



DIW DC



Annual Report 2008

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*Excellence in
Research and
Teaching*

*Solutions for
Effective
Policymaking*

*Stronger
Transatlantic
Relationships*



Chairman's Message



The greatest international economic challenges in decades were revealed in 2008. Europe and Germany faced rising fears of inflation in the wake of a heated world trade boom, leading to an increase in global energy and food prices. The U.S., with a festering sub-prime market, was already facing anxiety about an upcoming recession that the government attempted to tame through tax rebates in hopes of boosting consumption and the economy.

Economic development had already started to cool down in 2007 as it was interacting with the structural crises breeding in the housing market, the financial sector and the automobile industry. At the peak of the financial crisis in the autumn of 2008, the world was facing an economic abyss triggered by the economic downturn and escalating with the collapse of Lehman Brothers. Since then, the downturn has uniquely threatened employment and prosperity in most countries around the world in an unprecedented way.

This arose from synchronized movements which distributed the problems throughout the world - a consequence of the intense and enmeshed integration of economics and media during globalization. The moods and expectations of consumers and investors have quickly changed due to instantaneous international communication.

From the failure of Lehman Brothers to the government buyouts of banks and insurance companies around the world, 2008 also challenged economists, politicians and everyday citizens to reevaluate their views on how much government should be involved in economics. (For more information, please see "The Financial Crisis: A Roadmap to Rescuing a Faltering Economy" on page 24.)

One cannot discuss the economic crisis, however, without also discussing another landmark event of 2008: the transfer of power in the White House from George W. Bush to Barack Obama.

President Obama faces almost insurmountable challenges. But since Obama is known to seek the advice of high-qualified academic experts, we will see the new president be open to unorthodox proposals and initiatives.

Beyond the economic crisis, the key economic issues to be dealt with by the Obama administration will be healthcare reform, climate control, energy supply, trade relations, and immigration. Throughout the election campaign President Barack Obama showed economic competence and trustworthiness. He can contribute greatly to restoring trust in the market economy. Obama has earned the respect and support of Europe and Germany for this task.

While the general interest of the public is focused on fighting the global recession and fostering structural reforms, it is important to remember the other frontier: the developing countries that are faced with even bigger challenges. The DIW DC-led conference, "German Day on Development," at the World Bank has created a new platform exploring and solving challenging economic issues in the developing world (see page 22 for more information). This year's featured essay, "Contract Teachers, Primary Education and Student Performance in Africa," (page 37) by DIW DC contributor Markus Frölich and co-authors Jean Bourdon and Katharina Michaelowa, is a version of a paper presented at that conference and sheds new light on how significantly cheaper contract teachers can be more effective in certain classrooms than prohibitively expensive traditional teachers.

At this important time in history, I am proud to be chairman of DIW DC, a nonprofit, nonpartisan American economics think tank specializing in research, teaching, policy advice, and in the development of stronger transatlantic relationships. Thanks to the unwavering efforts of Dr. Amelie F. Constant, DIW DC's Executive Director, and her team, the institute has established its place and found its role in this world. Amelie has shown energy, leadership and talent in dealing with all frontiers of the work of the institute; we are very grateful to have her in place.

As head of the Board of Directors of DIW DC, I also recognize the contributions of Dr. Daniel S. Hamermesh, fellow board member who has stepped down from this position; DIW DC is grateful for all his guidance and support. We welcome Dr. Guillermina Jasso on the board, and we are looking forward to working with her.

Sincerely,



Prof. Dr. Klaus F. Zimmermann, Chairman of the Board

Director's Message



Two-thousand-eight has been a year of tectonic events sweeping across the globe. From the international financial crisis to a historic U.S. presidential election, 2008 played out in ways that few could have foreseen. Well-positioned in DC, DIW DC has been there every step of the way, from dissecting the U.S. election for an international audience (<http://www.diwdc.org/pdf/USElection.pdf>) to offering suggestions for resolving the global credit crisis (http://www.diwdc.org/Global_Credit_Crisis.pdf). DIW DC will continue to provide information and support to help policymakers, business people and everyday citizens guide us out of this crisis.

This Annual Report provides an overview of the important activities and progress of DIW DC over 2008. The Institute continued to pursue our mission of generating and disseminating original economic research. The Institute published several papers in scholarly peer-review journals; contributed to policy briefs; and issued recommendations through

various meetings with policymakers, industrialists and the international press. DIW DC researchers were active players and participants in several scientific congresses and events around the world, including Metropolis (please see page 18), Infraday (page 13), AM² (page 14), Frontiers in Labor Economics (page 19) and German Day on Development (page 21), to name but a few.

