. Based on empirical analyses, the project examines the determining factors of overtime work and the extent of overtime hours, the possible correlation between overtime and temporary demand shocks in Germany, types of overtime compensation, as well as the determinants of individual overtime compensation. Previous research has raised serious doubts whether a general reduction of overtime has a positive effect on employment.

### International Mobility of High-Skilled Workers

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During the past few years the international mobility of high-skilled workers has increased significantly. Large international companies compete in recruiting qualified young employees. The "brain drain" discussion does no longer apply to developing countries only. As a result of globalization and interna-

Project Institution:

**IZA**

Publications:

**Journal of Population Economics, 15 (2002)**  
(forthcoming)

Project Team:

**Thomas K. Bauer** (IZA), **René Fahr** (Bonn Graduate School of Economics; IZA),  
**Klaus F. Zimmermann** (IZA)

Project Duration:

**since 1999**

Project Institution:

**IZA**

Selected Publication:

Bauer T. K./K. F. Zimmermann (1999), **Overtime Work and Overtime Compensation in Germany**, *Scottish Journal of Political Economy* 46, 419-436

Project Team:

**Astrid Kunze** (IZA), **Lilo Locher** (IZA), **Melanie Ward** (IZA), **Rainer Winkelmann** (IZA)

Project Duration:

**2000-2001**

tional mobility, it has also become a problem within the European Union. In this context, IZA carried out the study “International Mobility of High-Skilled Workers” on behalf of the Federal Ministry of Education and Research in cooperation with Infratest Burke and the Centre for Research on Higher Education and Work (University of Kassel). IZA issued a report evaluating firms’ recent demand for internationally mobile foreign high-skilled workers.

#### **Immigrants and Language: Lessons from Canada and Germany**

The acquisition of language skills has not been a central issue of Germany’s integration policy for migrants and recent ethnic German immigrants so far. Canada, by contrast, has developed different approaches to promote language proficiency, given that it has two official languages and that the majority of new immigrants speak neither of them. The project studied the Canadian experience under labor market policy aspects and drew conclusions for German integration policy. The results of the project were presented during an IZA Panel Discussion in Berlin and are published as an IZA Discussion Paper.

Project Institution:  
**Federal Ministry of Education and Research;  
IZA**

Selected Publication:  
Winkelmann, R./A. Kunze/L. Locher/M. Ward (2001),  
**Die Nachfrage nach internationalen hochqualifizierten Beschäftigten**, IZA Research Report No. 4

IZA Project Representative:  
**Holger Hinte**

Project Duration:  
**1999–2000**

Project Institution:  
**Research on Immigration and Integration in the Metropolis (RIIM); IZA**

Selected Publications:  
DeVoretz, D. J./C. Werner (2000), **A Theory of Social Forces and Immigrant Second Language Acquisition**, IZA Discussion Paper No. 110  
DeVoretz, D. J./H. Hinte/C. Werner (2002), **How Much Language is Enough? Some Immigrant Language Lessons from Canada und Germany**, IZA Discussion Paper No. 555

## Projects within the Research Focus (1)

### Immigration Project: Denmark and Germany

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In cooperation with Infratest Burke and IZA, the Rockwool Foundation Research Unit, Copenhagen, has been conducting a survey of approximately 5,500 migrants living in Germany. The survey concentrates on the five largest groups of immigrants from Turkey, Yugoslavia, Poland, Iran, and Vietnam. The main issue in the analysis of the survey results will be the welfare of these migrants, who represent approximately two thirds of non-German migrants, and the process of their integration into the German labor market.

### Shortage of High-Skilled Labor in Times of High Unemployment

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In the information age the global competition for labor has become fiercer than ever. Human capital is now the driving force behind economic development. Shortage of high-skilled labor in times of persistent unemployment is a problem in the German as well as many foreign labor markets, which poses many challenges for immigration policies. On behalf of the Immigration Commission to the German Federal Government, IZA issued a report on the consequences and policy options regarding an urgent shortage of high-skilled labor in times of high unemployment. In the report, the tight situation on the labor market in the short and long term was analyzed, and a comprehensive concept for a new immigration policy in Germany was developed. An updated version of the report is available as a book.

Project Team:

**Thomas K. Bauer** (IZA), **Lilo Locher** (IZA),  
**Gunnar Mogensen** (Rockwool Foundation),  
**Klaus F. Zimmermann** (IZA)

Project Duration:

**2000-2003**

Project Institution:

**Rockwool Foundation; IZA**

Project Team:

**Thomas K. Bauer** (IZA), **Holger Bonin** (IZA),  
**René Fahr** (IZA), **Holger Hinte** (IZA),  
**Klaus F. Zimmermann** (IZA)

Project Duration:

**2001**

Project Institution:

**Immigration Commission to the German Federal  
Government; IZA**

Selected Publication:

Zimmermann, K. F./T. K. Bauer/H. Bonin/R. Fahr/  
H. Hinte (2002), **Arbeitskräftebedarf bei hoher  
Arbeitslosigkeit. Ein ökonomisches  
Zuwanderungskonzept für Deutschland**,  
Berlin/Heidelberg/New York

## International Project on Wage Flexibility

An important determinant of the impact of inflation and monetary policy is the nature of wage rigidities. Implicitly or explicitly, many monetary policy positions contain particular assumptions about the nature of wage flexibility. In this project, studies from a number of industrial countries are analyzed in order to assess nature and degree of wage rigidities in the different countries and follow their development. The main task of this project will be to make explicit the impact of recent institutional changes in these countries (e.g. centralized wage negotiations, temporary employment contracts, and minimum wages) on inflation.

Project Team:

**Thomas K. Bauer** (IZA), **Pierre Biscourp** (INSEE, France), **Holger Bonin** (IZA), **Bruno Crepon** (INSEE, France), **Erica Groshen** (Federal Reserve Bank of New York), **Francis Kramarz** (INSEE, France), **Kjell Salvanes** (University of Bergen, Norway), **Mark Schweitzer** (Bank of England), **Uwe Sunde** (IZA), **William Wascher** (Board of Governors of the Federal Reserve System), **Niels Westergaard-Nielson** (University of Aarhus, Denmark)

Project Duration:

**since 2001**

Project Institution:

**IZA** (for the German part of the project)

## Publications within the Research Focus (1)

Addison, J. T./J. S. Heywood/X. Wei (2001), **Unions and Plant Closings in Britain: New Evidence from the 1990/98 WERS**, *IZA Discussion Paper No. 352*, Bonn.

Addison, J. T./P. Portugal (2001), **Job Search Methods and Outcomes**, *IZA Discussion Paper No. 493*, Bonn.

Addison, J. T./P. Portugal (2001), **Unemployment Duration: Competing and Defective Risks**, *IZA Discussion Paper No. 350*, Bonn.

Barrett, A. (1999), **Irish Migration: Characteristics, Causes and Consequences**, *IZA Discussion Paper No. 97*, Bonn.

Barrett, A./P. J. O'Connell (2001), **Is There a Wage Premium for Returning Irish Migrants?** *Economic and Social Review*, 32(1), 1-21 (*IZA Discussion Paper No. 135*).

Bauer, T. K. (1999), **Educational Mismatch and Wages in Germany**, *IZA Discussion Paper No. 87*, Bonn.

Bauer, T. K./K. F. Zimmermann (1999), **Occupational Mobility of Ethnic Migrants**, *IZA Discussion Paper No. 58*, Bonn.

Bauer, T. K./A. Million/R. Rotte/K. F. Zimmermann (1998), **Immigrant Labor and Workplace Safety**, *IZA Discussion Paper No. 16*, Bonn.

Bauer, T. K./G. S. Epstein/I. N. Gang (2000), **What are Migration Networks?** *IZA Discussion Paper No. 200*, Bonn.

Bauer, T. K./I. N. Gang (1998), **Temporary Migrants from Egypt: How Long Do They Stay Abroad?** *IZA Discussion Paper No. 3*, Bonn.

Bauer, T. K./K. F. Zimmermann (1998), **Causes of International Migration: A Survey**, in: Gorter, C./P. Nijkamp/J. Poot (eds.), *Crossing Borders. Regional and urban perspectives on international migration*, Aldershot, 95-127 (*IZA Reprint No. 7/99*).

Bauer, T. K./K. F. Zimmermann (1999), **Assessment of Possible Migration Pressure and its Labor Market Impact Following EU Enlargement to Central and Eastern Europe. Study for the Department for Education and Employment of the United Kingdom**, *IZA Research Report No. 3*, Bonn.

Bauer, T. K./K. F. Zimmermann (1999), **Overtime Work and Overtime Compensation in Germany**, *Scottish Journal of Political Economy*, 46(4), 419-436 (*IZA Discussion Paper No. 48*; *IZA Reprint No. 19/99*).

Bauer, T. K./K. F. Zimmermann (1999), **Überstundenarbeit und Überstundenkompensation in Deutschland**, *Wirtschaftsdienst*, 79(8), 480-486 (*IZA Reprint No. 15/99*).

Bauer, T. K./K. F. Zimmermann (2000), **Immigration Policy in Integrated National Economies**, *IZA Discussion Paper No. 170*, Bonn.

Bauer, T. K./P. Pereira,/M. Vogler/K. F. Zimmermann (1998), **Portuguese Migrants in the German Labor Market: Performance and Self-Selection**, *IZA Discussion Paper No. 20*, Bonn.

Bauer, T. K./R. T. Riphahn (1998), **Employment Effects of Payroll Taxes - An Empirical Test for Germany**, *IZA Discussion Paper No. 11*, Bonn.

Bauer, T. K./C. M. Lofstrom/K. F. Zimmermann (2000), **Immigration Policy, Assimilation of Immigrants and Natives' Sentiments towards Immigrants: Evidence from 12 OECD-Countries**, *Swedish Economic Policy Review*, 7 (2000), 11-53 (IZA Discussion Paper No. 187; IZA Reprint No. 87/01).

Bell, D. N. F./R. A. Hart (1999), **Overtime Working in an Unregulated Labour Market**, *IZA Discussion Paper No. 44*, Bonn.

Bell, D. N. F./R. A. Hart/O. Hübler/W. Schwerdt (2000), **Paid and Unpaid Overtime Working in Germany and the UK**, *IZA Discussion Paper No. 133*, Bonn.

Bellmann, L./S. Bender/U. Horsteiner (2000), **Job Tenure of Two Cohorts of Young German Men 1979 - 1990: An Analysis of the (West-)German Employment Statistic Register Sample Concerning Multivariate Failure Times and Unobserved Heterogeneity**, *IZA Discussion Paper No. 106*, Bonn.

