



DIWDC Synopsis

Real, Clear Economics: A Newsletter from DIWDC

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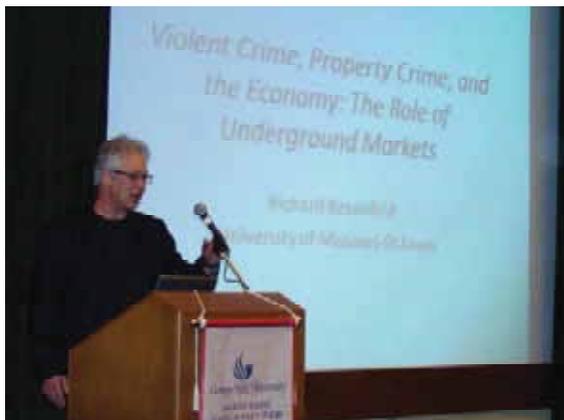
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Going Twice! Successful Second Annual Meeting on the Economics of Risky Behaviors in Stone Mountain



The success of last year's Annual Meeting on the Economics of Risky Behaviors (AMERB) was re-lived this year in beautiful Stone Mountain, Georgia. Funded by the triad of DIWDC, IZA Bonn and the Andrew Young School of Georgia State University, AMERB brought together about 40 economic experts and criminologists from all over the world. These scholars presented their cutting edge research on the causes and consequences of risky behaviors, debated the issues with their colleagues and enriched our understanding. The three day conference was filled with innovative presentations and lively discussions on research related to a variety of risky behaviors and outcomes ranging from substance use and abuse to obesity. It provided a valuable platform to exchange the latest state of the art among scholars and to initiate fruitful cooperation between various disciplines. Examples of risky behaviors include, but are not limited to, crime and delinquency, smoking, alcohol and substance, abuse, suicidal behavior, gambling, financial risks, reckless driving and driving under the influence, prostitution, underage sexual activity and sexual behaviors that contribute to unintended pregnancy and sexually transmitted diseases, disregard to vaccines, immunizations and



spread of diseases (from the common flu to H1N1, to HIV-AIDS), unhealthy dietary behaviors and poor physical activity, intentional and unintentional injuries, gang membership, smuggling of art, illegal drugs, and people, recidivism, arson, violence and terrorism. These behaviors impose negative externalities and substantial costs to those who engage in them, their close circle, and the broader society.

AMERB's co-organizers Dr. Amelie F. Constant, Executive Director of DIWDC and Dr. Erdal Tekin, Professor of economics at Georgia State

University were honored to have Dr. Richard Rosenfeld (pictured on the left), Curators Professor of

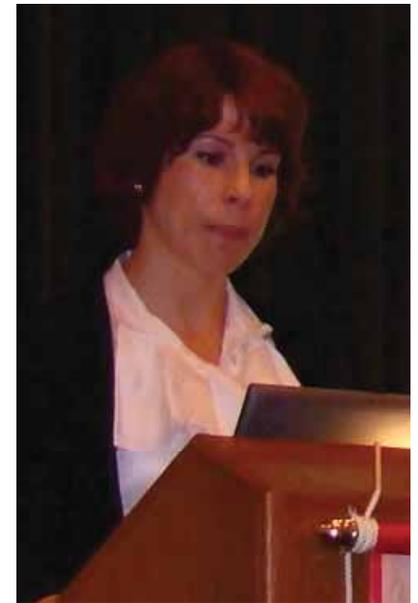
Criminology at the University of Missouri - Saint Louis and the current president of the American Society of Criminology, attend this year's conference as the Keynote speaker and present his widely popular and solid research on the effects of street crime entitled "Violent Crime, Property Crime, and the Economy: The role of Underground Markets."

The conference took off with Session 1 dedicated to research on *Risky Behaviors and Health*. Chaired by Dr. Amelie F. Constant the session included the following papers: "The Long Run Health Returns to College Quality" presented by David Frisvold from Emory University - and co-authored by Jason Fletcher from Yale University. Their research question was whether the quality of education has an impact on health outcomes, and if so, what is the causal channel through which this works? Using the Wisconsin longitudinal study that has tracked siblings for over fifty years, their findings showed that college selectivity is associated with a reduction in several measures of weight for individuals in their 60s. Afterwards, Katherin G. Carman from Tilburg University presented her paper "Flue Shots, Mammogram and the Perception of Probabilities," co-authored with Wandu Bruine de Bruin and Peter Kooreman from Tilburg University and IZA. By comparing assessed and epidemiological risks, the authors found that people over-estimate risk and those with a higher estimate of the benefit of preventive care obtain care. Tatiana Andreyeva (picture on the right) from Yale University concluded the session with her paper "Exposure to Food Advertising on Television, Food Choices and Childhood Obesity," co-authored with Inas Rashad Kelly from Queens College. Their research is based on the Early Childhood Longitudinal Study. They concluded that soft drinks and fast food advertising predict a higher intake of soft drinks and fast food in 5th graders, but cereal advertising is weakly associated with a lower Body Mass Index (BMI). James Marton (Georgia State University), David Ribar (University of North Carolina, Greensboro and IZA) and Roy Wada (University of California, Los Angeles) were the respective discussants in this session.

Chaired by Dr. James Alm from Georgia State University,

Session 2 discussed risky behaviors regarding *Smoking and Illicit Drug Use*. The session began with Gabriella Conti from the University of Chicago with her presentation on "Cognition, Cannabis and Wages." In this work, she found that the use of cannabis is positively related to cognitive ability, where the use by age 30 has the strongest association and use by age 16 is not robust. She confirmed the wage returns to cognitive ability and then showed that the relationship between cannabis use and wages that is usually observed in cross-sectional estimates is spurious and is rather due to the omission of cognitive ability. "Reinvestigating Adolescent Smoking Decisions: The Importance of Genetic Markers, Risk Attitudes and their Interactions" was presented by Steven Lehrer. Co-authored by Weili Ding from Queens University and J. Niels Rosenquist from the Harvard Medical School, preliminary results show that the role of impulsivity on smoking behavior is highly significant at many points in the adolescent lifecycle. Mary Burke (Federal Reserve of Boston) and David Frisvold (Emory University) discussed the papers respectively.

Alcohol Consumption, Sexual Activity, and Risky Behaviors were the focus of Session 3, which began with a presentation on "Gender and the Influence of Peer Alcohol Consumption on Adolescent Sexual Activity" by Glen R. Waddell of the University of Oregon and IZA. The working hypothesis of this paper was that the drinking behavior of opposite-gendered peers increases one's propensity to engage in sexual intercourse. His key finding was that alcohol consumption of an opposite-gender peer explains the propensity for adolescent youth to engage in sexual intercourse.

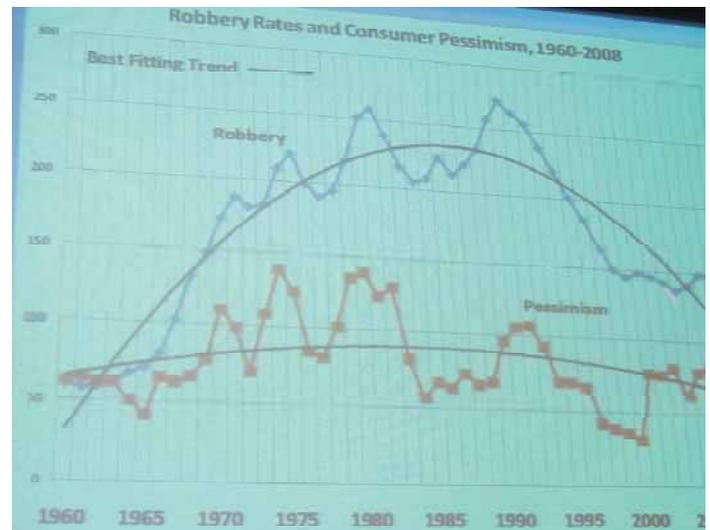


Additionally, female sexual activity is higher when alcohol consumption by their male peers is higher. While the reciprocal relationship is absent in male adolescents, there is evidence that male or female sexual activity responds to female-peer alcohol consumption. Inas Rashad Kelly (Queens College, CUNY) was the discussant of that paper. Hendrik Wolff from the University of Washington and IZA followed with a presentation on “Innovations of Life Style Drugs and Some Socio-Economic Consequences.” The upshot of this paper was that with the launch of Viagra in April 1998, the number of male sex offense arrests increased dramatically for the over 45 age group; recent rebounds of cases of sexually transmitted diseases are also evident among the elderly population. Melinda Pitts (Federal Reserve of Atlanta) discussed the paper.

The second day of the conference picked up with Session 4 that was dedicated to research on *Gangs, Crime and Productivity*. Chaired by Dr. Volkan Topalli from Georgia State University, the session started with Gary Sweeten from Arizona State University who presented his co-authored paper with David Pyrooz from Arizona State University on “Gang Joining and Gang Leaving.” Using propensity score matching estimation techniques, their results suggest that delinquency measure is not significantly different regarding statistical analysis between joiners and abstainers or between



leavers and ‘persisters.’ Frank Heiland (Baruch College, CUNY) discussed the paper. Klara Sabirianova Peter from Georgia State University and IZA presented her work with Tetyana Zelenska from Georgia State on “The Price of the Hippocratic Oath: Determinants of Bribery in Russian Health Care.” Their research shows that the likelihood and amount of informal pay or bribes decreases with age, but increases with education, income, employment participation and poor health in Russia. Informal pay is higher for females and for hospital visits than for home visits. The research however did not find any evidence of selection based on unobservables for informal payments. Alison Evans Cuellar (George Mason University) discussed this paper.



“Violent Crime, Property Crime, and the Economy: The role of Underground Markets” was the keynote by Dr. Richard Rosenfeld. In a lively atmosphere and a full house brimming with local journalists and other NGO representatives, Dr. Rosenfeld discussed that crime increases during periods of economic downturns, demonstrating the connection between the economy, property crime and violent crime. According to his research, there is one unified theoretical framework (see graph above). The causal effect runs from the economy to property crime and then to violent crime. In addition, he showed that the economy and imprisonment can be used to explain much of the 1990s crime drop. Such results have been recently observed for some European nations.

The second day of AMERB concluded with Session 5 on *Risky Behaviors and Experimental Evidence*. Chaired by Dr. David L. Sjoquist from Georgia State University, the session started with the paper on “Gender Differences in Risky Behavior: Does Nurture Matter?” In this co-authored work, Patrick J. Nolen from the University of Essex and Alison Booth from Australian National University and IZA conducted a controlled experiment with UK children of 10 and 11 years of age, who were attending either single-sex or coeducational schools. Their results show that girls from single-sex schools are as likely to choose the real-stakes gamble as much as boys from either coed or single sex schools, and more likely than coed girls. Interestingly, gender differences in risk-taking are sensitive to the gender mix of the experimental group, with girls being more likely to choose risky outcomes when assigned to all-girl groups. This suggests that observed gender differences in behavior under uncertainty, found in previous studies, might reflect social learning (nurture) rather than inherent gender traits (nature). Brian Scholl (U.S.A.I.D and IZA) discussed the paper before the floor was open to the audience.