DIW DC has also enthusiastically pursued its educational mission. With a strong commitment to nurturing future economic leaders, DIW DC management instructed graduate students in economics at leading district-area universities and encouraged students to attend DIW DC workshops, lectures and events. DIW DC is also responsible for carrying out DIW Berlin's Graduate Center teaching program by providing a dynamic curriculum and outstanding opportunities to graduate students during their first-year visit in Washington. Aimed at giving students a unique insight into the economic, social and political processes of the U.S., these graduate students return to Germany with a heightened understanding of American culture and the inner workings of the U.S. economy, which

will ultimately translate into stronger transatlantic relations. DIW DC has built a solid program for the exchange of fellows, students and scholars between the U.S. and Europe and has become a relevant coordinating platform for research, teaching, and policy activities.

DIW DC's accomplishments could have never come to fruition, however, without the guidance of its board members and dedication of its staff. I feel privileged to be working with a group of such talented, knowledgeable people and thank them for their contributions to DIW DC's success.

Unfortunately, the financial crisis of 2008 is far from behind us: governments worldwide are scrambling to come up with a slew of fiscal stimuli aimed at reversing the trend in negative growth; a plethora of conflicting recommendations are issued daily by public commentators on public spending, income taxes or social security taxes, aid for specific industries and financial support for households, contributing to the global economic confusion. A new government is coming into place in the U.S., and with it a host of change.

Labor economists know well that it takes the labor markets longer to be affected by the financial crisis; unemployment can linger even after the downturn ends. Now more than ever, it is crucial that policymakers be provided with sound, unbiased and independent economic research. Now more than ever, there is a need for solid advice, based on accurate data and analyzed with precise, proven, reliable methodology. Amidst the turmoil, DIW DC has risen to the occasion, and will continue to do so with your support and involvement.

Thank you to all,



Prof. Amelie F. Constant, Executive Director

Who We Are

DIW DC is an independent nonpartisan, nonprofit economics think tank incorporated in Washington, DC. Founded in January 2007, DIW DC specializes in researching and interpreting American and European economic trends for the transatlantic market, serving as a platform for joint research and policymaking.

The DIW DC organization focuses on current and emerging socioeconomic and policy issues of our time, engaging in educational and research activities. Acting as a nexus between academia and public policy, DIW DC offers practical policy solutions and advice for both the general public and policymakers.



Through teaching, fellowships, visiting scholars, conferences and publications, DIW DC widely disperses educational research and analysis, serving as a vital catalyst between academic scholarship and policymaking. The institute achieves its goals primarily by bringing new knowledge to the attention of decision-makers and affording scholars greater insight into public policy issues.

Focusing on issues of current social and economic importance, DIW DC facilitates the exchange of ideas, knowledge and

people among U.S. and European policymaking institutions with the aim of stimulating transatlantic research exchange and providing unique insight into both economic landscapes.

DIW DC Board of Directors

The Board of Directors serves as the governing body of DIW DC. This group of international economic experts is responsible for managing the Institute's affairs by setting its mission and policies, planning and supervising its operations and publicly serving as advocates of DIW DC. Current board members include:

- Prof. Daniel S. Hamermesh, Ph.D.
- Prof. Dr. Klaus F. Zimmermann
- Prof. Amelie F. Constant, Ph.D.
- Prof. Guillermina Jasso, Ph.D.

DIW DC Board of Distinguished Advisers

The Board of Distinguished Advisers is comprised of leading scholars, distinguished business and corporate executives, academics, former government officials and community leaders who provide advice and counsel to the Institute. They support the Institute, further strengthen DIW DC's connections and ensure continued relevance to the national and international business communities. Members include:

- Prof. Rebecca Blank, Ph.D., Brookings Institution
- Prof. Larry Hedges, Ph.D., Northwestern University
- Prof. Douglas Massey, Ph.D., Princeton University
- Prof. Dr. Christopher Pissarides, London School of Economics
- Mr. Wolfgang Pordzik, Executive Vice President, DHL Americas
- Mr. Howard Silver, Partner, Hogan and Hartson LLP
- Prof. Dr. Rita Süßmuth, Former President of German Federal Parliament
- Prof. Jan Svejnar, Ph.D., University of Michigan

Doctoral Students

Each year, first-year students from the DIW Berlin Graduate Center of Economic and Social Research spend three months at DIW DC as part of their studies. The students attend classes, participate in internships, and are given the opportunity to interact with some of America's leading economic minds. The 2008 doctoral student residents include:

- Nataliya Barasinska
- Ludwig Ensthaler
- Olga Nottmeyer
- Frauke Peter
- Pia Rattenhuber
- Geza Sapi
- Wolf-Peter Schill
- Isabel Teichmann



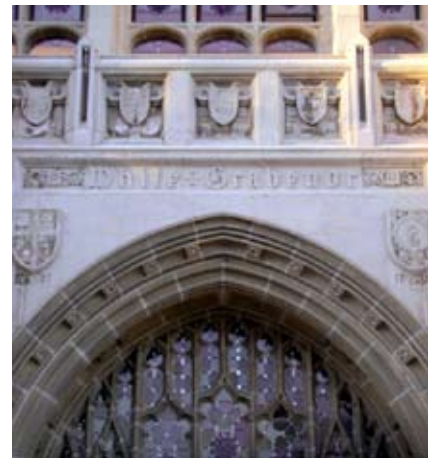
What We Do

Excellence in Research and Teaching

The Institute's collaborative research teams are international and multidisciplinary, drawing upon political science, law, sociology, geography, social psychology and anthropology to explain economic forces and behaviors. Some projects are initiated by our staff or individual fellows, while others are commissioned or funded by foundations or governments. Together with our partner organizations, we conduct research in the following areas of economics:

- Migration
- Evaluation of Labor Market Programs
- Labor Markets, Institutions and Development
- Macroeconomic Analysis, Business Cycle Measurement and Forecasting
- International Economics
- Public Economics
- Energy, Transportation, Environment
- Information Society and Competition
- Innovation, Manufacturing, Service
- Political Economy
- Health

In addition to conducting cutting-edge research, DIW DC is strongly committed to educating tomorrow's economic leaders. Each year, DIW DC hosts students from DIW Berlin's Graduate Center of Economic and Social Research, arranging internships, classes, and weekly guest lectures from prominent American economists. Students are given career advice and encouraged to make lifelong American connections. DIW DC works closely with American students as well; as a visiting professor at Georgetown University, DIW DC's Executive Director, Amelie Constant, shares her in-depth knowledge of the European economic landscape with her students and encourages them to attend DIW DC lectures and events.





Solutions for Effective Policymaking

Seeking to enrich understanding of public policy issues through work with international scholars, government leaders, the general public and the private sector, DIW DC is committed to promoting conscientious economic research and disseminating knowledge to the public. As an Institute, DIW DC focuses on current socioeconomic and policy issues, offering practical policy solutions and advice to both the general public and policymakers. The institute achieves its goals by bringing new knowledge to the attention of decision-makers and affording scholars greater insight into public policy issues.

DIW DC also offers a direct connection to international policy research. Affiliated with leading German economic research institutions DIW Berlin and IZA Bonn, DIW DC serves as a stage for U.S.-European collaborative research and policymaking. Focusing on issues of current social and economic importance, DIW DC facilitates the exchange of ideas, knowledge and people among U.S. and European policymaking institutions with the aim of stimulating transatlantic research exchange and providing unique insight into both economic landscapes.

Stronger Transatlantic Relationships

DIW DC enjoys close partnerships with DIW Berlin, the largest German think tank in economics, and IZA, the international network of labor economics, headquartered in Bonn, Germany. Building on the internationally renowned reputation of IZA and the more than eighty years of DIW Berlin's commitment to research, teaching, and policy advice, DIW DC brings a new level of awareness and resources to the scientific community, the political arena and the wider public.

DIW DC also enjoys partnership with Georgetown University, an international leader in scholarship and public policy. Additionally, the Institute is affiliated with The Migration Policy Institute and Southern Methodist University's John Goodwin Tower Center for Political Studies and enjoys special relationships with The World Bank, The Urban Institute, The American Institute for Contemporary German Studies, The Center for Economic and Policy Research, Welch Consulting, The German Marshall Fund, The Turkish Industrialists and Business Association in the United States, The International Food Policy Research Institute and other organizations. DIW DC is also an active member of the German American Business Council and maintains good contacts with Deutsche Telekom, DHL, Deutsche Welle, The Representatives of German Industries and Trade and the local German expatriate community. Through these connections, DIW DC bridges the gap between academic research and public policy.