Bonin, H. (2001), **Fiskalische Effekte der Zuwanderung nach Deutschland: Eine Generationenbilanz**, *IZA Discussion Paper No. 305*, Bonn.

Booth, A. L./M. Francesconi/J. Frank (2000), **Temporary Jobs: Stepping Stones or Dead Ends**, *IZA Discussion Paper No. 205*, Bonn.

Bover, O./P. Velilla (1999), **Migration in Spain: Historical Background and Current Trends**, *IZA Discussion Paper No. 88*, Bonn.

Bratberg, E./Ø. A. Nilsen (2000), **Transitions from School to Work and the Early Labour Market Experience**, *Oxford Bulletin of Economics and Statistics*, 62, Special Issue, 909-929 (IZA Discussion Paper No. 27; IZA Reprint No. 79/01).

Broersma, L./J. C. van Ours (1999), **Job Searchers, Job Matches and the Elasticity of Matching**, *Labour Economics*, 6, 77-93 (IZA Reprint No. 41/00).

Broll, U./K. P. Wong (1999), **Efficiency Wages and Futures Markets**, *IZA Discussion Paper No. 28*, Bonn.

Brunello, G./C. Graziano/B. Parigi (2000), **Ownership or Performance: What Determines Board of Directors' Turnover in Italy?** *IZA Discussion Paper No. 105*, Bonn.

Büchel, F./J. R. Frick (2000), **The Income Portfolio of Immigrants in Germany -Effects of Ethnic Origin and Assimilation. Or: Who Gains from Income Re-Distribution?** *IZA Discussion Paper No. 125*, Bonn.

Buscher, H. S./C. Müller (1999), **Exchange Rate Volatility Effects on the German Labour Market: A Survey of Recent Results and Extensions**, *IZA Discussion Paper No. 37*, Bonn.

Cahuc, P./A. Saint-Martin/A. Zylberberg, (2001), **The Consequences of the Minimum Wage When Other Wages are Bargained Over**, *European Economic Review*, 45, 337-352 (IZA Reprint No. 82/01).

Cahuc, P./F. Postel-Vinay (2001), **Temporary Jobs, Employment Protection and Labor Market Performance**, *IZA Discussion Paper No. 260*, Bonn.

Chiswick, B. R. (2000), **Are Immigrants Favorably Self-Selected? An Economic Analysis**, in: Brettell, C./J. Hollifield (eds.), *Migration Theory*, New York, 61-76 (IZA Discussion Paper No. 131).

## Publications within the Research Focus (1)

Chiswick, B. R./G. Repetto (2001), **Immigrant Adjustment in Israel: Literacy and Fluency in Hebrew and Earnings**, in: S. Djajic (ed.), *International Migration: Trends, Policy and Economic Impact*, New York, 204-228 (IZA Discussion Paper No. 177).

**Chiswick, B. R./M. E. Hurst (2000), The Employment, Unemployment and Unemployment Compensation Benefits of Immigrants**, in: *Long Term Unemployment and Reemployment Policies. Research in Employment Policies* vol. II, Stamford, 87-115 (IZA Discussion Paper No. 129).

Cobb-Clark, D. A./M. D. Connolly/C. Worswick (2001), **The Job Search and Education Investments of Immigrant Families**, IZA Discussion Paper No. 290, Bonn.

Cobb-Clark, D./T. F. Crossley (2001), **Gender, Comparative Advantage and Labor Market Activity in Immigrant Families**, IZA Discussion Paper No. 293, Bonn.

Coimbra, R./T. Lloyd-Braga/L. Modesto (2000), **Unions, Increasing Returns and Endogenous Fluctuations**, IZA Discussion Paper No. 229, Bonn.

Cornelius, W. A./E. A. Marcelli (2000), **The Changing Profile of Mexican Migrants to the United States: New Evidence from California and Mexico**, IZA Discussion Paper No. 220, Bonn.

DeVoretz, D. J./S. A. Laryea (2000), **Canadian Immigration Experience: Any Lessons for Europe?**, IZA Discussion Paper No. 59, Bonn.

DeVoretz, D. J./H. Hinte/C. Werner (2002), **How Much Language is Enough? Immigrant Language Lessons from Canada and Germany**, IZA Discussion Paper No. 555, Bonn.

DeVoretz, D. J./C. Werner (2000), **A Theory of Social Forces and Immigrant Second Language Acquisition**, IZA Discussion Paper No. 110, Bonn.

Dietz, B. (1998), **'Wer bin ich? Was will ich?...' Einstellungen und Orientierungen von jugendlichen Aussiedlern in Deutschland**, in: Forschungsinstitut der Friedrich-Ebert-Stiftung, Abt. Arbeit und Sozialpolitik (ed.), *Deutsch sein und doch fremd sein. Lebenssituation und -perspektiven jugendlicher Aussiedler*, Bonn, 15-30.

Dietz, B. (1998), **Zuwanderung und Integration - Aussiedler in Deutschland**, in: Institut für Deutsche Geschichte der Universität Tel Aviv (ed.), *Tel Aviver Jahrbuch für deutsche Geschichte*, 27, 445-472.

Dietz, B. (1999), **Ethnic German Immigration from Eastern Europe and the former Soviet Union to Germany: the Effects of Migrant Networks**, IZA Discussion Paper No. 68, Bonn.

Dietz, B. (1999), **Integrationspolitik für Aussiedler: Krisenverwaltung oder Konzeptioneller Neuanfang?** In: Forschungsinstitut der Friedrich-Ebert-Stiftung, Abt. Arbeit und Sozialpolitik (ed.), *Perspektiven der neuen Aussiedlerpolitik*, 19-28.

Dietz, B. (1999), **Jugendliche Aussiedler in Deutschland: Risiken und Chancen der Integration**, in: Bade, K. J./J. Oltmer (eds.), *Aussiedler: Deutsche Einwanderer aus Osteuropa, IMIS-Schriften Bd. 8*, Osnabrück, 153-176.

Dohmen, T. J. (2000), **Housing, Mobility and Unemployment**, IZA Discussion Paper No. 210, Bonn.

Dohmen, T. J./G. A. Pfann (2000), **Worker Separations in a Nonstationary Corporate Environment**, IZA Discussion Paper No. 201, Bonn.

Dustmann, C. (1999), **Temporary Migration and Economic Assimilation**, *Scandinavian Journal of Economics*, 101, 297-314 (*IZA Discussion Paper No. 186*).

Dustmann, C. (2001), **Return Migration, Wage Differentials, and the Optimal Migration Duration**, *IZA Discussion Paper No. 264*, Bonn.

Dustmann, C./A. van Soest (2000), **Parametric and Semiparametric Estimation in Models with Misclassified Categorical Dependent Variables**, *IZA Discussion Paper No. 218*, Bonn.

Dustmann, C./F. Fabbri (2000), **Language Proficiency and Labour Market Performance of Immigrants in the UK**, *IZA Discussion Paper No. 156*, Bonn.

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Faini, R./J. de Melo/K. F. Zimmermann (eds.) (1999), **Migration. The Controversies and the Evidence**, Cambridge.

Fehr, E./A. Falk (1999), **Wage Rigidity in a Competitive Incomplete Contract Market**, *Journal of Political Economy*, 107, 106-134 (*IZA Reprint No. 24/00*).



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- Hartog, J./P. T. Pereira/J. A. C. Vieira (2000), **Interindustry Wage Dispersion in Portugal**, *Empirica*, 27(4), 353-364 (*IZA Discussion Paper No. 53*).
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Nielsen, H. S./M. Rosholm/N. Smith/L. Husted (2001), **Qualifications, Discrimination, or Assimilation? An Extended Framework for Analysing Immigrant Wage Gaps**, *IZA Discussion Paper No. 365*, Bonn.

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## (2) Internationalization of Labor Markets

Program Director: Torben M. Andersen (University of Aarhus)



The process of international integration affects labor markets and social conditions on various levels. Does this development create a “new economy” with high growth and favorable labor market consequences, or does it pose a threat to social standards and the achievements of the welfare society? Will this process curtail the power of national economic and labor market policy, or will the latter be able to retain its power by flexible reaction and intelligent reform approaches? With its various individual projects, this research program addresses some of the major issues related to the effects of international integration on labor markets and social conditions.

### International Integration and Wage Formation

International integration increases the mobility of companies and thus of labor as a production factor. Regions with a competitive advantage experience the highest rates of job creation. With the gradual removal of barriers to international trade, it becomes easier for firms to supply the European and the international markets by placing production units in the most competitive regions within Europe and by creating virtual networks. With growing integration and access to the same capital markets and technology, wage competitiveness will inevitably come to play a larger role in job creation. Does this imply that market power evaporates in national labor markets and that wages will be determined by a “European norm”? Will it be possible to maintain high wages and employment at the same time through improvements in education and productivity? Will the pressure from international integration harm some groups and benefit others in the labor market?

### Risk, Flexibility and Social Insurance

International integration increases the demand for flexibility, adaptability and specialization, all of which also increase the exposure to risk. This may contribute to reinforcing heterogeneity and social inequality. Will the demand for various forms of social insurance increase if international integration leads to a more risky environment? What forms of economic policy can provide social insurance to cushion individuals



against the risks of international integration while at the same time maintaining flexibility and adaptability? Will it be possible at all to finance such policies in an increasingly globalized environment?

### Perspectives of Economic Policy

The integration process affects policymaking by eliminating some policy instruments (monetary policy) and limiting others (fiscal policy). How will labor markets respond to this development? Will it lead to more wage flexibility, or will differences in labor market performance among European countries increase? What options remain for an independent economic policy?

### International Cooperation

Institutional structures have to respond to international integration in order to prevent the impending loss of influence. Will this lead to the formation of “European trade unions” – about a century after the formation of national trade unions? International cooperation or harmonization may also be sought in the areas of labor market and social policy because international integration leads to a “race to the bottom” with respect to labor and social standards. At present, the European Union is at a stalemate because member states have a veto right on labor and social policy issues as a means to protect their own system. This might change in the future. In what direction will international policy coordination and harmonization develop? Will it be sufficient to stipulate minimum standards, or will policies have to go further?