Next was Nuria Rodrigues-Planas (picture below) from the Universitat Autònoma de Barcelona and IZA, who presented her paper entitled “Can an Intense After-School Program for At-Risk Youth Help prevent Risky Behaviors? Evidence from a Randomized Trial.” Her paper studies the Quantum Opportunity Program, an intensive and comprehensive, five-year program aiming to overcome the many serious challenges facing disadvantaged youth. The author found that, overall, the program was not successful in reducing risky behaviors. Antonio Filippin from the University of Milan and IZA closed the session with his presentation “The Social Context and the Effect of Alcohol Consumption on Economic Behavior.” Co-authored with Luca Corazzilini from the University of Padua and Paoplo Vanin from the University of Bologna, their experiment showed that drinkers are not that different in terms of their economic behavior from non-drinkers. Jungmin Lee (Florida International University and IZA) and Angela Dills (Wellesley College) discussed these papers respectively.



Session 6 on *Adolescents and Risky Behaviors* commenced the third day of the conference. Chaired by Dr. Erdal Tekin from Georgia State University, the session started with Jason Fletcher from Yale University and his co-authored paper with Stephen Ross from the University of Connecticut. In their paper entitled “Estimating the Effects of Friendship Networks on Health Behaviors of Adolescents” the authors try to separate the effect of friends behavior on own behavior from the effect of friends observables attributes on behavior, a key aspect of



the reflection problem. Their results suggest that friendship network effects are important in determining adolescent tobacco and alcohol use. However, in specifications that do not fully take into account the endogeneity of friendship selection these effects are over-estimated. Rusty Tchernis (Georgia State University) was the discussant of this paper. David C. Ribar (pictured on the left) from the University

of North Carolina, Greensboro and IZA ended the session with his paper on “Financial Stress, Family Conflict, and Youth’s Successful Transition to Adult Roles.” Co-authored by Deborah Cobb-Clark from Australian National University and IZA, the key findings of this paper were that financial stress and conflict have independent effects on youths’ transitions and youths’ perspectives were different than those of their mothers. Keith Finlay (Tulane University) was the discussant of this paper.

The conference came to an end with closing remarks by Dr. Amelie F. Constant and Dr. Erdal Tekin, who thanked again all three partner institutes of this conference (IZA Bonn, the Andrew Young School of the Georgia State University and DIWDC) for their generous support, as well as all participants for their contributions and all attendants for their interest and



encouragement. Participants acknowledged how the peaceful location of the conference away from the city gave them the opportunity to interact, mingle and brainstorm on the economics of risky behaviors. The co-organizers underlined the paramount importance of this line of research in economics, in other social sciences and in society. Pledging to take the risk to co-organize the next conference on the Economics of Risky Behaviors in March 2011, they transitioned in a farewell Luncheon. ■

Committed to Academic Training in the Classroom and the Field: DIWDC Fosters DIW Berlin's Graduate Program in Washington, DC



Dr. Amelie F. Constant, Executive Director of DIWDC, with the DIW Berlin Ph.D. students at the welcoming luncheon

For the fourth year running, students of the DIW Berlin Graduate Center of Economic and Social Research spent a semester at DIWDC as part of their program abroad. From January to April, each year's entry cohort takes two months of rigorous and intensive graduate courses at DIWDC and a one-month internship at leading American, international and governmental institutions, as well as at universities. The 2009 entry cohort had twenty incoming graduate students. In January, the academically impressive group of

students attended a month-long intensive course on economic policy. Dr. Richard O'Neill (Chief Economist at the Federal Energy Regulatory Commission and the Office of Energy Policy and Innovation/Division of Policy Development) taught the class with a concentration on antitrust, regulation policy and related issues. In this course, economic principles and theories were tested, evaluated and assessed via their implementation in real-world situations in the U.S. This course was followed by a month of internships in February and a return to the classroom in March for an advanced macroeconomics course, taught by Professor Sanjay Chugh (University of Maryland). In light of the economic and financial crises, as well as Greece's national debt, this year's macroeconomic class was especially pertinent. Starting with the history of macroeconomics and the existing doctrines, the class covered business cycle modeling and policy issues and identified/examined where some of the current research frontiers lie.

Internships organized by DIWDC for the DIW Berlin Graduate Students:

<i>Student Name</i>	<i>Internship Place</i>
• Julian Baumann	George Washington University
• Elisabeth Buegelmayer	George Mason University
• Damir Esenaliev	Center for Strategic and International Studies
• Christoph Grosse Steffen	International Monetary Fund
• Clemens Haftendorn	Center of Integrative Environmental Research
• Daniel Kemptner	International Monetary Fund
• Juliana Koernert	University of Maryland
• Antje Kroeger	The World Bank
• Jan Marcus	The Urban Institute
• Florian Moelders	The World Bank
• Soeren Radde	International Monetary Fund
• Nils Saniter	Migration Policy Institute
• Tobias Schmidt	George Washington University
• Anne Schopp	Resources for the Future

Internships organized by DIWDC for the DIW Berlin Graduate Students:

<i>Student Name</i>	<i>Internship Place</i>
• Andreas Schroeder	Federal Energy Regulatory Commission
• Johanna Storck	The Urban Institute
• Paul Viefers	International Monetary Fund
• Lilo Wagner	Federal Energy Regulatory Commission
• Sindu Workneh	The World Bank
• Michael Zchille	Federal Energy Regulatory Commission

Distinguished Scientists Lecture Series and Other Extracurricular Activities:

During their residence in DC, the DIW Berlin doctoral students also enjoyed a rich abundance of experiences and all that the Nation's Capital has to offer. DIWDC organized several extracurricular activities for the students, including tours to the U.S. Capitol building and senator's offices on Capital Hill and gave opportunities to the students who were engaged in events supplementing their training.

The *Distinguished Scientists and their Stories* is a series of lectures for the DIW Berlin graduate students to engage in conversations about issues relevant to our time with prominent political, economic and business leaders in Washington, DC. This series intends to give insights, enrich social capital, and provide unconventional cross-disciplinary education, as scholars and industry leaders share their experiences with the students. Topics covered include a survival guide to the doctoral program, recipe for success in the profession, how to publish and not perish, how different international organizations work, how to succeed in a foreign country, career options outside academia, pressing current problems and effective solutions, just to name a few.

The following group of scientists and high profile businessmen participated in this series and mentored the students during their tenure at DIWDC:

- Prof. David B. Audretsch, Distinguished Professor Indiana University, Bloomington and Director of the Institute for Development Strategies and Director of the Max Planck Institute of Economics in Jena
- Dr. Dean Baker, Co-Director of the Center for Economic Policy Research in Washington, DC
- Prof. Dr. Helge Berger, International Monetary Fund and Free University Berlin
- Dr. Rebecca Blank, Under Secretary of the Department of Commerce for Economic Affairs, Economic Advisor to the Secretary of Commerce and Head of the Economic and Statistics Administration
- Dr. Martin Bodenstein, Board of Governors of the Federal Reserve System, International Finance Division



Prof. David Audretsch (Indiana University, Bloomington) in a lively discussion with the students



- Dr. Susan E. Fleck, Division Chief, Office of Productivity and Technology, Bureau of Labor Statistics
- Ms. Valentina Calderon-Mejia, University of Chicago
- Ms. Jie Li, University of California
- Prof. Spyros Konstantopoulos, Measurement and Quantitative Methods, Michigan State University
- Prof. Dr. Frauke Kreuter, Joint Program in Survey Methodology, University of Maryland
- Mr. Thomas G. Morr, JD, President and CEO of Select Greater Philadelphia
- Dr. Eugene Schmiel, Director for Academic Programs, Washington Internship Institute

Dr. Susan Fleck (Bureau of Labor Statistics) during her lecture at DIWDC

- Dr. Stephanie Shipp, Senior Research Analyst for Economics, Energy, and Technology Assessment, at the Science and Technology Policy Institute
- Prof. Dr. Thomas Straubhaar, Director Hamburg Institute of International Economics (HWWI), Professor at the University of Hamburg and Helmut Schmidt Fellow at the Transatlantic Academy of the German Marshall Fund in Washington, DC
- Prof. Dr. Klaus F. Zimmermann, President of DIW Berlin, Director of IZA in Bonn and University of Bonn Professor ■



Prof. Dr. Thomas Straubhaar (HWWI) after his lecture at DIWDC with Dr. Amelie F. Constant



Prof. Dr. Frauke Kreuter (University of Maryland) visits DIWDC to personally meet the students



Mr. Thomas Morr (Select Greater Philadelphia) engaging with students

Academic Ties:

International Migration and the Labor Markets at GWU's Spring Semester

International Migration and the Labor Markets or ECON 295 (as the GWU graduate students call it) is a graduate class offered at GWU and the Elliott School of International Affairs every spring. Created and taught by DIWDC Executive Director Dr. Amelie F. Constant, this course employs labor economics tools to examine international migration and addresses implications of public policies. Students obtain a firm understanding of the theories of international migration and the state of the art in migration research in different parts of the world. The course covers the following topics: migration decision: why people migrate; performance of immigrants and their decedents in the host country; impact of immigrants on the natives, on other immigrants and the public coffers; and sending countries challenges such as brain drain, remittances and economic development issues. "This year's class was a delight" said Prof. Constant. As the semester came to an end, the students wrote excellent term papers on a variety of topics, such as return migration of U.S. immigrant expatriates to Ethiopia, remittances of the African Diaspora in Belgium, the return migration of second generation immigrants in Germany; the self-employment endeavors of immigrants in Chicago; brain drain from Lebanon; trade and migration as factor flows; factors affecting the ratio of highly educated immigrants in the total immigrant stock; entrepreneurship determinants for new permanent residents in the U.S.; and the impact of the global financial crisis on the earnings of immigrants to the U.S. ■

DIWDC Present at University Career Fairs



Every year, DIWDC participates in various career fairs around the DC metropolitan area. DIWDC is committed to finding and fostering new talent and providing opportunities for internships and employment to each year's higher education graduating class. Eager to recruit new talent and strengthen its relationship to area universities, DIWDC participated in highly advertised career fairs at George Washington and American universities. First was *Opportunity Knocks*, a career and information fair for graduate students and alumni of George Washington University's Elliott School of International Affairs. Hosted annually and held this year in March, Opportunity Knocks typically attracts 300-350 students and alumni interested in full-time, part-time and internship positions. Many of the students hold multiple degrees and are skilled in research and writing, economics and statistics, political analysis, foreign languages and cross-cultural communications. DIWDC was present with a booth full of information material, the Institute's brochures and its German partners' brochures (DIW Berlin and IZA Bonn), newsletters and annual reports as well as other research and policy briefs. As DIWDC's staff was distributing material to the interested students, they also answered students' questions about the organization. Graduate students in economics and international relations were particularly interested in the Institute. Also in March, DIWDC went recruiting again, this time at American University. *The AU Spring 2010 Job & Internship Fair* attracted more than 800 undergraduates, graduate students and alumni from American University's five schools: the College of Arts & Sciences, the Kogod School of Business, the School of Communication, the School of International Service and the School of Public Affairs. The DIWDC booth was a popular destination, especially for undergraduates in the social sciences. DIWDC combines high caliber research in economics with a policy bent and welcomes any cross-fertilization from other social sciences. Its small size is the value added that many interns and student assistants are looking for, as it can offer more fulfilling experiences. From these fairs as well as from the Institute's cooperation with Georgetown University, DIWDC was able to find several outstanding interns for its summer 2010 internship program. DIWDC is looking forward to working closely with these talented students and to providing knowledge and training not only in economics, but in the public and nonprofit arenas as well. ■



Under Secretary Dr. Rebecca M. Blank – A Profile



Famous Economist Dr. Rebecca M. Blank was sworn on June 2009 as the Under Secretary for Economic Affairs at the Department of Commerce. In her new prestigious and central position as an advisor to the Secretary of Commerce, she oversees both the Census Bureau and the Bureau of Economic Analysis. She is also in charge of the 2010 census, a decennial survey dictated by the constitution to enumerate the United States population. Prior to her career with this administration, Dr. Blank was a Robert S. Kerr senior fellow at the Brookings Institution, and before that she was the Dean of the Gerald R. Ford School of Public Policy at the University of Michigan, where she spent a decade as a professor. Dr. Blank was also a former member of the President's Council of Economic Advisers under the Clinton Administration. She has been Professor of Economics at Northwestern University and Princeton University.