Events

Lecture Series: Distinguished Scientists and Their Stories



- Ms. Rashmi Barua, Boston University
- Dr. Dieter Dettke, The German Marshall Fund
- Prof. Antara Dutta, Ph.D., Georgetown University
- Dr. Günther Fink, Harvard University
- Prof. Peter L. Hinrichs, Ph.D., Georgetown University
- Prof. James Hollifield, Ph.D., Director, SMU Tower Center, Southern Methodist University
- Ms. Pamela Jakiela, Berkeley University
- Mr. Wolfgang Jakubek, Managing Director, Deutsche Telekom
- Prof. Spyros Konstantopoulos, Ph.D., Northwestern University
- Dr. Carl Lankowski, Foreign Service Institute, U.S. Department of State
- Mr. Wolfgang Pordzik, Executive Vice President, DHL Americas
- Prof. Erdal Tekin, Ph.D., Georgia State University
- Prof. Dr. Heinrich Ursprung, Universität Konstanz and George Mason University
- Prof. Dr. Klaus Zimmermann, DIW Berlin, IZA

In the spirit of educating the next generation of leaders, the DIW Berlin Ph.D. curriculum offers hands-on experience through internships in the most influential think tanks and other lecture series and seminars. 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, and career options outside academia, just to name a few. The 2008 lecturers include:



EU Minority Conference at DIW Berlin



On March 12, 2008, Amelie F. Constant, Klaus F. Zimmermann and Martin Kahaneč presented their “Study on the Social and Labour Market Integration of Ethnic Minorities” (IZA Research Report No. 16, <http://www.iza.org/files/IZA16.pdf>) during a joint Berlin Lunchtime Meeting with DIW Berlin. The president of the “High Level Group,” Rita Süssmuth, elaborated on the group’s policy recommendations for European and national integration policies. Based on the findings of the IZA study, the High Level Group Report concludes with “An Urgent Call for Better Social Inclusion” of ethnic minorities in the European Union. ■



Infraday Annual Conference

DIW DC co-hosted the welcoming reception of the Transatlantic INFRADAY Annual Conference, which was held at Resources for the Future in Washington, DC on November 14, 2008.



Organized by DIW Berlin and the University of Maryland, the Infraday conference examines Applied Infrastructure Modeling and Policy Analysis, and features sectoral analyses and case studies in the fields of:

- Energy (electricity, natural gas, renewable energies, oil, coal)
- Transportation (roads, railways, air transport, shipping)
- Telecommunications & Internet
- Water (supply and waste water)

The theme of this year’s conference was sustainability infrastructure, modeling and policy issues in a low-carbon world. The conference, with more than 30 presentations of cutting-edge research, stands out among its fellows by bringing together economists and engineers to learn from each other and debate energy issues, the environment, and transportation. ■

Fifth Annual Migration Meeting (AM²)



DIW DC Executive Director and IZA Deputy Program Director in Migration, Amelie F. Constant hosted the 5th AM² and the 2nd Topic Week in Migration in May 2008 (co-organized with Barry R. Chiswick of the University of Illinois at Chicago). The popular meeting that has become an ideal forum for the exchange of knowledge among migration scholars was held at IZA in Bonn.

For the 5th consecutive meeting, demand to participate in the AM² remains high; the number of submissions received for 2008 was at least 5 times as many as the number of available slots. During the intellectually challenging week, 21 papers covering as many countries were presented and discussed. Participants hailed from 12 different countries and from fields as diverse as economics, sociology and social

psychology.

An integral part of the activities pursued by DIW DC and IZA is the open exchange of knowledge among scientists that stimulates further research. In that spirit, the 5th AM² brought together more than 50 international experts on migration and integration research to present and discuss their most recent findings. The high-

quality research presented at AM² by junior and more seasoned scholars extends, enriches, refines, and challenges our understanding of the broad array of issues related to migration.

Unlike AM², the topic week takes place only every other year, but offers tremendous opportunities for group discussions and close interaction between IZA staff members and visiting researchers. Participants can build and extend their professional network and forge close collaborations with others. The setting is organized in a manner that fosters interaction and exchange of ideas among the participants in a relaxed atmosphere. The highlight of the meeting is the Julian Simon Keynote Lecture, in honor of the great pioneer of migration research. Keeping up with traditions, Sara

de la Rica (University of the Basque County) delivered the Julian Simon Lecture. Her speech was entitled “Immigration in Spain: Facts, Economic Outcomes and Lessons.”