## Projects within the Research Focus (2)

### Determinants of Migration from Developing Countries

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Many questions in the field of international migration have not been resolved yet. Especially in the case of emigration from developing countries, this is due to the insufficient availability of useful data sets. The primary objective of the project, therefore, was to develop a macro database covering migration flows from 86 African and Asian countries to Germany in the period from 1981 to 1995. With more than 50 explanatory socio-economic, political, and institutional variables, the most comprehensive database to date was used for this analysis, which was published as a book in 2000.

### Assessment of Possible Migration Pressure and its Labour Market Impact Following EU Enlargement to Central and Eastern Europe

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In 1998, the European Union opened negotiations with six Central and Eastern European countries seeking membership. The project examined the extent and structure of the expected East-West migration. On the one hand, it analyzed in how far immigration of workers from designated member states will affect the labor markets of the current EU countries. On the other hand, the project examined whether such immigration may lead to a reduction of wages and employment of native labor. An expert opinion drafted on behalf of the British Department for Education and Employment is available as IZA Research Report No. 3.

Project Team:  
**Michael Vogler** (IZA)

Project Duration:  
**1998-2000**

Project Institution:  
**IZA**

Selected Publication:  
Vogler, M. (2000), **Determinanten der Zuwanderung aus Entwicklungsländern**, Baden-Baden

Project Team:  
**Thomas K. Bauer** (IZA), **Klaus F. Zimmermann** (IZA)

Project Duration:  
**1999**

Project Institution:  
**Department for Education and Employment (DfEE), UK**

Selected Publication:  
Bauer, T. K./K. F. Zimmermann (1999), **Assessment of Possible Migration Pressure and its Labour**

### European Product Market Integration and Labor Market Performance

The purpose of this project was to strengthen and intensify research on structural changes in labor markets induced by international integration. In simplified terms, the situation can be portrayed as follows: There are globalized capital markets, integrating product markets primarily at a European level, and national labor markets with moderate labor mobility between European labor markets. Based on this assumption, the project focused on the implications of increased product market integration. This effect does not only affect product markets in a narrow sense, but also labor markets via a number of indirect effects that increase job mobility between countries, even though labor is not necessarily very mobile. One key issue was the question how wage formation is affected by increased job mobility. IZA addressed this aspect from both a theoretical and an empirical perspective.

### Evaluation of the German Green Card Initiative

This project aims at studying the effectiveness and the impact of the German initiative to recruit foreign IT specialists on a temporary basis (the so-called Green Card Initiative). Because of the lack of official data, IZA has been running an extensive poll

**Market Impact Following EU Enlargement to Central and Eastern Europe. A Study for the Department for Education and Employment, UK,**  
IZA Research Report No. 3

Project Team:

**Torben M. Andersen** (University of Aarhus; IZA),  
**Niels Haldrup** (University of Aarhus), **Jan Rose Skaksen** (University of Aarhus)

Project Duration:

**2000**

Project Institution:

**IZA; University of Aarhus**

Selected Publications:

Andersen, T. M./N. Haldrup/J. R. Sørensen (2000),  
**Labour Market Implications of EU Product Market Integration**, *Economic Policy*, 30, 107-133  
Andersen, T. M./J. R. Sørensen (2000), **Product Market Integration and Wage Formation**, *Journal of Economic Integration*, 15, 281-293

Project Team:

**Holger Bonin** (IZA), **Klaus F. Zimmermann** (IZA)

Project Duration:

**since 2001**

## Projects within the Research Focus (2)

among a selection of applicants for German green cards. Based on the results of this survey, a broad empirical analysis of the supply of internationally mobile specialists will be conducted. In particular, there will be a focus on applicants' migration motives and the prerequisites for successful recruitment in Germany.

### Globalization and Labor Markets

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In this project IZA analyzes the effects of globalization on labor markets in developed countries. One central aspect in this analysis is the interaction of openness, technological change, and labor market institutions. In particular, private incentives for defensive technological change are modeled. Furthermore, the project examines how the resulting higher labor income risk affects insurance and durable purchase decisions.

Project Institution:  
**IZA**

Project Team:  
**Winfried Koeniger** (IZA)

Project Duration:  
**since 2001**

Project Institution:  
**IZA**

- Andersen, T. M. (1999), **Globalization and the Welfare State**, in: Hedegaard, L./B. Lindström, *NEBI Yearbook 1999 (North European and Baltic Sea Integration)*, Berlin, 181-189.
- Andersen, T. M. (2001), **Active Stabilization Policy and Uninsurable Risks**, *Economics Letters*, 72, 347-354.
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# (3) Welfare State and Labor Market

Program Director:  
Dennis J. Snower (Birkbeck College, London)



The future of the welfare state - including such aspects as social insurance, redistribution from rich to poor, life cycle transfers, and the provision of social services such as health, education and training - is uncertain. It is often debated in how far the government should be involved in providing welfare services and to what extent the provision of welfare services should be delegated to companies and private households.



## Trend Towards a Welfare Society

Almost all European economies have been debating a significant shift of focus from the institutions of the welfare state to a much broader emphasis on the welfare society, which embraces government activities as well as those of the market, civil society, and family. This important development amounts to a sea change in drawing the boundaries between government, market, and community.

The effectiveness of the government, the market, and the community in delivering welfare services depends significantly on the functioning of the labor market. After all, demand for support by the welfare state is particularly high when people fail to find jobs and cannot participate in the labor market. Furthermore, welfare state entitlements have a significant influence on people's labor market incentives. This interplay between welfare and labor market activities is the focus of the IZA research program "Welfare State and the Labor Market".

## Division of Labor Between the Public and Private Sectors

The program examines the response of the welfare society to ongoing changes in three major areas:

- shifts in the demographic profile in an aging society;
- the transformation of standard full-time and year-round career jobs into more insecure part-time jobs, combined with changes in the labor force;

# (3) Welfare State and Labor Market

- dramatic changes in the world economy due to globalization, technological progress, and organizational change.

Against this background, the program focuses on the following issues:

- What is the appropriate division of labor between public and private sector in order to satisfy welfare needs?
- What does this division of labor imply for the interplay between welfare policy and labor market policy?
- In what areas of the welfare society do public and private sector complement each other, and when can one be substituted for the other in the provision of welfare services?
- How do economic and social institutions affect the interaction between the public and the private sector?
- Are the government objectives concerning equality (reducing poverty and inequality) consistent with different types of welfare mixes?
- How do welfare and labor market policies affect society's decisions regarding incentives (to work, save, produce), risks, and redistribution?

## Projects within the Research Focus (3)

### Job Creation for Low-Qualified Workers

In this project IZA examined in how far differentiated subsidies to social security contributions are a means to create jobs for low-qualified workers. The reduction of social security contributions for low-wage groups is supposed to lower real additional wage costs for the company and thereby to increase the demand for low-qualified workers. The project identified the groups of workers to be subsidized, analyzed the effects on labor supply and demand, and estimated the fiscal costs of different policy options. The advisory report, drafted on behalf of the Federal Ministry of Labor and Social Affairs, was published as IZA Research Report No. 2.

### Demand for Medical Services in Germany

Ever since the revision of the legal framework for continuous wage payments in Germany implemented in 1996 and 1999, the issue of absenteeism and its causes has taken a prominent place in the public debate. In particular, the fact that absences from work due to sickness decrease significantly in times of recession has often been regarded as evidence for the abuse of sick pay. The project aimed at an extensive analysis of the factors of absenteeism, taking into consideration Germany's institutional framework. The results of this analysis were compared to the experiences in other countries.

Project Team:

**Regina T. Riphahn** (IZA); **Uwe Sunde** (Bonn Graduate School of Economics), **Anja Thalmaier** (IZA), **Klaus F. Zimmermann** (IZA)

Project Duration:

**1999**

Project Institution:

**Federal Ministry of Labour and Social Affairs; IZA**

Selected Publication:

Zimmermann, K. F./R. T. Riphahn/A. Thalmaier (1999), **Schaffung von Arbeitsplätzen für Geringqualifizierte. Gutachterliche Stellungnahme im Auftrag des Bundesministeriums für Arbeit und Sozialordnung**, IZA Research Report No. 2

Project Team:

**Anja Thalmaier** (IZA), **Regina T. Riphahn** (University of Munich; IZA), **Klaus F. Zimmermann** (IZA)

Project Duration:

**1999-2002**

Project Institution:

**Deutsche Forschungsgemeinschaft (DFG)**

Selected Publication:

Thalmaier, A. (2000), **Eine ökonomische Analyse von Fehlzeiten**, Bonn



## Projects within the Research Focus (3)

### Reappraisal of the European Unemployment Problem

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The project examines the dynamics of the labor market from a theoretical as well as an empirical perspective. It is based on the hypothesis that an important part of the persistently high unemployment rates in Europe emerges from the reciprocal interaction of economic shocks and the slow adjustment processes of labor markets. As a result, economic shocks (e.g. interest rate changes or exchange rate shocks) cause a chain reaction of effects on employment and unemployment. This project investigates these interrelations and aims at finding adequate measures for making the labor market more flexible.

### Optimizing the Welfare Society

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German socio-economic research institutions have not yet analyzed in detail the economic benefits of social security focusing on the aspects of efficiency and effectiveness. The objective of the project is to develop standards for the evaluation of social security policy. In addition to giving impetus to the further development of social security policy, the project aims at drafting proposals for a more economic orientation of social security systems. IZA nomina-

Project Team:

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**Pilar Diaz Vazquez** (University of Santiago de Compostela; IZA); **Marika Karanassou** (Birkbeck College, London; IZA)

Project Duration:

**1999-2002**

Project Institution:

**IZA**

Selected Publications:

Karanassou, M./D. J. Snower (2000),  
**Characteristics of Unemployment Dynamics:  
The Chain Reaction Approach**, IZA Discussion  
Paper No. 127  
Karanassou, M./D. J. Snower/B. Henry (2000),  
**Adjustment Dynamics and the Natural Rate**,  
Oxford Economic Papers, 52, 178-203, (IZA  
Discussion Paper No. 75)

Project Team:

**Thomas K. Bauer** (IZA), **Dennis J. Snower**  
(Birkbeck College, London; IZA), **Anja Thalmaier**  
(IZA), **Klaus F. Zimmermann** (IZA)

Project Duration:

**1999-2002**

Project Institution:

ted an international research team for this project.

### Optimal Unemployment Insurance

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This project consists of various research focuses. The first one studies unemployment insurance and adverse selection. In a second focus, unemployment insurance with moral hazard is examined. Finally, a third sub-project aims at finding numerical results for the development of the optimal chronological wage substitution quota.