Over the years, Dr. Blank has dedicated her research to the issues of government anti-poverty programs, and the behavior and well-being of low-income households. A prolific author, Dr. Blank has published close to one hundred refereed papers and book chapters and is the author of nine books. DIWDC has benefited from Dr. Blank who was an active member of the Institute's Board of Distinguished Advisers before she assumed her current position. Dr. Blank obtained her doctorate in economics from the Massachusetts Institute of Technology and received her Bachelors degree

in economics from the University of Minnesota. In a recent interview with DIWDC's research assistant, Bienvenue Tien, Dr. Rebecca M. Blank commented on national and international poverty and welfare measurement.

Q: Dr. Blank, the current Administration has launched the initiative of Developing a Supplemental Poverty Measure (SPM). As a scholar dedicated on Poverty Measurement in the U.S. and now as the Under-Secretary of Commerce, what is your take on this step?

A: The Supplemental Poverty Measurement (SPM), that will begin to be regularly reported by the Census Bureau in the fall of 2011, is based on extensive work done by the National Academies of Science in the mid-1990s, and also reflects more recent research. So the measure that is being developed is familiar to many who have been thinking about poverty measurement in the U.S. By reporting this statistic regularly as one measure of poverty in the United States, this will give us an alternative lens on economic need in this country. A new statistic doesn't change anything in the world of policy and practice. But over time, better measurement can lead to better understanding of a problem, which in turn can affect policy.

Q: While policymakers and scholars push for an update of the measurement of poverty in the U.S., critics argue that the resulting rate from the new poverty measure will either be too low or too high. What are the innovations in this new measurement and its merits?

A: First off I should say that this is a Supplemental Poverty Measurement. It will be published alongside the current poverty rate, not replace it. A variety of programs use the official poverty measure in calculating individual eligibility; none of these calculations will change.

The official poverty measurement was developed in 1964, the same year as the 8-track tape! While it does a good job of measuring changes in labor market income, the world has changed since 1964. In comparison to the official measure, the SPM will also take account of in-kind benefits, like food or housing supplements. It will take account of tax payments (including those who receive money back through the Earned Income Tax Credit.) It will net out work costs and out-of-pocket

medical expenses. Family resources will be compared to a poverty line that varies with differences in housing prices across areas.

In short, the SPM is a more complex and more nuanced statistic than the official poverty rate. It will tell us more about how policy changes affect poverty. But because it is a more complex statistic, it is not easily used to estimate well-being or program eligibility among any particular individual. It is designed as an overall measure of well-being among groups at the national or state level.

Q: The preeminence of GDP as an indicator of economic performance and social progress has recently been challenged. For instance: The Stiglitz Commission on the Measurement of Economic Performance and Social Progress tried to come up with a new indicator. Do you see any shift in the poverty measurement if economic performance and social progress were about to be redefined?

A: I admire the work that Joseph Stiglitz and his colleagues have done on social indicators. It is useful to have more people thinking critically about how we use data to measure our national well-being, whether economic or social. Since I oversee the work of the Bureau of Economic Analysis, which produces the National Income and Produce Accounts in the U.S., I'm particularly interested in the recommendations of this Commission for improving national economic accounts.

How we define output as a nation, or across nations, is a slightly different discussion than how we measure who is poor. On the one hand, I think it would be useful to have more distributional measures and information in our national economic accounts, as the Commission suggests. On the other hand, I don't think that accomplishing this will eliminate the need for separate measures of poverty and deprivation.

Q: Recent trends show that jobs have been widely available for low- and high-skilled workers, but employment opportunities for middle-skilled people have faded away. Do you see the Green Jobs creation - as initiated by the Administration middle-class-task-force as the ultimate opportunity and relief for middle-skilled workers?

A: I do think there are great growth opportunities in the green economy, but to be frank, I do not believe that the green

economy, on its own, will be able to put America back to work. My office (the Economics and Statistics Administration within the Department of Commerce) recently put out a report entitled "Measuring the Green Economy". We measured the size of the green economy in both number of jobs and dollar output. We found that in both cases, the green economy made up only 1 to 2 percent of the total economy.

That being said, there is evidence that jobs devoted to clean energy and environmental improvements are growing. I am encouraged by some of the programs funded through stimulus dollars, particularly efforts to expand renewable energy and household retrofitting. I expect that the green economy will continue to grow, and that the government will continue to play an important role in encouraging research and economic activities that make our economy more energy efficient.

Q: What prompted you to go into research on poverty? And what are the questions that are going to dominate research on poverty in the near future at the time when global financial distress seems to underscore the poverty debate?

A: I started college as an English major. I certainly never thought "I want to be an economist when I grow up!" But I took an introductory economics class and it was so interesting that I took another. I never quite escaped after that. I went to graduate school to study how people interacted with the economy, and I became increasingly interested in how government policies could (or couldn't) affect behavior and economic outcomes. This has led me into lots of interesting research areas, including work on the economics of poverty. My research on the impact of policy in turn opened up opportunities to work directly on real world policy issues inside government.

Anyone who has taken an Econ 101 class can tell you that there are economic cycles. But no matter where we are in the economic cycle, there are going to be people who are living in poverty, and there will be a demand to understand which policies can be most helpful in moving people into work and toward permanently higher incomes. Among the research questions that I expect will be important in the near future: How has the housing collapse, the sharp decline in the stock market, and the extremely high unemployment rates (in the U.S. and elsewhere) affected economic need and economic behavior in the U.S.? As different countries make different choices about financial market regulation, which of these choices work best to prevent future losses? Will the high unemployment rates, particularly among

youth, mean long-term losses in earnings for those currently below age 25, who are having difficulty finding jobs?

Q: The EU named 2010 as the year for combating poverty and social exclusion. Do you have any advice for them?

They may have picked a tough year, given the world economy. But I am glad the EU is making this a priority issue. My advice is to start with the data. You cannot make wise policy choices if you do not have adequate data to evaluate who is poor and how different social programs affect poverty. It is also important to learn from other countries' experiences when possible. Different countries have made quite different choices to promote development and reduce poverty. ■

Measuring Poverty in the World and Domestically

“Eradicate Extreme Hunger and Poverty” by 2015 is the No. 1 goal of the United Nations. 2010 is the *European Year for Combating Poverty and Social Exclusion*, declares



the European Union – indirectly acknowledging that poverty issues are no longer solely the attribute of developing worlds. In fact, the European Commission (2010) reports that

in 2008, 17% of the population in the EU27 was at risk of poverty.

Although recently the discussion on global poverty seems to be overshadowed by the financial and economic downturn, scholars as well as policymakers and the business community are heavily debating the measurement of global poverty. The presidential address at the 2010 American Economic Association Annual Meeting in Atlanta, GA, was devoted to the poverty measurement and inequality debate. In his speech, Angus Deaton (2010) from Princeton University

addressed the recent confusions on the global poverty line measure, paying particular attention to the role of the Purchasing Power Parity (PPP) price indexes from the International Comparison Program (ICP). The ICP was first launched in 1968 as a joint venture for the UN and the International Comparisons Unit of the University of Pennsylvania, with financial supports from the Ford Foundation and the World Bank.

Deaton showed that global inequality increased after the latest revision of ICP in 2005, reducing the global poverty line relative to the U.S. dollar. This large increase in the number of poor people (almost half a billion globally) is not due to the ICP revisions, but rather to an inappropriate updating of the global poverty measurement. What happened in the background is that the World Bank decided to boot (emerging) India out of the group of the poorest countries used to determine the poverty line. This resulted in a higher poverty line, which made India's (and global) poverty higher. According to Deaton, one of the substantial reasons leading to the oxymoron of India's high poverty is that “India has grown less poor” (p. 4).

Acknowledging the sensitivity of poverty measures to PPPs, Deaton suggests that there are two different approaches that could be applied to set the global poverty line, depending on whether the standard is taken from the poor world or from the rich world. He asserts that “in the former, the global line is linked to national lines poor countries, but given its claim to be an absolute standard, it should not move upwards as countries become richer. One simple possibility would be to use the current Indian line in rupees, or at least a population-weighted average of its rural and urban lines. [And] the alternative procedure would be to make the global poverty line in fact what it is widely perceived to be, one international dollar per person a day ” (p. 45).

Alas, poverty and inequality measurement difficulties are not solely a global puzzle. The same confusions and erroneous estimates have also been raised within nations. One prominent example is the case of the U.S., where scholars have been advocating for an update of the currently used poverty measure that was launched under the Johnson administration in the mid-1960s. In fact, poverty measurement comes directly from the White House, making it a politically sensitive measure to tackle. The current poverty line in the U.S. relies on Orshansky's definition of the appropriate poverty threshold for a family of four in 1963 which was:

Poverty threshold = 3 x subsistence food budget

The subsistence food budget for a family of four was the Economy Food Plan developed within the USDA in 1961 (based on the 1955 Household Food Consumption Survey) as the amount needed for “temporary or emergency use when funds are low” (c.f. Blank 2008).

In the current debate, Rebecca Blank and Mark Greenberg (2008) have suggested a new poverty measure that “better reflects the actual economic conditions of low-income Americans” (p. 1). Acknowledging recommendations from the National Academy of Sciences, the prominent scholars propose a definition of the poverty line relative to the actual amount that households spend on the necessities such as food, clothing, housing, and utilities.

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National Debts, Greece and the Maastricht Treaty

It was not long ago, when euphoria and hope inundated the EU as the Euro – the common currency under the auspices of the European Central Bank – made its debut in January 2002.¹ By late 2009 one of the EU members using the Euro – Greece – became a household name world wide for its odious debt. A small country of 50,949 square miles and a population of 10,749,943 people is now affecting the stability of the Euro, the international exchange rates and keeps Europe and the U.S. up in arms. Since the Treaty of Rome effective in 1958, many steps have been taken to secure unity in Europe. The European Monetary Union (EMU) of 1979 was followed by the Single European Act of 1986, which eliminated the inter-state tariffs. The Single European Market in 1992 ensured the free movement of goods, persons, services and capital, and the Maastricht Treaty signed on February 7, 1992, laid down the foundation of the introduction of a common currency along with the ideal of ‘One Market, One Currency’ (European Commission 1990).

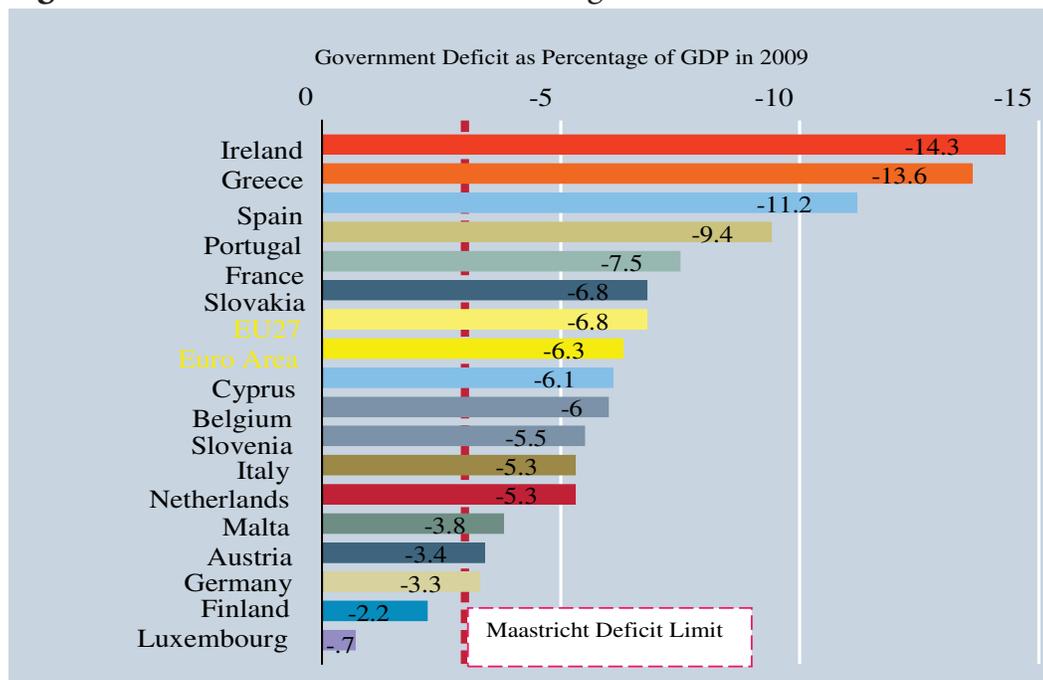
The convergence criteria outlined in the Maastricht Treaty specify the following five conditions (Afexntiou, 2000):

- An inflation rate of no more than 1.5 percentage points above the average of the three countries with the lowest inflation rates
- Nominal long-term interest rates not exceeding more than 2 percentage points those for the three countries with the lowest inflation rates
- No exchange rate realignment for at least two years
- A government budget deficit not in excess of 3% of each country’s GDP
- A gross debt to GDP ratio that does not exceed 60%

¹ The Euro Zone (EU16) comprises: Ireland, Greece, Spain, Portugal, France, Slovakia, Cyprus, Belgium, Slovenia, Italy, Netherlands, Malta, Austria, Germany, Finland and Luxembourg.

As Figure 1 documents by 2009 (six years after the Maastricht treaty was in effect) only two EU member countries fulfilled the criteria regarding government deficits as a percentage of GDP. They were Luxembourg and Finland with 0.7% and 2.2%, respectively. All others had a government deficit above the prescribed limit, bringing the average in the Euro zone to 3%. The top countries with government deficits exceeding the required limit are Portugal, Ireland, Italy, Greece and Spain; recently called *PIIGS*.

Figure 1: Government Deficit as Percentage of GDP in EU in 2009



Source: Eurostat; Own Presentation

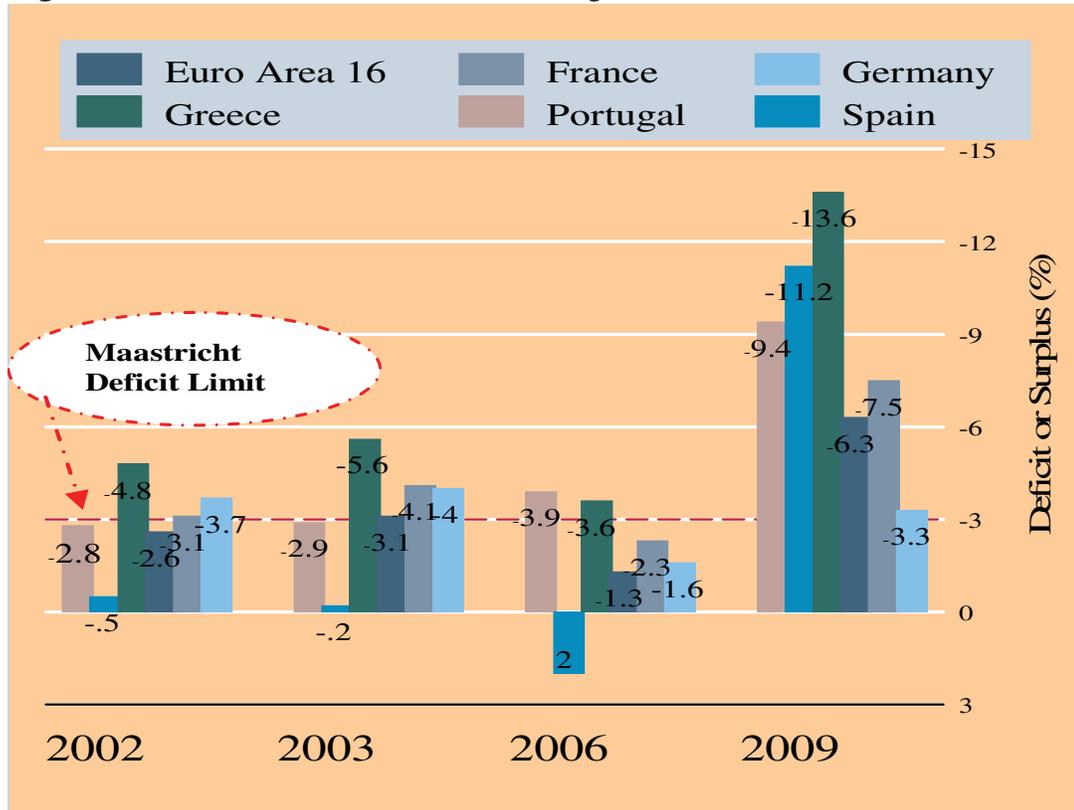
Figure 2 illustrates how some countries' deficit evolved from 2002 to 2009. At the introduction of the Euro in 2002, only Portugal and Spain were clearly under the Maastricht limit of 3% in terms of government deficit. Their respective government budget deficit was 2.8% and 0.5%, whereas the average in the Euro-16-area was about 2.6%. While Germany and France were slightly above the required limit of 3%, Greece's government deficit was already over 4.8%. In the following year, Portugal's and Spain's deficit was still moderate, France's and Germany's debt increased, but Greece's debt increased even more to 5.6%. By 2006, with the exception of Portugal, all countries had decreased their national deficit; Spain had even a budget surplus of about 2%. Germany and France reduced their deficit to 1.6% and 2.3%, respectively; though their deficit level was still higher than the Euro-16-area average (1.3%). Greece also showed good behavior by reducing its debt to 3.6%. However, a year after the financial meltdown of 2008, Germany, France, Spain, Portugal and Greece noticed a huge budget deficit. Spain reached 11.2%, Portugal 9.4% and Greece 13.6%, whereas in the Euro zone area the government deficit averaged at 6.3%.

An analysis of the economic situation of some selected countries and Greece in particular as well as in comparison with other countries in the Euro Zone is warranted. In October of last year, the newly elected socialist Greek government revealed anomalies in regards to its national economic statistics. Many observers in the EU as well as abroad became perplexed and a wave of speculation against the country was set in motion.

Overall, as Figure 3 depicts, from 2005 to 2007, Greece experienced a strong GDP growth of about 4% on average and entered in a recessionary phase in 2009. From 2004 to 2005, GDP fell from 4.6% to 2.2%, before recovering to 4.5% in 2006 and 2007. However, Greece did not remain untouched by the financial and economic crisis of 2008. In 2008, Greece's GDP fell sharply to 2.0% and dropped even further reaching a negative rate in 2009 (-2.0%). As reported by the European Commission's (2010b) economic outlook the real GDP is expected to further contract in 2010, before starting to recover ever so mildly in the second half of 2011 (p. 88).

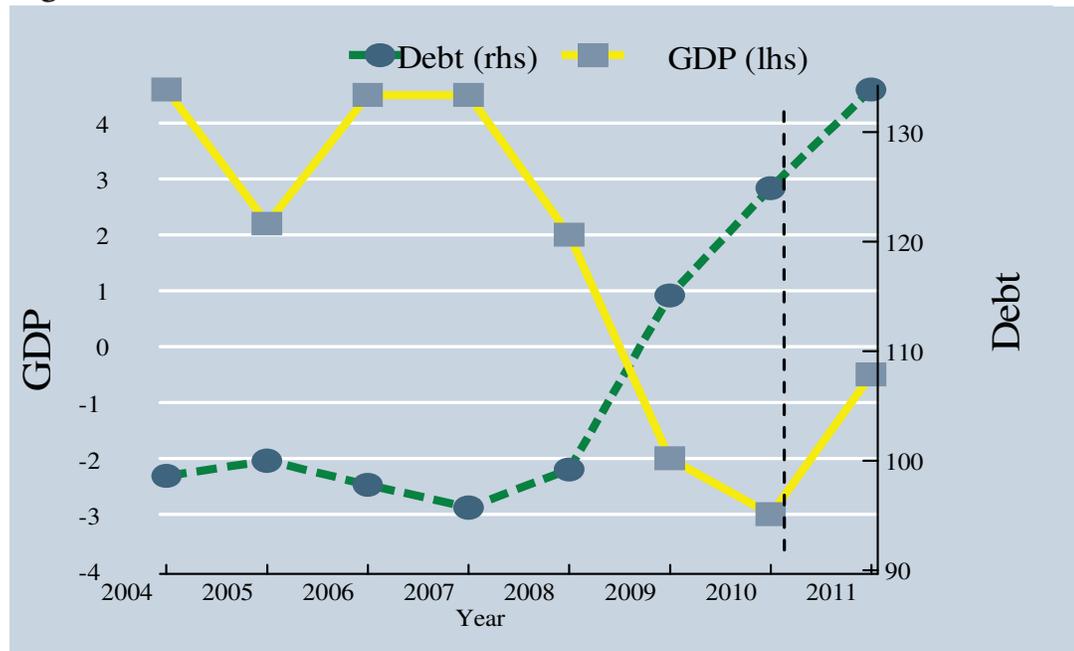
Nonetheless, it is Greece's debt and public expenditures that monopolize the recent debate about Greece. Figure 3 shows an upward trend in terms of Greece's debt as a share of its GDP. Starting even from 2004 to 2009, Greece's debt has always been above the Maastricht upper-limit of 60%. In 2004, it was about 98.6% and five years later in 2009, it is estimated to 115% of GDP. It seems therefore imperative to look at the expenditures and revenues over this time period.