### Caring

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This project examines the factors influencing individual decisions for a job, childcare, or caring for needy family members. The situation of caring institutions, such as day care for children and the elderly, is very diverse across EU countries. A comparative approach will lead to valuable information concerning necessary reforms.

### Federal Ministry of Labour and Social Affairs

Selected Publication  
 Snower, D. J. (1999), **Causes of Changing Earnings Inequality**, in: Federal Reserve Bank of Kansas City, Income Inequality: Issues and Policy Options

Project Team:  
**Ashok Kaul** (IZA), **Marcus Hagedorn** (IZA),  
**Tim Mennel** (University of Bonn)

Project Duration  
**since 2001**

Project Institution:  
**IZA**

Project Team:  
**Hielke Buddelmeyer** (IZA)

Project Duration:  
**since 2001**

Project Institution:  
**IZA**

## Publications within the Research Focus (3)

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Arulampalam, W. (2000), **Is Unemployment Really Scarring? Effects of Unemployment Experiences on Wages**, IZA Discussion Paper No. 189, Bonn.

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Barbie, M./M. Hagedorn/A. Kaul (2000), **Dynamic Efficiency and Pareto Optimality in a Stochastic OLG Model with Production and Social Security**, IZA Discussion Paper No. 209, Bonn.

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Beissinger, T./H. Egger (2001), **Dynamic Wage Bargaining if Benefits are Tied to Individual Wages**, IZA Discussion Paper No. 389, Bonn.

Belot, M./J. C. van Ours (2000), **Does the Recent Success of Some OECD Countries in Lowering their Unemployment Rates Lie in the Clever Design of Their Labour Market Reform?**, IZA Discussion Paper No. 14, Bonn.

Belzil, C. (2001), **Unemployment Insurance and Subsequent Job Duration: Job Matching vs. Unobserved Heterogeneity**, *Journal of Applied Econometrics*, 16 (5), 619-636 (IZA Discussion Paper No. 116).

Bird, J. E./H. Kayser/J. R. Frick/G. G. Wagner (1999), **The Immigrant Welfare Effect: Take-Up or Eligibility?**, IZA Discussion Paper No. 66, Bonn.

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Bonin, H. (2001), **Generational Accounting - Theory and Application**, Berlin/Heidelberg.

Bonin, H. (2001), **Will it Last? An Assessment of the 2001 German Pension Reform**, IZA Discussion Paper No. 343, Bonn.

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Bonin, H./B. Raffelhüschen (2000), **Sozialtransfers und Bildungsausgaben - Deutschland in der demographischen Zwickmühle**, in: Lüdecke, R./ W. Steden/W. Scherf (eds.), *Wirtschaftswissenschaft im Dienste der Verteilungs-, Geld- und Finanzpolitik*, Berlin.

Boone, J./P. Fredriksson/B. Holmlund/J. C. van Ours (2001), **Optimal Unemployment Insurance with Monitoring and Sanctions**, IZA Discussion Paper No. 401, Bonn.

Boone, J./J. C. van Ours (2000), **Modeling Financial Incentives to Get Unemployed Back to Work**, IZA Discussion Paper No. 108, Bonn.

Bräuninger, M./M. Pannerberg (2000), **Unemployment and Productivity Growth: An Empirical Analysis within the Augmented Solow Model**, *Economic Modelling*, 19 (1), 177-189 (IZA Discussion Paper No. 136).

Breyer, F. (2001), **Why Funding is not a Solution to the "Social Security Crisis"**, *IZA Discussion Paper No. 328*, Bonn.

Brunello, G. (2001), **On the Complementarity between Education and Training in Europe**, *IZA Discussion Paper No. 311*, Bonn.

Büchel, F./J. R. Frick (2000), **Income Portfolio of Immigrants in Germany - Effects of Ethnic Origin and Assimilation Or: Who Gains from Income Redistribution?**, *IZA Discussion Paper No. 125*, Bonn.

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Cahuc, P./A. Zylberberg (1999), **Job Protection, Minimum Wage and Unemployment**, *IZA Discussion Paper No. 95*, Bonn.

Cahuc, P./A. Zylberberg (1999), **Redundancy Payments, Incomplete Labor Contracts, Unemployment and Welfare**, *IZA Discussion Paper No. 96*, Bonn.

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Dahl, S.-Å./Ø. A. Nilsen/K. Vaage (2000), **Work or Retirement? Exit Routes for Norwegian Elderly**, *Applied Economics*, 32 (14), 1865-1876 (*IZA Discussion Paper No. 32*).

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Epstein, G. S./S. Nitzan (1999), **The Endogenous Determination of Minimum Wage**, *CEPR Discussion Paper No. 2319*, London (*IZA Discussion Paper No. 73*).

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Farrell, L./M. Shields (2001), **Child Expenditure: The Role of Working Mothers, Lone Parents, Sibling Composition and Household Provision**, *IZA Discussion Paper No. 388*, Bonn.

Gerbach, H./A. Schniewind (2001), **Learning of General Equilibrium Effects and the Unemployment Trap**, *IZA Discussion Paper No. 254*, Bonn.

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Goerke, L. (2000), **Employment Effects of Labour Taxation in an Efficiency Wage Model with Alternative Budget Constraints and Time Horizons**, *IZA Discussion Paper No. 148*, Bonn.

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Jenkins, S./M. Jäntti (2001), **Examining the Impact of Macro-Economic Conditions on Income Inequality**, *IZA Discussion Paper No. 369*, Bonn.

Jurajda, S. (2001), **Estimating the Effect of Unemployment Insurance Compensation on the Labor Market Histories of Displaced Workers**, *IZA Discussion Paper No. 294*, Bonn.

Kalwij, A. (2001), **Individuals' Unemployment Experiences: Heterogeneity and Business Cycle Effects**, *IZA Discussion Paper No. 369*, Bonn.

Karanassou, M./D. J. Snower (2000), **Characteristics of Unemployment Dynamics: The Chain Reaction Approach**, *IZA Discussion Paper No. 127*, Bonn.

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Kreider, B./R. T. Riphahn (2000), **Explaining Applications to the U.S. Disability System: A Semiparametric Approach**, *The Journal of Human Resources*, 35 (1), 82-115 (*IZA Reprint 38/00*).

Kreyenfeld M./C. K. Spiess/G.C. Wagner (2000), **A Forgotten Issue: Distributional Effects of Day Care Subsidies in Germany**, *IZA Discussion Paper No. 198*, Bonn.

Kugler, A./G. Saint-Paul (2000), **Hiring and Firing Costs, Adverse Selection and Longterm Unemployment**, *IZA Discussion Paper No. 134*, Bonn.

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Lindbeck, A./D. J. Snower (2001), **Centralized Bargaining and Reorganized Work: Are They Compatible?**, *European Economic Review*, (45) 10, 1851-1875 (*IZA Discussion Paper No. 56*).

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Lindbeck, A./D. J. Snower (2000), **The Division of Labor and the Market for Organizations**, *IZA Discussion Paper No. 119*, Bonn.

Lindbeck, A./D. J. Snower (2001), **Insiders versus Outsiders**, *Journal of Economic Perspectives*, 15 (1), 165-188.

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## Publications within the Research Focus (3)

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Orszag, J. M./D. J. Snower (1998), **Anatomy of Policy Complementarities**, *Swedish Economic Policy Review*, 5 (2) (*IZA Discussion Paper No. 41*).

Orszag, J. M./D. J. Snower (1999), **Youth Unemployment and Government Policy**, *Journal of Population Economics*, 12, 197-213.

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Pedersen, P./N. Smith (2001), **Unemployment Traps: Do Financial Disincentives Matter?**, *IZA Discussion Paper No. 274*, Bonn.

Riphahn, R. T. (2000), **Disability Retirement among German Men in the 1980s**, *Industrial & Labor Relations Review*, 52 (4), 628-647.

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Riphahn, R. T./A. Thalmaier (1999), **Absenteeism and Employment Probation: A Panel Study for Germany**, *Vierteljahrshefte zur Wirtschaftsforschung*, 68, 230-236.

Riphahn, R. T./A. Thalmaier (2001), **Behavioral Effects of Probation Periods: An Analysis of Worker Absenteeism**, *Jahrbücher für Nationalökonomie und Statistik*, 221 (2), 179-201 (*IZA Reprint No. 86/01*, *IZA Discussion Paper No. 67*).

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Snower, D. J. (2001), **Revenue-Sharing Subsidies as Employment Policy: Reducing the Cost of Stimulating East German Employment**, in: Riphahn, R. T./D. J. Snower/K. F. Zimmermann (eds.), *Employment Policy in Transition: The Lessons of German Integration for the Labor Market*, Berlin/Heidelberg/New York, 172-191 (*IZA Reprint 74/00*).

Snower, D. J. (1999), **Causes of Changing Earnings Inequality**, *IZA Discussion Paper No. 29*, Bonn.

Sunde, U./A. Thalmaier/Klaus F. Zimmermann (1999), **Arbeitsplätze für Geringqualifizierte**, *Wirtschaftsdienst*, 79, 723-730.

Tekin, E./D. Blau (2001), **The Determinants and Consequences of Child Care Subsidies for Single Mothers**, *IZA Discussion Paper No. 383*, Bonn.

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Van der Klaauw, B./J. C. van Ours (2000), **Labor Supply and Matching Rates for Welfare Recipients: An Analysis Using Neighborhood Characteristics**, *IZA Discussion Paper No. 102*, Bonn.

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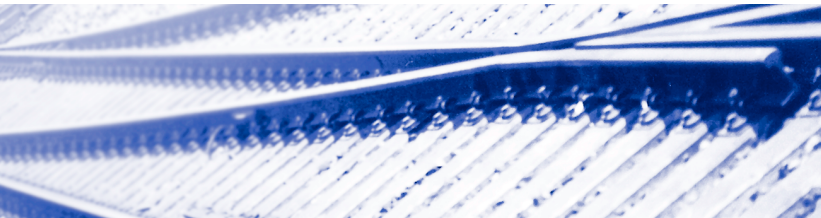


# (4) Labor Markets in Transition Countries

Program Director:  
Hartmut Lehmann (Heriot-Watt University, Edinburgh)



Transition from a centrally planned to a market-driven economy in the countries of Central and Eastern Europe and the former Soviet Union caused large macroeconomic shocks and induced profound changes in the institutional structures of these countries. The results are a serious impact on the labor market, a strong increase of unemployment, growing inequality and poverty as well as a rapid change in the demographic and industrial make-up of the work force. At the same time, the governments in Central and Eastern Europe and the former Soviet Union had to implement major reforms of labor market institutions in order to make a transition possible in the first place, but also to find an adequate response to the new developments. IZA analyzes labor markets in transition countries from different perspectives.



## Is the Western Experience Transferable?

As part of its basic research, IZA analyzes the question in how far western models of labor market behavior are applicable to the particular economic environment of transition countries. The specific problems of trans-

formation are studied in the light of the experience in western economies. Supply-side as well as demand-side factors are taken into account. A particularly promising approach in the context of transformation economies is the analysis of how company behavior affects job creation, job destruction and the fluctuation of workers. Regarding plans for extensive restructuring of economies, the analysis of gross job flows and workers provides valuable insights into the process of economic restructuring.

## Study of Adjustment Processes

This IZA research program also analyzes concrete policy programs in the Central and Eastern European labor markets. Very soon an infrastructure was developed there to implement active labor market policies (ALMP). Unlike in OECD countries, these changes are not just marginal adjustments but programs of vital importance. The analysis of these reform efforts will yield important insight for western labor market research as well. What can Germany and other EU countries learn from the political economy of reform measures in the labor markets of Central and Eastern Europe? IZA searches for answers to the complex question how to find the right balance between political feasibility and maximum economic impact of reform efforts. Last but not least, IZA plans to create an extensive and useful database for the purpose of studying transformation issues.

## Projects within the Research Focus (4)

### Labor Market Adjustment in Estonia: Microeconomic and Macroeconomic Aspects

Estonia is often hailed as one of the success stories in Central and Eastern Europe. Rapid liberalization of product markets and the labor market, as well as far-reaching reforms in the legal infrastructure, have contributed to annual GDP growth rates over the past years that are unparalleled in other states of the former Soviet Union. However, little was known about the ways in which, at the micro level, the performance of the labor market contributed to this outcome. Also, the interaction of labor market flexibility and the very stringent stabilization policies, which had successfully been applied in Estonia, had not been studied sufficiently before. This project was supported by the European Union's Phare Ace program. Further, IZA co-operated with the Centre for Economic Reform and Transformation, Heriot-Watt University, Edinburgh and the Centre for Economic Performance of the London School of Economics.

### Economic Reform and the Microeconomics of Labor Market Adjustment in the Russian Federation

More than seven years after the transition to a market economy began in Russia, macroeconomic evidence indicates that, despite initial expectations and the halving of industrial production, mass unemployment was slow to emerge there. Instead, many enterprises seemingly reacted to negative output shocks by a combination of reducing working hours,

Project Team:

**Hartmut Lehmann** (Heriot-Watt University, Edinburgh; IZA), **Raul Eamets** (University of Tartu), **Pier Carlo Padoan** (University of Rome), **Jonathan Wadsworth** (London School of Economics)

Project Duration:

**1999–2001**

Project Institution:

**European Union (Phare Ace Program); IZA**

Project Team:

**Hartmut Lehmann** (Heriot-Watt University, Edinburgh; IZA), **John Earle** (Stockholm School of Economics), **Vladimir Gimpelson** (IMEMO, Moscow), **Ingrid Leiprecht** (Osteuropa-Institut, Munich), **Viktor Starodubrovsky** (Institute for Management, Moscow), **Jonathan Wadsworth** (London School of

## Projects within the Research Focus (4)

not indexing wages to inflation, and allowing wage arrears to build up. As yet there is little microeconomic evidence regarding labor developments in Russia. This project deals with the analysis of labor market adjustment in the former Soviet Union. IZA cooperates with several research centers in Western Europe and Russia in two ways. On the one hand, those issues of labor market adjustment on the supply and demand sides are explored that seem to be relevant for all transition economies. On the other hand, those specific adjustment mechanisms are emphasized that are unique to the experience of workers in most of the successor states of the Former Soviet Union, including Russia.

### Gender Differences in Transition to Market Economies

The steering of job distribution and payment by the central government in communist and socialist regimes supposedly lead to less gender-specific discrimination. After many of the old governments had been replaced by more democratic, market economy institutions, a significant increase in gender-specific wage differentials was expected. However, within this project only small changes during the first years of transition to a market economy were observed. The findings of this research project were published in the Journal of Population Economics.

Economics), **Ruslan Yemtsov** (World Bank, Washington, D.C.)

Project Duration:  
**1999–2002**

Project Institution:  
**Thyssen Foundation; IZA**

Selected Publications:

Lehmann, H./J. Konings (2001), **Marshall and Labour Demand in Russia: Going Back to Basics**, IZA Discussion Paper No. 372

Lehmann, H./J. Wadsworth (2000), **Tenures that Shook the World: Worker Turnover in Russia, Poland, and Britain**, Journal of Comparative Economics, 28, 639-664

Lehmann, H./J. Wadsworth/A. Acquisti (1999), **Grime and Punishment: Job Insecurity and Wage Arrears in the Russian Federation**, Journal of Comparative Economics, 27, 595-617

Project Team:  
**Klaus F. Zimmermann**

Project Duration:  
**2000**

Project Institution:  
**IZA**

Selected Publication:  
**Journal of Population Economics, 13 (2000)**

## Employment Policy in Transition

---

This project dealt with the changing eastern German labor market and provided comparisons with other economies in transition. Numerous renowned labor market economists examined specific adjustment policies such as wage development, enterprise startups, and the trend toward early retirement. Furthermore, the project dealt with different options for action within the transition process and implications for the labor market, e.g. wage subsidies, further education, and active labor market policy. The findings of this project were published in the book *Employment Policy in Transition - The Lessons of German Integration for the Labor Market*.

## The Chinese Labor Market

---

In this project the Chinese labor market was examined in terms of job satisfaction, mobility, and wage differentials. In addition, proposals for the creation of a Chinese Longitudinal Labor Market Survey were developed. This survey is supposed to provide panel datasets on Chinese households for international comparison. A continuation of this project with an emphasis on the urban labor market in China is planned.

Project Team:

**Regina T. Riphahn** (Universität München; IZA; CEPR), **Dennis J. Snower** (Birkbeck College, London; IZA; CEPR), **Klaus F. Zimmermann** (IZA)

Project Duration:

**2000–2001**

Project Institution:

**IZA**

Selected Publication:

Riphahn, R. T./ D. J. Snower/ K. F. Zimmermann (eds.) (2001), **Employment Policy in Transition - The Lessons of German Integration for the Labor Market**, Berlin/Heidelberg/New York

Project Team:

**Xiaodong Gong** (IZA), **Arthur van Soest** (Tilburg University; IZA), **Junsen Zhang** (Chinese University, Hong Kong; IZA), **Shi Li** (Chinese Academy of Social Sciences; IZA)

Project Duration:

**2000–2001**

Project Institution:

**IZA**

## Projects within the Research Focus (4)

### Analysis of Labour Market Adjustment in Poland and Estonia with Large Micro Data Sets

---

This project brings together economists from five countries from Eastern as well as Western Europe. Its purpose is to carry out an extensive comparison of the labor markets in Poland and Estonia - two economies in transition, the labor markets of which have developed in different directions. A special emphasis in this analysis is put on the family and household perspectives.

### The Ukrainian Longitudinal Monitoring Survey (ULMS): A Basis for the Analysis of the Ukrainian Labor Market

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Regarding data on the adjustment of the labor market, Ukraine, one of the largest states succeeding the Soviet Union, is still undeveloped, particularly on the personal and household level. IZA has taken the Russian Longitudinal Monitoring Survey (RLMS) as a model. A dataset is created with information

Project Team:

**Christoph M. Schmidt** (University of Heidelberg; IZA), **Raul Eamets** (University of Tartu), **Hartmut Lehmann** (Heriot-Watt University, Edinburgh; IZA), **Jonathan Wadsworth** (Centre for Economic Performance, London School of Economics), **Janusz Witkowski** (Polish Statistical Office, Warsaw)

Project Duration:

**2001-2003**

Project Institution:

**Volkswagen-Stiftung; IZA**

Selected Publications:

Lehmann, H. (2001), **Active Labor Market Policies in Central Europe: First Lessons**, in: Riphahn, R. T./ D. J. Snower/K. F. Zimmermann (eds.), *Employment Policy in Transition: The Lessons of German Integration for the Labor Market*, Berlin/ Heidelberg/New York, 254-293

Project Team:

**Hartmut Lehmann** (IZA; Heriot-Watt University, Edinburgh)

Project Duration

**2001-2005**

from annual longitudinal sections, including about 10,000 individuals and 4,000 households from all over the country for the time period 2001-2005. A retrospective approach will facilitate an analysis of the development of the Ukrainian labor market since 1996. On the basis of this dataset, which will be made available to all interested researchers in the medium term, various aspects can be examined, such as labor supply and fluctuation, mobility, unemployment, poverty, inequality, and gender-specific facets.

Project Institution:  
**IZA; William Davidson Institute (University of Michigan, USA); European Bank for Reconstruction and Development (London, UK)**

## Publications within the Research Focus (4)

Berger, M./J. Earle/K. Sabirianova (2001), **Worker Training in a Restructuring Economy: Evidence from the Russian Transition**, *IZA Discussion Paper No. 361*, Bonn.

Boeri, T. (2001), **Transition with Labour Supply**, *IZA Discussion Paper No. 257*, Bonn.

Boeri, T./H. Lehmann (1999), **Unemployment in Transition Countries: An Introduction**, *Journal of Comparative Economics*, 27, 1-3.

Bonin, H./K. F. Zimmermann (2001), **The Post-Unification German Labor Market**, in: Riphahn, R. T./D. J. Snower/K. F. Zimmermann (eds.), *Employment Policy in Transition: The Lessons of German Integration for the Labor Market*, Berlin/Heidelberg/New York, 8-30 (*IZA Discussion Paper No. 185*).

Brainerd, E. (2000), **Women in Transition: Changes in Gender Wage Differentials in Eastern Europe and the Former Soviet Union**, *Industrial and Labor Relations Review*, 54 (1), 138-162 (*IZA Reprint No. 81/01*).

Brainerd, E. (2001), **Economic Reform and Mortality in the Former Soviet Union: A Study of the Suicide Epidemic in the 1990s**, *IZA Discussion Paper No. 243*, Bonn.

Brown, J. D./J. S. Earle (2001), **Gross Job Flows in Russian Industry Before and After Reforms: Has Destruction Become More Creative?**, *IZA Discussion Paper No. 351*, Bonn.

Duffy, F./P. P. Walsh (2001), **Individual Pay and Outside Options: Evidence from the Polish Labour Force Survey**, *IZA Discussion Paper No. 295*, Bonn.