Figure 2: Government Deficit as Percentage of GDP; Selected Countries



Source: Eurostat; Own Presentation

Figure 3: Real GDP Growth and Debt as Share of GDP in Greece



Source: Eurostat; Own Presentation

Figure 4 depicts the path of Greek expenditures over the last six years. Greek expenditures have been growing almost exponentially after 2006, reaching a peak in 2009. During the same time, Greek revenues started to weaken and reached an all time low in 2009 (European Commission 2009). Expenditures and revenues have a mirror image profile (European Commission, 2009).

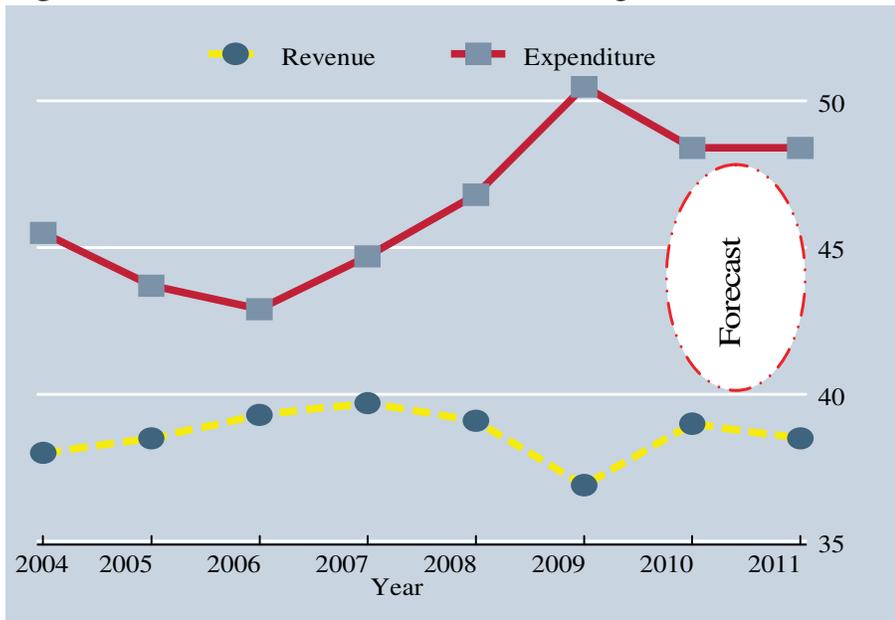
In addition, the rapidly increasing wages compared to productivity has also been one of the major concerns about Greece's economy. Figure 5 portrays the paths of Greek nominal wages and productivity. Clearly, wages have been growing faster than productivity. As mentioned in the recent European Commission report (2010b), "the rapid rise of wage costs and mark-ups in excess of productivity growth, as well as the persistence of the inflation differential with the Euro area, has contributed to a wage-price spiral and resulted in high real-wage growth, well above productivity growth" (p.89).

Compared to the European average, Greece has a high nominal wage

growth, as shown in Figures 6a and 6b. While the average wage growth in the Euro-16-area was about 1.9% in 2009, in Greece it was over 5% (Figure 6a). In Germany it remained unchanged (0.0%) and in France it was slightly under the EU16 growth level (1.8%). From 2004 until the end of 2009 Greece's nominal wages were consistently above all other countries in Figure 6a. In 2007 they skyrocketed reached almost 7%. While they started decreases after that, it was towards the end of 2009 when nominal wages dropped precipitously to 1.0%. Looking at the PIIGS-states, the nominal wage growth in Greece was once again higher than in any other member state in this group (Figure 6b). From 2004 to 2006 it was Ireland that had the highest wage growth among the PIIGS.

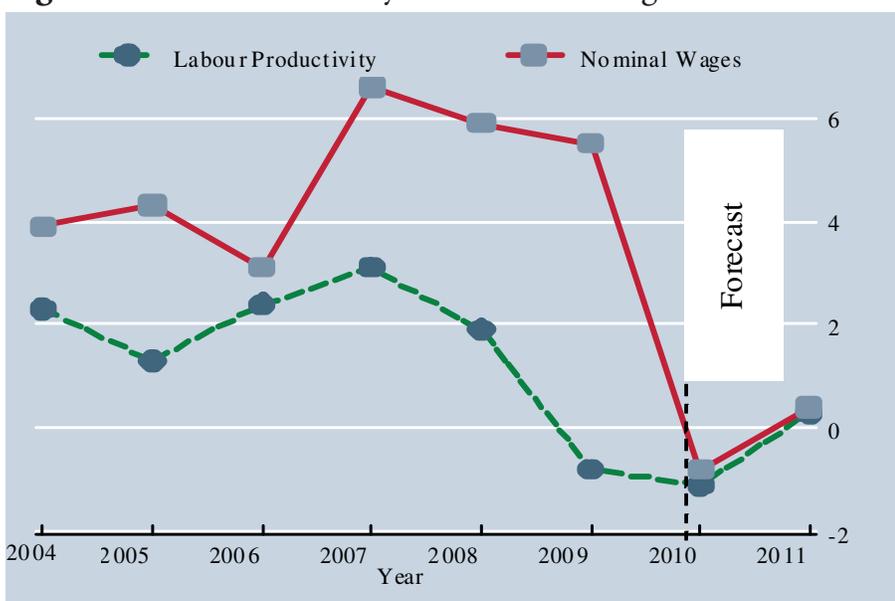
With the recently agreed financial support from the EU as well from the International Monetary Fund, Greece faces major challenges. The IMF reports that Greece should focus on the following three key challenges:

Figure 4: Greece's General Government Budget as Percent of GDP



Source: Eurostat; Own Presentation

Figure 5: Labor Productivity and Nominal Wage Growth in Greece



Source: Eurostat; Own Presentation

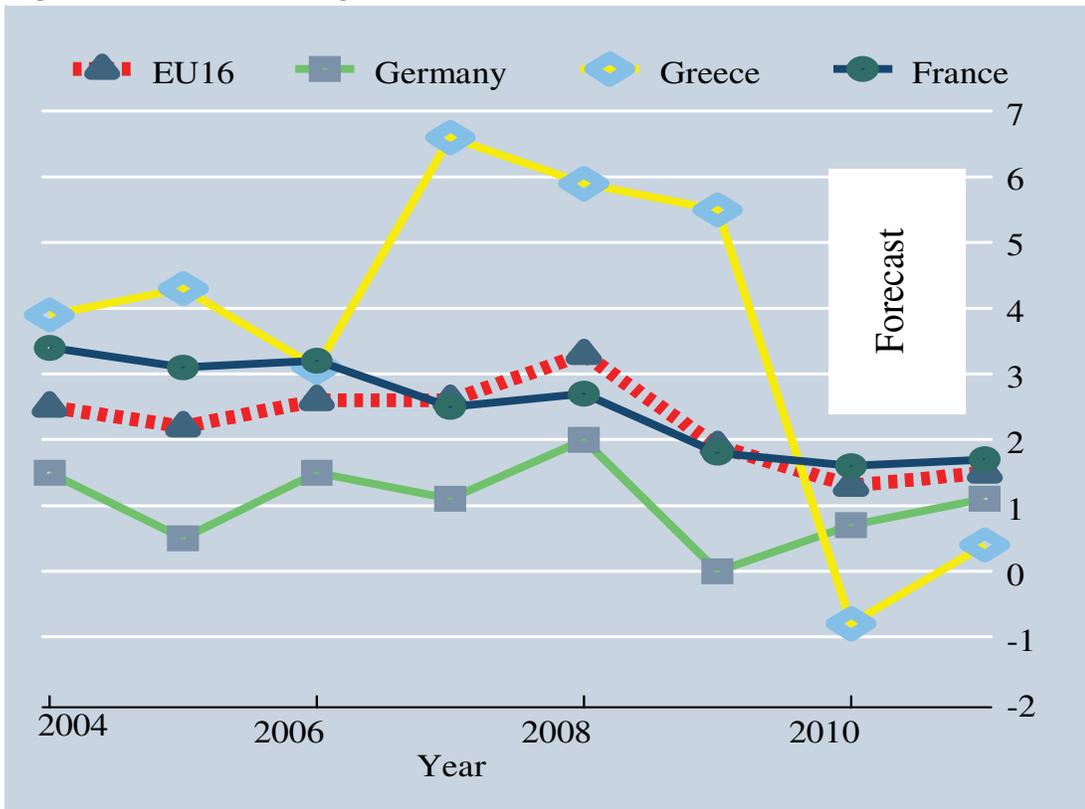
- 1) Restoring confidence and fiscal sustainability
- 2) Restoring competitiveness; inter alia: nominal wages and benefits cuts and structural reforms to reduce costs and improve price competitiveness
- 3) Safeguarding financial sector stability (c.f. IMF press release No.10/187)

With respect to the second challenge, Greece's economy is under a severe current account deficit. Figure 7 shows that the Greek trade balance is negative or, put differently, Greece's imports are higher than its exports. According to a recent European Commission report (2010a), "the widening external imbalance was mostly due to a growing deficit of the trade in goods, which registered around 17% of GDP in 2008 (almost 6 percentage points more than in 1995). More specifically, the performance of merchandise exports was disappointing over the last decade, while imports growth was strong, in line with buoyant domestic demand" (p. 68).

Putting things into perspective, if one were to strictly apply the Maastricht Criteria many countries in the Euro zone besides Greece should have been under severe international supervision. For instance, Germany and France were among the countries that for the first time, during the early stages of the Euro, did not fulfill the Maastricht criteria.