Earle, J. S./Z. Sakova (1999), **Entrepreneurship from Scratch: Lessons on the Entry Decision into Self-Employment from Transition Economies**, *IZA Discussion Paper No. 79*, Bonn.

Earle, J. S./Á. Telegdy (2001), **Privatization and Productivity in Romanian Industry: Evidence from a Comprehensive Enterprise Panel**, *IZA Discussion Paper No. 326*, Bonn.

Earle, J. S./K. Sabirianova (2000), **Equilibrium Wage Arrears: A Theoretical and Empirical Analysis of Institutional Lock-In**, *IZA Discussion Paper No. 196*, Bonn.

Eichler, M./M. Lechner (2001), **Public Sector Sponsored Continuous Vocational Training in East Germany: Institutional Arrangements, Participants, and Results of Empirical Evaluations**, in: Riphahn, R. T./D. J. Snower/K. F. Zimmermann (eds.), *Employment Policy in Transition: The Lessons of German Integration for the Labor Market*, Berlin/Heidelberg/New York, 208-253 (*IZA Reprint No. 76/99*).

Faggio, G./J. Konings (2001), **Job Creation, Job Destruction and Employment Growth in Transition Countries in the 90's**, *IZA Discussion Paper No. 242*, Bonn.

Ferrer-i-Carbonell, A./B. van Praag (2001), **Poverty in the Russian Federation**, *IZA Discussion Paper No. 259*, Bonn.

Gimpelson, V./D. Treisman/G. Monusova (2000), **Public Employment and Redistributive Politics: Evidence from Russia's Regions**, *IZA Discussion Paper No. 161*, Bonn.

Gustafsson, B./S. Li (2000), **Economic Transformation and the Gender Earnings Gap in Urban China**, *Journal of Population Economics*, 13, 305-329 (*IZA Reprint No. 52/00*).

Gustafsson, B./S. Li (2001), **The Anatomy of Rising Earnings Inequality in Urban China**, *Journal of Comparative Economics*, 29, 118-135 (*IZA Reprint No. 92/01*).

Kluve, J./H. Lehmann/C. M. Schmidt (1999), **Active Labor Market Policies in Poland: Human Capital Enhancement, Stigmatization or Benefit Churning?**

*Journal of Comparative Economics*, 27, 61-89  
(IZA Reprint No. 20/99).

Kluve, J./H. Lehmann/C. M. Schmidt (2001), **Disentangling Treatment Effects of Polish Active Labor Market Policies: Evidence from Matched Samples,**

*IZA Discussion Paper No. 355*, Bonn.

Konings, J./H. Lehmann (2001), **Marshall and Labour Demand in Russia: Going Back to Basics,**

*IZA Discussion Paper No. 372*, Bonn.

Lehmann, H. (2001), **Active Labor Market Policies in Central Europe: First Lessons,** in: Riphahn, R. T./D. J. Snower/K. F. Zimmermann (eds.), *Employment Policy in Transition: The Lessons of German Integration for the Labor Market*, Berlin/Heidelberg/New York, 254-293

(IZA Reprint No. 77/00).

Lehmann, H./J. Wadsworth (2000), **Tenures that Shook the World: Worker Turnover in Russia, Poland, and Britain,** *Journal of Comparative Economics*, 28, 639-664

(IZA Discussion Paper No. 90, IZA Reprint No. 78/01).

Lehmann, H./J. Wadsworth/A. Acquisti (1999), **Grime and Punishment: Job Insecurity and Wage Arrears in the Russian Federation,** *Journal of Comparative Economics*, 27, 595-617

(IZA Reprint No. 25/00).

Lubyova, M./J. C. van Ours (1999), **Effects of Active Labor Market programs on the Transition Rate from Unemployment into Regular Jobs in the Slovak Republic,** *Journal of Comparative Economics*, 27, 90-112.

Luke, P. L./M. Schaffer (2000), **Wage Determination in Russia: An Econometric Investigation,** *IZA Discussion Paper No. 143*, Bonn.

Munich, D./J. Svejnar/K. Terrell (2000), **Returns to Human Capital under the Communist Wage Grid and during the Transition to a Market Economy,** *IZA Discussion Paper No. 122*, Bonn.

Newell, A. (2001), **The Distribution of Wages in Transition Countries,** *IZA Discussion Paper No. 267*, Bonn.

Newell, A./B. Reilly (2001), **The Gender Pay Gap in the Transition from Communism: Some Empirical Evidence,** *IZA Discussion Paper No. 268*, Bonn.

Newell, A./F. Pastore (2000), **Regional Unemployment and Industrial Restructuring in Poland,** *IZA Discussion Paper No. 194*, Bonn.

Pedersen, P. (1999), **The Czech Labour Market in Transition: Evidence from a Micro Study,** *Bulletin of Economic Research*, 51 (1), 39-65.

Puhani, P. (2000), **On the Identification of Relative Wage Rigidity Dynamics. A Proposal for a Methodology on Cross-Section Data and Empirical Evidence for Poland in Transition,** *IZA Discussion Paper No. 226*, Bonn.

Riphahn, R. T./D. J. Snower/K. F. Zimmermann (eds.) (2001), **Employment Policy in Transition: The Lessons of German Integration for the Labor Market,** Berlin/Heidelberg/New York.

Riphahn, R. T./K. F. Zimmermann (2000), **The Mortality Crisis in East Germany,** in: Cornia, G. A./R. Paniccià (eds.), *The Mortality Crisis in Transitional Economies*, Oxford, 227-252

(IZA Discussion Paper No. 6; IZA Reprint No. 60/00).



## Publications within the Research Focus (4)

Schwarze, J./G. G. Wagner (2001), **Earning Dynamics in the East German Transition Process**, in: Riphahn, R. T./D. J. Snower/K. F. Zimmermann (eds.), *Employment Policy in Transition: The Lessons of German Integration for the Labor Market*, Berlin/Heidelberg/New York, 125-139 (IZA Reprint No. 71/00).

Sorm, V./K. Terrell (2000), **Sectoral Restructuring and Labor Mobility: A Comparative Look at the Czech Republic**, *Journal of Comparative Economics*, 28 (3), 431-455 (IZA Discussion Paper No. 111).

Terrell, K./V. Sorm (1999), **Labor Market Policies and Unemployment in the Czech Republic**, *Journal of Comparative Economics*, 27, 33-60.

Van Ours, J. C. (2000), **Do Active Labor Market Policies Help Unemployed Workers to Find and Keep Regular Jobs?** IZA Discussion Paper No. 121, Bonn.

Van Ours, J. C./M. Lubyova (1999), **Unemployment Durations of Job Losers in a Labour Market in Transition**, in: *Economics of Transition*, 7 (3), 665-686 (IZA Reprint No. 43/00).

Vodopivec, M. (1999), **Does the Slovenian Public Work Program Increase Participants' Chances to Find a Job?** *Journal of Comparative Economics*, 27, 113-130.

Wolter, S./A. Zbinden (2001), **Rates of Return to Education: The View of Students in Switzerland**, IZA Discussion Paper No. 371, Bonn.

Yemtsov, R. (2001), **Inequality and Income Distribution in Georgia**, IZA Discussion Paper No. 252, Bonn.

Yemtsov, R. (2001), **Labor Markets, Inequality and Poverty in Georgia**, IZA Discussion Paper No. 251, Bonn.

Yemtsov, R. (2001), **Living Standards and Economic Vulnerability in Turkey between 1987 and 1994**, IZA Discussion Paper No. 253, Bonn.

# (5) The Future of Labor



Program Director:

Daniel S. Hamermesh (University of Texas, Austin), since 2001  
Rainer Winkelmann (IZA; University of Zurich), 1999-2001

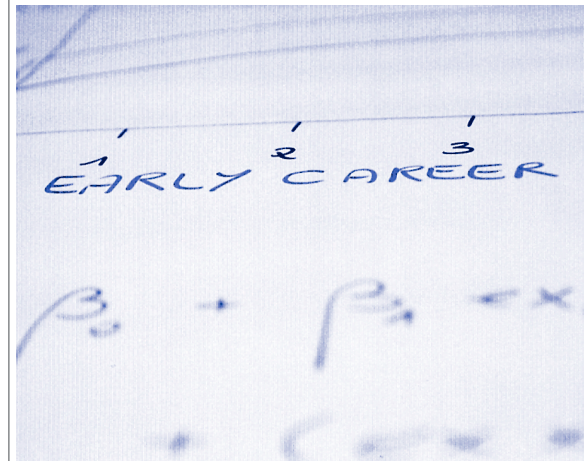
The future of labor is shaped by three distinct factors. On the demand side, globalization and fast-paced technological progress require reorganization and new forms of work. On the supply side, training, mobility and population aging determine the scope and social consequences of these adjustments. Additionally, the interplay of supply and demand is subject to a third major factor: the response of labor market institutions and policymakers.

## Development of New Forms of Employment

Will traditional employment become obsolete in this process of change? What forms of labor and corresponding social effects will be predominant in the future? How long will people work, where will they work, and what will be the scope of their tasks? This research program analyzes the development of new forms of labor and the impact of the reorganization of work on income distribution and employee satisfaction. Factors are identified that may facilitate the adjustment to continuously changing conditions. IZA

will also track trends and analyze the development and application of new technologies from a labor market perspective.

Sufficient qualification is of increasing importance for decisions on employment and income. This research program studies the consequences of increased qualification demands and tries to develop a complex concept of “future-oriented qualifications”. Which qualifications are indispensable? How can they be acquired? To what extent are qualifications that guarantee success on the labor market the result of formal educational and vocational degrees? What will a typical occu-



## (5) The Future of Labor

ational biography look like in the future?

This IZA research program also takes into account the fact that a growing share of labor market activity occurs in the black economy and that high taxes and social security contributions, combined with over-regulation, are obstacles to the development of the service society. Which institutional changes are necessary to improve the functioning of the labor market? Finally, which factors will limit the scope of policy programs in the future? Will politicians be able at all to influence the domestic and international development of labor markets?

## Projects within the Research Focus (5)

### Petersberg Declaration - Ideas for a Future-Oriented Labor Market Policy

In this project, crucial conditions for a future-oriented labor market policy are formulated with the participation of renowned economists. The resulting theses have been published repeatedly under the heading "Petersberg Declaration" and have received wide attention.