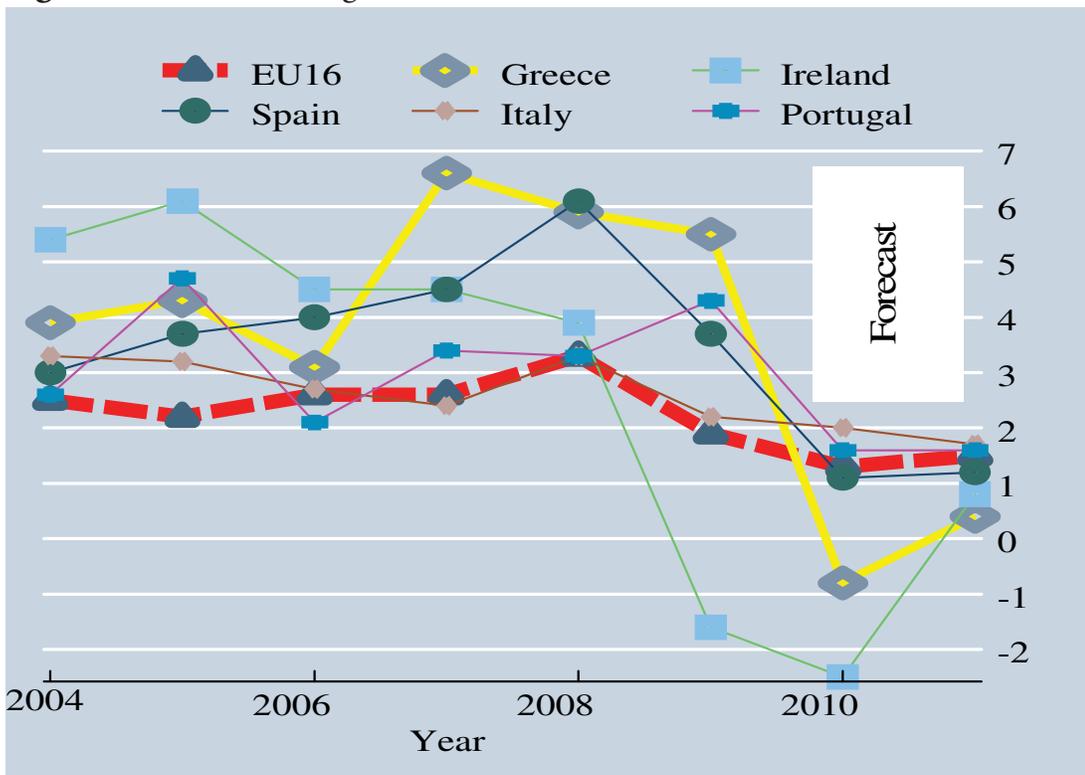
Nonetheless, Germany was able to substantially reduce its deficit under 3% between 2006 and 2008. France also managed to reduce its deficit to under the 3% limit between 2005 and 2007.

Figure 6a: Nominal Wage Growth Profiles



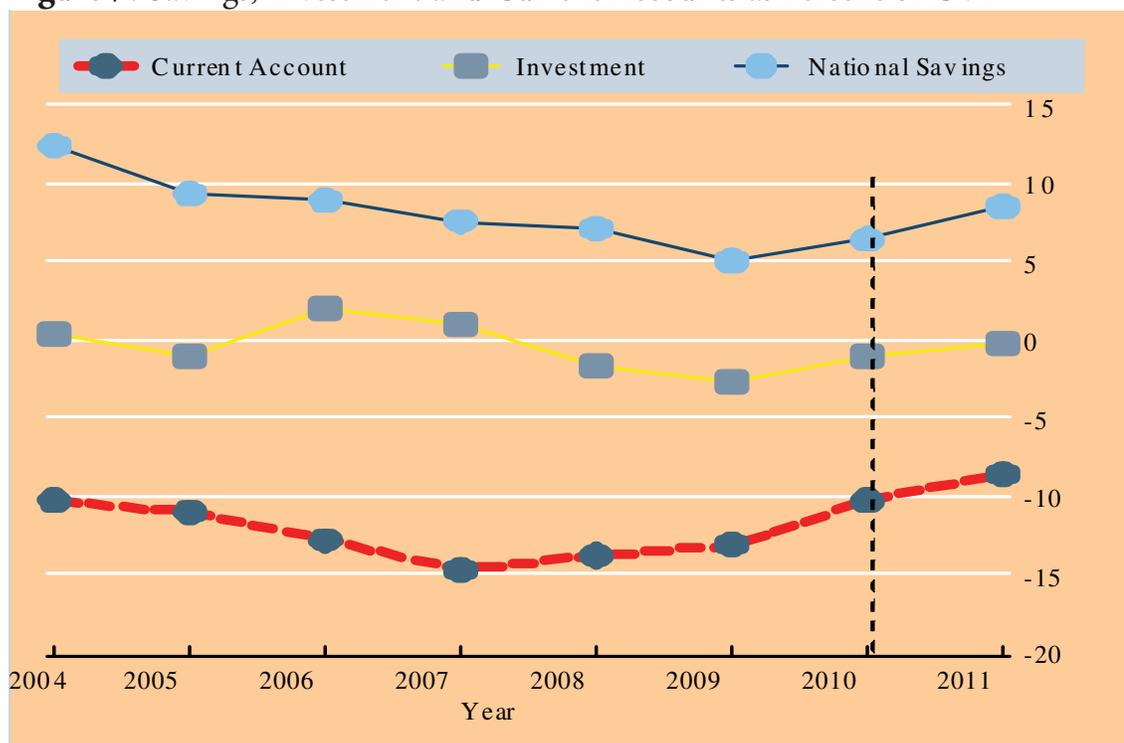
Source: Eurostat; Own Presentation

Figure 6b: Nominal Wage Growth Profiles in PIIGS



Source: Eurostat; Own Presentation

As Afxentiou (2000) and others have pointed out, Greece did not satisfy the conditions to join EU’s economic and monetary policy right from the start. At this juncture, Greece’s weakened competitiveness and persistent current account deficit can be adjusted by relative prices and cost adjustments as well as by shifting its resources from the nontradable to the tradable sector. In addition, because of Greece’s past of unsustainable public finances, a rigorous and credible budgetary consolidation to balance the budget and control current primary expenditures are necessary and urgent (European Commission 2010a). Recognizing the challenges ahead, IMF Managing Director Dominique Strauss-Kahn states that “the road ahead will be difficult, but the government has designed a credible program that is economically well-balanced, socially well-balanced – with protection for the most vulnerable groups – and achievable. Implementation is now the key.” The Greek story can serve as a formidable learning example and an awakening of the globalization tide. Countries can learn the right lessons and realize that they should stand resolute to competitiveness.

Figure 7: Savings, Investment and Current Accounts as Percent of GDP

Source: Eurostat; Own Presentation

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“Top 10” Countries in Debt, their Poverty and Rank in Competitiveness

An important criterion of the Maastricht Treaty concerning the Economic and Monetary Union (EMU) is that the ratio of gross government debt to the gross domestic product (GDP) should not exceed 60% at the end of the preceding fiscal year. Amidst the current debate on financing Greece's government debt, taxpayers in many countries around the world ask questions about their country's public debt and the consequences for them and the future generations. In the Table below we provide the ranking of the top 10 countries that ranked highest in national debt in 2009, as accounted in the Eurostat database. The national debt ranking is juxtaposed to these countries' poverty index as well as their respective rank in five pillars of the Global Competitiveness Index (GCI). GCI is a highly comprehensive index that records the micro-and-macro foundations of a country's competitiveness. More competitive countries have stronger and healthier economies that enable them to grow faster in the medium to long run and weather economic downturns.

Is there a relationship between a country's debt, its poverty and competitiveness? The Table below tries to answer this question. It is possible that while a country may be in serious national debt, it can still have healthy parts in its economy and society. While the entire world knows that Greece is undoubtedly heavily in debt, Greece only ranks third on the top 10 list. It is Japan that scores No. 1 in government debt as a percent of GDP with a phenomenal 189%. Italy ranks first in Europe with a debt of 116%, followed closely by Greece with a debt of 115%. Belgium follows in third place with a debt of 97%. The U.S. ranks fifth with a public debt of 85% of its GDP. Hungary, France, Portugal and Germany are close behind with a national debt that is at least three quarters of their GDP. According to the Maastricht Criteria, therefore France and Germany – the two big powers in Europe – are seriously in debt. No. 10 is Malta with a debt of 69% of its GDP.

To the right of the debt rankings, we provide the Human Poverty Index (HPI) rank for these top 10 countries. HPI measures deprivation as well as social exclusion. Italy has the worst standing in HPI with a score of 25. Next is the U.S. with a score of 22 and Hungary with 20. Greece follows with an HPI of 18, showing a better standing in terms of poverty and social exclusion than the U.S. and Italy. In this top 10 list Germany has the lowest score in HPI. The rest of the columns show the respective scores in GCI, as provided by the World Economic Forum. Out of the 12 pillars of the GCI we present five. Clearly, there is variability among these pillars per country. But while these countries share a common attribute – national debt – their scores in the GCI vary widely. For example, Japan that has the highest public debt as a percent of its GDP ranks four (out of 133) in innovation, meaning that it has a very healthy and competitive market in R&D and innovation. Japan has also a good standing in its labor market efficiency and in goods market efficiency pillars. The U.S., while in the fifth place in national debt, is No. 1 in innovation. That is, the U.S. invests heavily in R&D, has high quality scientific research institutions, extensive collaboration in research between universities and industry and protects intellectual property. The U.S. also ranks very high in the labor market efficiency pillar (No. 3) meaning that its labor markets are flexible enough to shift workers rapidly and at a low cost to where they are in demand and to allow for wage fluctuations without much social disruption. This pillar also indicates that there is a matching between worker incentives and their efforts, that the markets know how to use the available talent best and that there is the gender gap is low. Next, the U.S. ranks very high in the higher education and training pillar (No. 7) and in the goods market efficiency pillar (better than all other countries on the list). Hence, being in debt does not preclude being highly competitive.

Rank	Country	Global Competitive Index ⁱⁱⁱ 2009-2010						
		2009 National Debt (as % of GDP) ⁱ	2009 Human Poverty Index ⁱⁱ	Institution	Higher Education & Training	Goods Market Efficiency	Labor Market Efficiency	Innovation
1	Japan	189.2	13	28	23	17	12	4
2	Italy	115.8	25	97	49	65	117	50
3	Greece	115.1	18	70	43	75	116	65
4	Belgium	96.7	15	24	8	13	44	14
5	U. S. A.	84.5	22	34	7	12	3	1
6	Hungary	78.3	20	76	35	64	63	45
7	France	77.6	8	26	15	25	67	18
8	Portugal	76.8	N/A	44	38	51	103	33
9	Germany	73.2	6	16	22	18	70	7
10	Malta	69.1	N/A	33	37	40	93	53

Sources: *Statistical Annex of European Economy*, European Commission. Spring 2010.

The Global Competitiveness Report 2009-2010, World Economic Forum. 2009.

Human Development Report 2009, United Nations. 2009.

Notes: ⁱ Government debt as share of GDP is from Eurostat, which also provides comparable statistics about the U.S. as well as Japan. ⁱⁱ The United Nations Human Poverty Index for selected OECD countries (HPI-2) measures deprivations as well as social exclusion. It reflects deprivations in four dimensions: 1) A long and healthy life; 2) Knowledge; 3) A decent standard of living and 4) Social exclusion. ⁱⁱⁱ The Global Competitive Index (GCI) as provided by the World Economic Forum is grouped into 12 pillars of competitiveness: Institutions; Infrastructure; Macroeconomic stability; Health and primary education; Higher education and Training; Goods market efficiency; Labor market efficiency; Financial market sophistication; Technological readiness; Market size; Business sophistication and Innovation. N/A means rank not available in the Report.