### The Youth Labor Market

Youth unemployment has taken dramatic forms in many European and OECD countries. At present, a positive development is not likely. However, country-specific differences are profound. While youth, adult and overall unemployment have almost the same level in Germany, unemployment rates among youths have reached alarming levels in other countries, such as Belgium, Finland, France, Greece, Italy, Poland, Sweden and Spain. In this project, a comparative approach was applied to study a variety of issues: the correlation of educational level and

Project Team:

**Michael C. Burda** (Humboldt University Berlin), **Kai Konrad** (Free University Berlin), **Friedrich Schneider** (University of Linz), **Jürgen von Hagen** (University of Bonn), **Gert G. Wagner** (Europa University Viadrina, Frankfurt/Oder), **Klaus F. Zimmermann** (IZA)

Project Duration:  
**1998**

Project Institution:  
**IZA**

Selected Publication:  
Zimmermann K. F./M. C. Burda/J. von Hagen/  
K. Konrad/F. Schneider/G. G. Wagner (1998),  
**Petersberger Erklärung: Anstöße für eine  
zukunftsgerichtete Arbeitsmarktpolitik**,  
Wirtschaftsdienst, 78, 652-653

Project Team:

**Alan Barrett** (ESRI; IZA), **Gerard J. van den Berg**, (Free University of Amsterdam), **Tim Callan** (ESRI), **Diane J. Macunovic** (Syracuse University), **Brian Nolan** (ESRI), **J. Michael Orszag** (Birkbeck College, London), **Jan C. van Ours** (CentER, Tilburg University), **Patricia Rice** (University of Southampton), **Dennis J. Snower** (Birkbeck College, London; IZA), **Rudolf Winter-Ebmer** (University of Linz), **Klaus F. Zimmermann** (IZA), **Josef Zweimüller** (University of Zurich)

## Projects within the Research Focus (5)

unemployment, possible reforms of unemployment compensation with regard to youth employment prospects, as well as the potential impact of immigration on youth unemployment. With its *Journal of Population Economics*, IZA provided a forum for publication of the different contributions.

### **Analysis of Fertility Decisions Using Count Data Models**

---

The project studied a number of unresolved methodological questions concerning the economic analysis of fertility decisions. Among other things, the newly developed models take into account social norms and the fertility assimilation of immigrants. The research results of this project were published in a special issue of the *Journal of Population Economics*.

Project Period:

**1998**

Project Institution:

**IZA**

Selected Publication:

***Journal of Population Economics*, 12 (1999)**

Project Team:

**Vincenzo Atella** (University of Rome), **Francisco Covas** (INE, Lissabon), **Adriaan Kalwji** (University of Oxford), **Jochen Mayer** (University of Munich), **Maria Melkersson** (University of Stockholm), **Peter G. Moffatt** (University of East Anglia), **Simon A. Peters** (University of Manchester), **Regina T. Riphahn** (University of Munich), **Dan-Olof Rooth** (Lund University), **Furio Camillo Rosati** (University of Rome), **João M. C. Santos Silva** (ISEG, Lissabon), **Rainer Winkelmann** (University of Canterbury, Christchurch, New Zealand; IZA), **Klaus F. Zimmermann** (IZA)

Project Duration:

**1999**

Project Institution:

**IZA**

Selected Publication:

***Journal of Population Economics*, 13 (2000)**

## Information Asymmetries and Labor Market

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Information asymmetries appear before as well as after the conclusion of a job contract. In most cases, this leads to inefficiencies. The project analyzes how the negative effects of information asymmetries can be reduced by way of designing suitable formal and informal contracts.

## Salary and Promotion Differentials in Academia

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The measurement of productivity variables proves to be quite difficult. This also applies to the labor market and the correlation between productivity and wages. However, the labor market for academics is an exception, since productivity in terms of research and academic career is relatively easy to measure. In consideration of these productivity variables, the impact of professional experience and gender on wages and job promotion can be analyzed more effectively. A unique data set from five traditional

Project Team:

**Wendelin Schnedler** (Bonn Graduate School of Economics; IZA), **Uwe Sunde** (Bonn Graduate School of Economics; IZA)

Project Duration:

**1999–2002**

Project Institution:

**IZA; Bonn Graduate School of Economics**

Selected Publications:

Schnedler, W. (2001), **The Virtue of Being Underestimated: A Note on Discriminatory Contracts in Hidden Information Models**, IZA Discussion Paper No. 342

Sunde, U. (2001), **Human Capital Accumulation, Education and Earnings Inequality**, IZA Discussion Paper No. 310

Project Team:

**Melanie Ward** (IZA), **Rob Euwals** (IZA), **Peter J. Sloane** (University of Aberdeen)

Project Duration:

**1999–2001**

Project Institution:

**European Union; Scottish Economics Society**

## Projects within the Research Focus (5)

Scottish universities served as the basis for this research.

### Job Satisfaction

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The project focused on the analysis of the determinants of individual satisfaction. The analysis of individual subjective statements on job satisfaction was used to determine employees' benefits and costs resulting from their job. In the context of preventing bargaining struggles or job quitting and layoff behavior, this kind of analysis is of crucial importance. Additionally, it examines the potential use of fringe benefits as work incentives. The project also analyzed job satisfaction of selected groups such as nurses or academics and intra- and international comparisons of job satisfaction and their determinants. In addition, statistical and econometric methods as well as the factors that can lead to strikes or layoffs were analyzed.

#### Selected Publications:

Euwals, R./M. Ward (2000), **The Remuneration of British Academics**, IZA Discussion Paper No. 178  
Sloane, P. J./M. Ward (2000), **Non-Pecuniary Advantages versus Pecuniary Disadvantages: Job Satisfaction among Male and Female Academics in Scottish Universities**, Scottish Journal of Political Economy, 47(3), 273-303  
Sloane, P. J./M. Ward (2001), **Cohort Effects and the Job Satisfaction of Academics**, Applied Economics Letters, 8(12), 787-791  
Ward, M. (2001), **The Gender Salary Gap in British Academia**, Journal of Applied Economics, 33, 1669-1681

#### Project Team:

**Melanie Ward** (IZA), **Michael Shields** (University of Melbourne), **Wendelin Schnedler** (Bonn Graduate School of Economics; IZA), **Peter J. Sloane** (University of Aberdeen), **Rannia Leontaridi** (University of Stirling)

#### Project Duration

**1999–2001**

#### Project Institution:

**Policy Studies Institute (University of Leicester); Department of Health, UK; Scottish Economics Society**

#### Selected Publications:

Shields, M./M. Ward (2000), **Improving nurse retention in the National Health Service in England: The impact of job satisfaction on intentions to quit**, IZA Discussion Paper No. 118  
Shields, M. A./S. Wheatley Price (2000), **Racial**

### Human Capital and Household Wealth in Female Employment and Fertility Decisions

Statistics show that the age at which women have their first child has significantly increased during the last decades. In Germany, the current average is 25 years. For women with a higher educational degree it is even higher. The project focused on women's desire to build their professional career as an alternative explanation for delaying the first birth. First, technical difficulties with the consistent estimation of fertility models that contain savings as well as the formation of human capital were analyzed. Additionally, the opportunity costs for leaving the labor market during pregnancy and the time for raising children were estimated. The results indicate that career incentives are the reason to postpone the desire to have children. These incentives are highest for women with a higher educational degree.

### German Apprenticeship Training

In this project, data from the (West) German IAB Employment Sample 1975-1995 (Beschäftigtenstichprobe), a one percent sample of the complete German employment statistics, was used to analyze apprentices' school-to-work transition process. In particular, IZA focused on the question in how far the employment duration of the first job differs between apprentices who have continued to be

### Harassment, Job Satisfaction and Intentions to Quit: Evidence from the British Nursing Profession, IZA Discussion Paper No. 164

(Reserve Bank of New Zealand)

Project Team:

**Rainer Winkelmann** (IZA), **Dominick Stephens** (Reserve Bank of New Zealand)

Project Duration:

**1999-2000**

Project Institution:

**IZA**

Selected Publication:

**Journal of Population Economics, 13 (2000)**

Project Team:

**Rainer Winkelmann** (IZA), **Rob Euwals** (IZA), **René Fahr** (Bonn Graduate School of Economics; IZA), **Damon Clark** (University of Oxford; IZA)

Project Duration:

**2000-2001**



## Projects within the Research Focus (5)

employed by the firm where they received their training and apprentices who changed employers. Additional professional mobility and the decision in favor of training in light of occupation-specific matching methods were also focused on. Moreover, an IZA workshop entitled "Apprenticeship Training: A Model for the Future?" dealt with implications of the research results for labor market policy.

### International Mobility of High-Skilled Workers

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During the past few years the international mobility of high-skilled workers has increased significantly. Large international companies compete in recruiting qualified young employees. The "brain drain" discussion does no longer apply to developing countries only. As a result of globalization and international mobility, it has also become a problem within the European Union. In this context, IZA carried out the study "International Mobility of High-Skilled Workers" on behalf of the Federal Ministry of Education and Research in cooperation with Infratest Burke and the Centre for Research on Higher Education and Work (University of Kassel). IZA issued a report evaluating firms' recent demand for internationally mobile foreign high-skilled workers.

Project Institution:

**IZA**

Selected Publication:

Euwals, R./R. Winkelmann (2001), **Why Do Firms Train? Empirical Evidence on the First Labour Market Outcomes of Graduated Apprentices**, IZA Discussion Paper No. 319

Project Team:

**Astrid Kunze** (IZA), **Lilo Locher** (IZA), **Melanie Ward** (IZA), **Rainer Winkelmann** (IZA)

Project Duration:

**2000-2001**

Project Institution:

**Federal Ministry of Education and Research; IZA**

Selected Publication:

Winkelmann, R./A. Kunze/L. Locher/M. Ward (2001), **Die Nachfrage nach internationalen hochqualifizierten Beschäftigten**, IZA Research Report No. 4

## The Enhancement of Skills During Leisure Time

According to the OECD countries' education ministers, lifelong learning will be one of the main characteristics of working life in the future. Given the rapid decline of the economic value of special skills, employees on all qualification levels have to enhance their technical skills in order to keep up with continuous technological change and new working requirements. The introduction of teamwork on all levels and the increasing importance of the service sector demand communicative and social skills, which need to be maintained and adjusted to new developments. Formal training offered during work time only accounts for a small proportion of demanded training activities. In fact, it is part of employees' responsibility to make use their leisure time in informal further training. Time budget studies are an excellent way to analyze the productive use of leisure time. Detailed lists of activities facilitate an analysis of the demand by individuals with different qualification levels for formal and informal training.