On the other hand, the case of Italy and Greece shows a high correlation between national debt and competitiveness. Italy and Greece do not exhibit healthy parts in their competitiveness. Overall, they rank above 50 in four out of these five pillars, and over 100 in the fifth pillar. In the labor market efficiency pillar that mostly indicates flexibility and efficient use of talent they rank 117 and 116 respectively (out of 133), a very poor placement. The elements in this pillar are: flexibility of wage determination, hiring and firing practices, extent and effect of taxation, cooperation in labor-employer relations, pay and productivity, reliance on professional management, brain drain, and female participation in the labor markets. Italy and Greece appear to have rather sclerotic labor markets. Compared to all other countries on this list, Italy and Greece have the worst scores in the institutions pillar (i.e. Property Rights, Ethics and Corruption, Undue Influence, Government Inefficiency, Security, Corporate Ethics and Accountability), the goods market efficiency pillar (i.e. Domestic and Foreign Competition and Quality of Demand Conditions), the innovation pillar (i.e. Capacity for Innovation, Quality of Scientific Research Institutions, Company Spending on R&D, University-industry Collaboration in R&D, Government Procurement of Advanced Technology Products, Availability of Scientists and Engineers, Utility Patents and Intellectual Property Protection) and the higher education and training pillar (i.e. Quantity of Education, Quality of Education and On-the-job-training). ■

DIWDC Active in the Annual Meeting of the American Economic Association

This year, the American Economic Association Annual Meeting was held from January 3-5 in Atlanta, GA. This meeting also known as the ASSA meetings, combines conference sessions of high quality content, high profile exhibits and is the main job market place of the year. DIWDC was there, actively present in many ways.

DIWDC's Executive Director, Amelie F. Constant, lead the AEA Session that she organized on "Performance in Academia." In a full capacity room, five papers were presented in this session: "Rising Tuition and Enrollment in Public Higher Education" by Steven W. Helmet and Dave E. Marcotte, both from the University of Maryland; "Highly Cited Leaders and the Performance of Research Universities" by Amanda H. Goodall (University of Warwick); "A Suggested Method for the Measurement of World-Leading Research (with an Application to Data on Economics)" by Andrew O. Oswald (University of Warwick); "Comparing the Early Research Performance of PhD Graduates in Labor Economics in Europe and the USA" by Ana Rute Cardoso (IAE Barcelona, CSIC), Paulo Guimaraes (University of South Carolina) and Klaus F. Zimmermann (IZA, Bonn University and DIW Berlin); and "The Americanization of European Education and Research" by Lex Borghans and Frank Coervers, both from Maastricht University. Following the standard academic session style, the papers were reviewed by formal discussants and discussed by the audience. Formal discussants were Jason M. Lindo (University of Oregon), Zahra Siddique (IZA), Martin Kahanec (IZA), Julie L. Hotchkiss (Federal Reserve Bank-Atlanta), and Ana Rute Cardoso (IAE Barcelona, CSIC) respectively.

DIWDC also participated in the exhibits by holding a booth – together with its transatlantic partner-institutes IZA Bonn and DIW Berlin. To the hundreds of passers-by, DIWDC's staff tending the booth, answered questions about the Institute and distributed brochures, information material, and other promotional items as well as the DIWDCSynopsis and other scholarly output. ■

DIWDC Executive Director Presents at the Eastern Economic Association

Amongst a busy beginning of the year, Dr. Constant, Executive Director of DIWDC participated in the Annual Meeting of the Eastern Economic Association in Philadelphia in February. Dr. Constant presented her work with Dr. Spyros Konstantopoulos who is an associate professor of Measurement and Quantitative Methods at the Department of Counseling, Educational Psychology, and Special Education at the College of Education at Michigan State University. Dr. Konstantopoulos is also an IZA fellow. The presented work was on "Teacher Effects in Early Grades: Evidence from a Randomized Study." Dr. Constant is a long term member of the Eastern. ■

DIWDC Receives Chinese Delegation



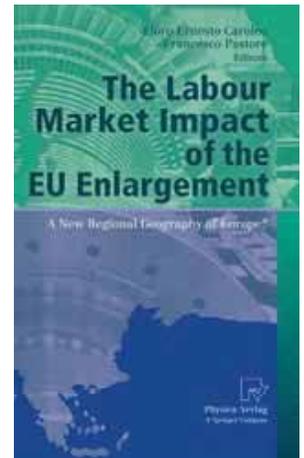
Following DIWDC's academic explorative trip to China in the Fall of 2009, professors from Beijing Normal University (BNU) in China returned the gesture by coming to Washington, DC and visiting the Institute. In early January 2010, and in the spirit of mutual cooperation, DIWDC's Executive Director, Dr. Amelie F. Constant along with DIWDC research assistant Mr. Bienvenue Tien met with representatives from BNU to discuss future co-operation at several levels such as co-organizing future

conferences, possibilities of exchange of students and the prospects of having visiting scholars and interns from BNU China to DIWDC. “I welcome the opportunity to collaborate with my Chinese colleagues; we have a lot to learn from them” said Constant. “I am looking forward to not only expanding DIWDC’s transatlantic relationships, but its transpacific partnerships as well.” The Chinese delegation

included Professor Desheng Lai, Dean of the School of Economics and Business Administration at BNU, Juan Yang, Assistant Dean and Zhang Tianwen, Deputy Director of the office of Personnel and other professors. ■

DIWDC Output

Executive Director of DIWDC, Dr. Amelie F. Constant has contributed her work to the newly published book entitled “The Labour Market Impact of the EU Enlargement: A New Regional Geography of Europe?” Her co-authored paper with Elena D’Agosto “Where Do the Brainy Italians Go?” studies the major determinants of Italy’s brain drain to the rest of the world. The authors analyze the country location of university-educated Italian scientists and researchers who live abroad in three alternative geographic areas: USA/Canada, the UK, and other EU countries. They find that, *ceteris paribus*, both push and pull factors are important: having a Ph.D. from outside Italy predicts settling in the UK, while having extra working experience from outside Italy predicts migration to other EU countries. Specialization in the fields of humanities, social sciences and health are strong determinants of migration to the UK. For the move to the USA, specialization in the humanities is a significant deterrent, while specialization in health is a positive deciding factor. Those who stay abroad for less than two years or for 2-4 years are definitely more likely to go to the UK. Lack of funds in Italy constitutes a significant push in the USA. The book contains four parts with eleven chapters. Editors are Floro Ernesto Caroleo from the University of Naples and Francesco Pastore from Seconda Università di Napoli. The book is published by Physica-Verlag; a Springer Company.



Briefs and Reports

- “America’s False Sense of Security,” *The International Economy*, Winter 2010, 52-53, K.F. Zimmermann
- “Kurzarbeit: Nützlich in der Krise, aber nun den Ausstieg einleiten” (Short-time Work: Helpful in Times of Crisis, but Only as an Exit Strategy), *DIW-Wochenbericht*, Nr. 16/2010, 2-13, K.F. Zimmermann, K. Brenke and U. Rinne
- “Grüner Aufschwung” (Green Recovery), *bdvb-aktuell*, Nr. 108, April – June 2010, 8-9, K.F. Zimmermann

Op-eds

- “Long-Term Unemployed Need Efficient Help,” *IZA Compact*, January/February 2010, 16, K.F. Zimmermann
- “Germany’s Own Goal,” *Business Spotlight*, January-February, 1/2010, 27, K.F. Zimmermann
- “Social Democracy in America?,” *The International Herald Tribune*, February 20-21, 2010, 6; *The New York Times* (online), February 19, 2010, K. F. Zimmermann
- “A German Lesson for Greece,” *The Financial Express*, March 25, 2010, 9, K.F. Zimmermann
- “Germany’s Labor Market Turnaround,” *The Wall Street Journal*, April 12, 2010, K.F. Zimmermann ■

Welcome New DIWDC Board Member!



DIWDC is pleased to welcome Dr. Kathryn Anderson to its board of distinguished advisers. Dr. Anderson is a professor of Economics at Vanderbilt University. She specializes in labor and health economics and economic development and is currently the Director of Public Policy Studies Program at Vanderbilt University. She has authored the book “Consequences of Creating a Market Economy: Evidence from Household Surveys in Central Asia” (Edward Elgar Press, 2003) and has published numerous refereed journal articles, among them is “Education and Social Policy in Central Asia: The Next Stage of the Transition,” which was published in *Social Policy and Administration* in 2005. In the past, she was the Director of Graduate Studies and of the Graduate Program in Economic Development at Vanderbilt University, the Vice President of the Southern Economic Association, and a post-doctoral fellow at Yale University. DIWDC looks forward to building a relationship with Dr. Anderson as its newest board member. ■

DIWDC Event Participation

In pursuit of its goals and expectations as an economics research institute, DIWDC maintains connections and engages with think tanks and international organizations in the Washington, DC area and participates in various international economic policy events. Our exposure to such events allows us to profoundly engage in the most ground breaking economic research to date. Our collaboration with various institutes around Washington, DC allows for unlimited opportunities to DIW Berlin students as well as to all visiting scholars and interns to participate and attend these events and experience first hand the implementation of economic policy. Such events include:



- “The Dragon’s Gift: The Real Story of China in Africa,” at the Center for Strategic and International Studies
- “The Malian Migration to North America: A Example of the Globalization Process in Africa,” at the Institute for the Study of International Migration, Georgetown University
- “Reflecting on a Transatlantic Relationship that we Want to Have Rather than What ‘Is,’” at the Friedrich Naumann Foundation and the New America Foundation
- “Things Fell Apart: Political Instability in Africa,” at the Brookings Institution
- “Addressing Fiscal Deficit Crisis,” by D. Holtz-Eakin at the Elliott School of International Affairs, George Washington University
- “Creating Competitive Cities in a Global Economy,” by the School of Public and Environmental Affairs, Capitol Hill Spring Colloquium
- “GW Summit on Entrepreneurship,” at George Washington University

- “Putting Politics above Markets: A Greek Tragedy,” at the Cato Institute
- “Policy Comparisons and Business Perspectives: The Coal and Solar Sectors in China, U.S.A. and Germany,” at the Elliott School of International Affairs, George Washington University
- “The Role of Logistics in the Recovering World Economy,” by Frank Appel (CEO of Deutsche Post DHL), at the U.S. Chamber of Commerce CEO Leadership Series, Washington, DC
- “Workers without Borders? Culture, Migration and the Political Limits to Globalization,” at the Elliott School of International Affairs, George Washington University
- “Discussion on the Possible Effects of an Immigrant Legalization Program,” at the Migration Policy Institute
- “The Revival of the Sovereign Wealth Fund Debate,” at the American Enterprise Institute
- “From Recovery to Sustained Growth: Policymakers Challenges,” at the Elliott School of International Affairs, George Washington University
- “Happiness in an Age of Uncertainty,” by A. Kruger and C. Graham, at the Brookings Institution
- “The Politics of Citizenship in Europe in an Era of Integration Challenges,” at the Migration Policy Institute
- “Rethinking Human Development, Part One” by UNDP-Washington Roundtable at the University of California Washington Center
- “Rethinking Human Development, Part Two: The Role of Democratic Governance,” by UNDP-Washington Roundtable at the Carnegie Endowment for International Peace
- “Gas Prices, Fuel Efficiency, and Endogenous Product Choice in the U.S. Automobile Industry,” at George Washington University ■



Growth, Poverty Reduction and Employment Patterns in the Western Balkans

By: *Sindu Workneh, DIW Berlin**

I. Introduction

Understanding the link between growth, poverty and employment is essential for sound policymaking. To the extent that growth creates jobs for the poor and the poor derive most of their income from labor, the contribution of growth to poverty reduction is obvious. 'Employment-intensive growth,' which focuses on how the benefits of growth are distributed among different income groups, is now a burgeoning concern. Understanding the characteristics of the poor is the key to devising mechanisms to address poverty. The poor could be employed by a firm or they can be self-employed in formal or informal sectors; they are the working poor. The poor could also be inactive or unemployed; they are the non-working poor. The major concerns about the working poor are increases in productivity and wage growth. An important policy issue, here, is whether to focus on an increase in earnings mobility within the same job/sector or to focus on increasing occupational mobility to higher earnings and productivity sectors. This, in turn, depends on the structure of the labor market, barriers to entry, the extent of mobility between regions and skills, and other institutional and regulatory factors. For the non-working poor, the policy focus is on the creation of jobs and the availability of employment opportunities.