Project Team:

**Daniel S. Hamermesh** (University of Texas at Austin; IZA), **Thomas K. Bauer** (IZA), **René Fahr** (IZA), **Gerard A. Pfann** (IZA)

Project Duration:

**since 2000**

Project Institution

**IZA**

Selected Publication:

Hamermesh, D. S. (2000), **Timing, Togetherness and Time Windfalls**, IZA Discussion Paper No. 173

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- Sloane, P. J./M. Ward (2001), **Cohort Effects and the Job Satisfaction of Academics**, *Applied Economics Letters*, 8(12), 787-791.
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Zimmermann, K. F. (2000), **Dienstleistungen als Motor für Wachstum und Beschäftigung**, in: Mangold, K. (eds.), *Dienstleistungen im Zeitalter globaler Märkte: Strategien für eine vernetzte Welt*, Wiesbaden, 69-85 (*IZA Reprint No. 40/00*).

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# (6) Evaluation of Labor Market Policies and Projects

Program Director: Christoph M. Schmidt (University of Heidelberg)



Despite the variety of economic policy and regulatory interventions in the labor market, three basic approaches can be distinguished in the field of protecting employment and fighting unemployment. While a large number of projects are designed to preserve human capital that is available and to encourage the formation of additional human capital, other projects attempt to reintegrate unemployed workers into the labor market by subsidizing jobs. Yet another set of possible interventions focuses on the provision of more appropriate financial incentives in order to reduce existing disincentives caused by the current welfare system as well as information problems restraining employment.

## Uncertainty about the Effectiveness of Labor Market Programs

All these projects have in common that their true impact is uncertain – there is a multitude of competing explanations for the problems of unemployment and the lack of growth in employment. They lead to completely different recommendations for economic policy interventions and thereby relate to specific economic policy projects. Moreover, the success of each project implemented in practice is subject to a large number of factors, in particular the precise selection of the target group affected by the planned measure, the choice of actual test persons from this target group, the extent of the measure and its dependency on the regional and sectoral environment as well as the general state of the economy. Changing ways of project implementation by different administrative divisions may be another deciding factor.

In the end, the success of a labor market program and its cost effectiveness cannot be assessed with accounting methods. Instead, an evaluation strategy based on accepted scientific principles is the only means to provide the necessary information. In strong contrast to the United States in particular, there is still a lack of practical experience with the scientific evaluation of public projects in Germany and Continental Europe.



## (6) Evaluation of Labor Market Policies and Projects

### Further Development of Evaluation and Policy Consultancy

Against this background, the IZA research program “Project Evaluation” aims at presenting scientific findings about the actual impact and cost effectiveness of political intervention and thereby at contributing to a more targeted allocation of funds. The main emphasis is put on the evaluation of projects that involve employees and unemployed workers with particularly severe labor market problems.

The activities within this program area rest on four pillars:

- further development of methodological approaches to the evaluation of labor market interventions;
- application of these methods to the analysis of concrete interventions and projects, especially in European labor markets;
- establishment of a partnership relation between the practice of labor administration, the design of legal and formal aspects of specific projects and the implementation of these projects on the one hand and the scientific competence of IZA researchers on the other hand;
- interdisciplinary exchange with researchers from other IZA program areas that are also dealing with evaluation problems.

This IZA research area focuses on the improvement of econometric and statistical aspects of evaluation problems. In contrast to traditional evaluation re-

search, which has largely neglected these aspects so far, not only the effects of measures are taken into account, but also their cost and cost effectiveness. The direct costs of a labor market project as well as the costs of forgone alternative use of time and material resources are included. This methodologically oriented IZA research area complements other IZA research programs.

### Establishment of a Research Network

As a contribution to the further development of project evaluation, this program area also aims at establishing a research network specialized in evaluation issues in Europe and worldwide. Additionally, a research partnership with policymakers that engage actively in the planning, structuring and implementation of political measures is planned. Research projects are developed which reflect the issues and questions faced by political decision-makers. This will help to promote the transformation of research findings into concepts of practical economic policy and labor market policy projects.

## Projects within the Research Focus (6)

### Labor Market Policy in International Comparison and Recommendations to Increase Their Effectiveness

As part of the project, efficiency and effectiveness of labor market policy instruments in Germany were evaluated on the basis of international empirical studies and against the background of modern economic evaluation research. The project dealt with the question whether these instruments can be an efficient means to fight unemployment. The results of the analysis were published as a book.

### New Techniques for the Evaluation of European Labour Market Policies

In all European Union countries, unemployment - especially among youth - has settled on a high level. Individual countries have implemented a variety of traditional as well as new measures to fight unemployment. The objective of this project, a new research cooperation which is sponsored by the EU Training Network Program, is to evaluate the different government policies on the basis of European data, to carry out a cost-benefit analysis of the individual measures, to examine the efficiency of different concepts, and to develop new studies that focus on youth unemployment. In this project IZA cooperates with other European research institutes.

Project Team:

**Christoph M. Schmidt** (University of Heidelberg),  
**Klaus F. Zimmermann** (IZA)

Project Duration:

**1999-2000**

Project Institution

**Federal Ministry of Finance**

Selected Publication:

Schmidt, C. M./K. F. Zimmermann/M. Fertig/J. Kluge (2001), **Perspektiven der Arbeitsmarktpolitik: Internationaler Vergleich und Empfehlungen für Deutschland**, Berlin/Heidelberg/New York

IZA Representative

**Rob Euwals** (IZA)

Project Duration:

**2001-2003**

Institution:

**EU Training Network Program**

Cooperation Partners:

**CEPR; University of Uppsala; University of Amsterdam; Norwegian School of Economics and Business Administration; CNRS-CREST; University College London**

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# (7) IZA Focus on Labor Policy

Director of Labor Policy: Hilmar Schneider (IZA)



Given persistently high unemployment rates in Germany and across Europe, the question of choosing the right labor market policy instruments has become ever more relevant in today's economic policy debate. Labor market policies are designed to eliminate, or at least compensate for, dysfunctions of the labor market and to facilitate adjustment to structural changes. In practice, however, policy instruments often fail to achieve their goal - and may even yield counterproductive effects.



## Meeting the Demand for Policy Advice

This unsatisfactory outcome gives rise to a strong demand for policy advice on the precise design of labor market policy programs. With its focus on "Labor Policy", IZA wants to provide answers to these open questions. The term "labor policy" in this context is used in a broad sense and includes the traditional instruments of active labor market policy (e.g. job placement, training programs, job rotation, public employment programs, or wage subsidies), as well as

passive measures such as wage compensation benefits or old-age part-time work. But it also includes measures that go beyond the scope of administrative labor policies, e.g. working time and overtime reduction, enhancement of labor market flexibility, and immigration. Finally, it is important to consider that labor market outcomes can also be affected by other measures that are not primarily targeted at the labor market, such as tax and wage policies. In this context, it is particularly worthwhile to study the labor market implications of the social security and welfare system.

## Demonstrating the Scope and Limitations of Policy Programs

The impact of labor market policies is not always limited to the intended target. Many policies cause side effects that may, in the worst case, run counter to the original goal. This imposes more or less narrow limits on the scope of labor market policies. For instance, a work-time reduction policy with the goal of redistributing work has the undesirable quality of creating an increased demand for high-skilled labor. Given a shortage of high-skilled workers, this policy may even exacerbate the labor market situation. Public employment programs may increase union power in wage negotiations, which would tend to aggravate the employment situation whenever unemployment is cost-induced. Even training programs, which generally ought to be supported, may yield counterproductive effects if they are not sufficiently targeted to the specific needs of the labor market.



## (7) IZA Focus on Labor Policy

Limits to the scope of policy design also arise from the competing use of different instruments. The effects that would result from the isolated use of individual instruments cannot simply be added, because they may affect one another when applied simultaneously. For instance, the favorable effect of a wage subsidy may disappear if the recipient finds it more attractive to accept a job under a public employment program.

### Providing a Scientific Basis for Policy Advice

In order to find solutions to the problems outlined above, the existing research results have to be evaluated in terms of their usefulness for practical policy advice. Contradictory results should not be regarded as a drawback, but rather as an opportunity to advance our level of knowledge. The synthesis of apparent contradictions usually gives rise to new questions to which our existing knowledge cannot provide a satisfactory answer. Thus, policymaking can also act as a catalyst for initiating new and targeted research activities.

### Learning from the Experience of Others

Because policy programs are typically implemented nationwide, many of their potential side effects cannot be causally explained as long as the analysis is limited to the national scale. It therefore seems logical to base the methodology on a systematic comparison of different countries. For an international comparison, it is extremely important to analyze the institutional back-

ground of each country. An international perspective also allows us to learn from the experience with programs that may not have been implemented in Germany yet. Comparative studies, however, depend on first-hand knowledge of individual countries. The IZA research network is therefore perfectly suited to provide the necessary resources for this task.

# Projects within the IZA Focus on Labor Policy

## Employment Potential of a Dual Subsidizing Strategy in the Low-Wage Sector

On behalf of the Ministerium für Arbeit und Soziales, Qualifikation und Technologie des Landes Nordrhein-Westfalen (Ministry for Labor, Social Affairs, Qualification and Technology, North Rhine Westphalia), IZA issued a research report analyzing labor market and fiscal effects of a combined wages model. The latter was developed by the government of North Rhine Westphalia and aims at subsidizing the low-wage sector and developing a concept for the integration of welfare recipients into the labor market. The report analyzes the supply as well as the demand side aspects of this issue.

## Evaluation of Integration Subsidies

In recent years, wage subsidies paid to the employer by the job center (Arbeitsamt) have gained importance as a means to promote a successful job search. These "integration subsidies" (Eingliederungszuschüsse) aim at reducing obstacles to employment on the employers' side. A comparison group analysis with official administration data will serve as the basis for studying the question whether the subsidy does indeed create incentives for firms to employ additional workers. Furthermore, this IZA project examines whether the subsidy leads to permanent employment effects or creates windfall gains. ■

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Selected Publication:

Schneider, H./K. F. Zimmermann/H. Bonin/K.  
Brenke/J. P. Haisken-DeNew/W. Kempe (2002),  
**Beschäftigungspotenziale einer dualen  
Förderstrategie im Niedriglohnbereich.  
Gutachten im Auftrag des Ministeriums für  
Arbeit und Soziales, Qualifikation und  
Technologie des Landes Nordrhein-Westfalen,**  
IZA Research Report No. 5, Bonn

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