To analyze how employment creation, productivity and wage growth help determine the effectiveness of growth in reducing poverty, this study employs a decomposition analysis. Specifically, we decompose growth into changes in employment generation and productivity; we analyze sectoral patterns of growth and employment generation; and examine the sources of changes in productivity. We apply this decomposition on the Western Balkan countries, which are: Albania, Bosnia and Herzegovina (BiH), FYR Macedonia, Montenegro, Serbia, and UNMIK/Kosovo.³

II. Growth, Poverty, and Employment in the Western Balkans

Countries in the Western Balkan region⁴ have exhibited a significant growth since 2000. All countries in the region, except FYR Macedonia, witnessed average annual GDP growth rates in excess of 5% during 2000-2008 (World Bank, 2009). The service sector plays a major role in the economy of the Western Balkan countries. This sector contributes more than 50% of value added in GDP in all the countries. Next is industry, except in Albania where there is a slight difference in the share of agriculture and of industry. However, this pattern is not consistent with the sectoral composition of the labor force in Albania and Serbia. In Albania, even though the service sector contributes more than 50% of the value added in GDP, it only employs 27% of the labor force. It is rather agriculture that takes up 58% of the labor force, implying that the share of agriculture reduced only in relative terms and not in absolute terms; a rather unusual case in transition economies (World Bank, 2009). In Serbia, it is industry that employs the majority of the labor force, followed by agriculture and the service sector. While this implies that industry would be taking over agriculture in employment, it is the service sector that took over agriculture in terms of contributions to GDP.

Poverty has followed a declining trend in the Western Balkan region since 2002 except in FYR Macedonia, where the poverty rate⁵ increased from 6.7% in 2002 to 8.7% in 2006 (World Bank, 2010). Still, even though poverty has been declining, poverty rates as high as 13.2% were registered in Albania in 2008, making this country the poorest in the region. BiH and Serbia had the lowest poverty rate in the region (below 2% of their total population). It is important to note that in all

* This paper was written during Ms. Workneh's visit at DIW DC. The opinions expressed in this piece do not reflect the opinions of DIW DC.

³ The term will be used to refer to these six countries unless stated otherwise.

⁴ UNMIK/Kosovo is not included in this growth trend due to lack of data.

⁵ Poverty rates are calculated based on the poverty line of \$2.5 per day (ECAPOV, 2010; World Bank, 2010).

countries of the Balkan region poverty is rather a rural phenomenon. The exception is BiH, where urban poverty is slightly higher than rural poverty. In addition, most of the poor are non-working poor (unemployed and not in the labor force) than working poor (World Bank Regional Report, 2009).

III. Labor Markets in the Western Balkans

Typical labor market characteristics in economies in transition are low employment and participation rates, relatively high unemployment rates, and an active informal sector. This is echoed in the Western Balkan States. Even though these Western Balkan countries experienced economic growth and reduction in poverty, job creation has not kept up with economic performance (World Bank Regional Report, 2009). Labor force surveys in the region and ILO official estimates show that unemployment rates range from as low as 8.9% in Albania to as high as 43.6% in UNMIK Kosovo. Given that in all of the countries in the region the majority of their population is in the working age group, youth unemployment is pervasive. According to labor force survey based estimates, unemployment rates among workers 15-24 years of age represent 2-3 times the national average unemployment (World Bank Regional Report, 2009). Youth unemployment rates range from 37% in Serbia to about 70% in Kosovo, attesting to the worrisome level of youth unemployment in the Western Balkans. Women in particular, exhibit lower employment and activity rates and higher unemployment rates compared to men in all the countries of the Western Balkans. All along, nominal wage has followed a gradually increasing trend over the years in the Western Balkans.

A sizeable share of the labor force in Western Balkans is employed in the informal sector. According to the World Bank report on the region, the informal sector is characterized by agricultural and/or non-agricultural sectors with self-employed, young, less educated and poorly paid workers. However, there is no concrete evidence that the informal sector is associated with poorer labor market outcomes. In fact, the informal sector could actually be an alternative to the formal sector and can create a mechanism of transition out of poverty. It should be noted that this is clearly a contextual statement and calls for further empirical investigation.

IV. Growth Decomposition in the Western Balkans

Shapely decomposition, as described in Shorrocks (1999) and the Job Generation and Growth Decomposition tool (JoGG) developed by the World Bank, is used to understand how growth is linked to changes in employment, productivity (output per worker), and population structure at aggregate levels and by sectors. The decomposition analysis is done for four countries (Albania, BiH; FYR Macedonia; and Serbia).⁶ The decomposition of aggregate per capita value added growth into its main components shows that output per worker is the largest contributor to per capita value added growth. While the population structure has a positive link to growth in total per capita value added, the link is minimal. For all the countries, the share of employed people in the working age group (i.e. the employment rate) had a negative contribution to the total per capita value added growth. A conclusive statement from this decomposition is that, overall, the growth of Western Balkan economies was productivity driven during the period under consideration.

The service and manufacturing sectors stand as the most dynamic sectors in terms of growth in the number of workers in the Western Balkans region. In BiH, the sectors that contributed to employment are manufacturing, commerce and others; in FYR Macedonia, it is construction, commerce and other sectors. In Albania, the majority of employment generation came from transport, manufacturing and other sectors, including public services such as health, education and other services. Serbia registered a decline in employment in all sectors except in construction and slightly in agriculture, which resulted in an overall employment decline in the country. However, in all four countries, the number of jobs created did not catch-up to the number of new entrants (working age individuals) into the labor market. This is because the share of employment over the working population declined due to the increase in working age population by more than the increase in total employment.

⁶ The other two countries in the region, Kosovo and Montenegro were not included due to data limitations. Due to lack of data on same years, the result from the decomposition might not be directly comparable among the countries. However, we believe that the results will provide insights into the growth decomposition of the region.

In all Western Balkan countries we observe an overall positive growth in output per worker. Sectors with the largest drop in employment stand out for their highest growth in productivity.

Productivity changes are further decomposed into changes linked to output per worker in each sector and changes in output per worker linked to inter-sectoral employment changes (i.e. occupational mobility). Positive changes due to inter-sectoral employment changes occur when employment movements from low productivity sectors to high productivity sectors take place. This is because such employment movements enhance a more efficient allocation of resources in the economy. For BiH, the sectors that contributed to the highest change in total output per worker are commerce and manufacturing. In FYR Macedonia, manufacturing, agriculture and commerce contributed more than 75% of the change in output per worker. In Serbia, it was commerce and manufacturing that contributed the grand share. In Albania, it was agriculture and commerce that contributed to the change in output per worker by 65%. Overall, manufacturing and commerce are the common sectors in all countries that mostly contributed to changes in total output per worker in the Western Balkan States.

Inter-sectoral shifts contributed 10.7% of changes in output per worker in Albania. This is essentially due to the outflow of labor from the agricultural sector, characterized by below average productivity. Both BiH and FYR Macedonia experience positive, but minimal contributions from inter-sectoral shifts to changes in total output per worker. This is as expected because in BiH, for instance, employment generating sectors such as other sectors and commerce have above average and close to average productivity, respectively. This renders employment movement into these sectors very efficient. However, inter-sectoral shifts in Serbia had a negative contribution to changes in total output per worker. Employment movement towards construction and agriculture, both of which have below average productivity, resulted in negative contributions to output per worker. Hence, mobility towards these sectors does not have labor allocative efficiency. The largest contribution to inter-sectoral shifts comes from the construction sector in BiH, followed by other sectors. Employment movement out of construction and agriculture resulted in 96% of the positive contribution to inter-sectoral shifts. In FYR Macedonia, employment movement out of agriculture contributed to 73% of inter-sectoral shifts. In addition, movements into commerce and other sectors with above average productivity have contributed to more than 40% of inter-sectoral shifts.

The decomposition capturing the dynamics of growth shows that a significant part of the change in per capita growth in GDP is explained by a huge positive contribution of within-sector changes in output per worker. For all countries in the Western Balkan region, the structure of population is found to explain less than 5% of the change in per capita growth in GDP, while changes in the share of employed to working age population had a negative contribution. Consistent with previous findings, inter-sectoral shifts have positive contributions in BiH, FYR Macedonia, and Albania while they have a negative contribution in Serbia.

V. Concluding Remarks

Western Balkan countries exhibited a significant increase in growth in the past decade. Most of this growth comes from within-sector changes in productivity (output per worker). The manufacturing and commerce sectors are found to be the main sectors that contributed to the biggest share of changes in output per worker. In addition, the same sectors are found to generate employment in the period of study. The construction sector in FYR Macedonia and Serbia and the transportation sector in Albania are found to increase employment. Hence, it is important to focus on these dynamic sectors to expand employment opportunities and productivity in the region. Inter-sectoral shifts are found to have a positive contribution to changes in output per worker in the region, except in Serbia. This is because mobility of labor has been towards sectors with above average productivity. Nonetheless, labor movements have to be improved in Serbia to bring about allocative efficiency.

The sectors that generated the largest drop in employment rate, and thus largest negative contribution to employment rate growth vary among the Western Balkan regions. For example, while agriculture generated the largest drop in employment in FYR Macedonia and Albania, it is the manufacturing sector in Serbia and the construction sector in BiH that caused unemployment. This calls for a country-specific policy recommendation to address the issue of job creation in the region. Given that the majority of the poor in this region are non-working poor, job creation becomes a priority on the agenda. Hence,

focusing on the employment driver sectors in each of these countries could be a sensible strategy to address the problems of the non-working poor.

The issue of creating and/or expanding employment generating sectors to catch-up with new and young entrants into the labor market needs to be a priority in the region. Because the majority of the poor in the region are non-working poor, an employment-intensive growth would be a prudent strategy. To be effective in poverty reduction it is important to direct growth strategies towards employment generating sectors such as manufacturing, construction and commerce. A notable challenge here is that the majority of the poor in most of the Western Balkan countries are found in the rural areas, where only few of the employment generating sectors are located. This calls for strengthened rural-urban linkages to promote public and private enterprises in rural areas and enhance mobility of labor between regions and skills.

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Upcoming Events

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November 2010: Innovation Week, DIWDC, Washington, DC
December 2010: German Day on Development, The World Bank, Washington, DC

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