Amelie F. Constant opened the meeting on Monday morning with welcoming comments and chaired the first session on “Why people move? Intentions and Networks.” Alexander Danzer (DIW Berlin and Humboldt University) presented his co-authored paper on “Economic Migration, Networks and Human Capital Transferability from the New European Borderland: A Comparison of Five Eastern European Countries,” while Mariola Pytlikova and Peder J. Pedersen (University of Aarhus) talked about the “EU Enlargement: Migration Flows from Central and Eastern Europe into the Nordic Countries - Exploiting a Natural Experiment” and Johanna Avato (World Bank and ISIM, Georgetown)

presented “Skilled Labor Migration and the Propensity to Migrate.”

In the afternoon session entitled “Immigrant Impact on Housing, Wages, and Human Capital Investment,” Douglas Krupka (IZA) talked about his work “Wages, Rents and Heterogeneous Moving Costs,” which is co-authored with Kwame Donaldson (Georgia State University). Chad Sparber (Colgate University) and Giovanni Peri (NBER) followed with their paper on “Task Specialization, Comparative Advantages, and the Effects of Immigration on Wages.” Mark Regets (National Science Foundation) presented “Effects of Highly-Skilled Migrants on Native Human Capital Investment.”

The “Immigrant Performance” session chaired by Klaus F. Zimmermann (DIW DC, IZA, DIW Berlin and Bonn University) included Thomas Bauer’s (RWI Essen) co-authored analysis of the labor market activity of immigrant families in Germany, Romain Aeberhardt’s (CREST-INSEE) co-authored work on the wages and employment of French workers with African origin, and Paul



W. Miller's (The University of Western Australia) and Barry R. Chiswick's (University of Illinois at Chicago) work on the negative assimilation of immigrants, as a special case.

Congenital selection issues and why immigrants return home were the themes of the fourth session. Jesús Fernández-Huertas Moraga (IAE-CSIC) presented his research on what determines emigrant selection, looking at wealth constraints, skill prices, and networks. Martin Junge (Copenhagen Business School) asked whether the return home is to go to school, studying emigration and return migration of families with children in his co-authored work.

Michael Schields chaired the risk behavior and proclivity session that included the presentation of Madeline Zavodny (Agnes Scott College) with Pia M. Orrenius (Federal Reserve Bank of Dallas) on whether immigrants work in riskier jobs. Amelie F. Constant (DIW DC) presented her co-authored work on the role of ethnic persistence and assimilation on the risk proclivity of immigrants in comparison to native Germans.

In the networks and occupations session of Wednesday morning, Francis Vella (Georgetown University) presented his latest work (co-authored with Krishna Patel of Georgetown University) on the role of immigrant networks and their implications for the

occupational choice of immigrants in the host country and their wages.

Dr. Meryam Schouler-Ocak, MD (University Hospital Berlin, Charité) gave a distinguished lecture on the mental health of immigrants, based on her research at the Berlin hospital. Dr. Schouler-Ocak, a psychiatrist, captivated the audience with her fascinating insights

into the importance of the health of immigrants, the detrimental effects of misdiagnoses of mental problems, and the correlation with their culture and language proficiency.



Martin Kahanec (IZA) chaired the migration and remittances session where Partick R. Whetherille (Georgetown University) presented his latest work (with Amelie F. Constant, DIW DC) on immigrant remitters in the U.S. and sex and ethnicity differences, using the New Immigrant Survey. Ira N. Gang (Rutgers University) gave a further twist to the remittance topic by looking at migration, remittances and child labor, a co-authored paper with Gil S. Epstein (Bar Ilan

University) and Ralitzia Dimova (Brunel University). tackle these issues.

The power of language in migration research was presented by Marie Louise Schultz-Nielsen (Rockwool Foundation Research Unit and Aarhus School of Business) in the context of the effect of immigrants' language proficiency on employment using recent Danish data. Last but not least was the paper of Hartmut Esser (University of Mannheim) on language acquisition and age at immigration with a special emphasis on the difficult conditions for bilingualism.

Another highlight of the AM² and the Topic Week was the Thursday afternoon panel on contemporary immigration issues around the globe, chaired by Amelie F. Constant (DIW DC). Leading migration experts and pundits on the panel represented Germany, Spain, Denmark, the U.S., and Australia. While in Germany the big immigration issues are the integration of existing immigrants (most of them Turks), the recruitment of skilled workers as new immigrants, and the aligning of new immigrants to Germany's economic needs, the "permanent" illegal immigrant population of an estimated 12 million is the big issue in the U.S. Spain, which has enjoyed miraculous economic growth over the last 8 years and up to last summer, is dependent on immigrants and has therefore applied a series of amnesties to legalize many of them. "We need immigrants," said de la Rica; immigrants have helped the Spanish economy. In Australia, one of the prototype immigration countries, the shortage of high skilled immigrants and how to attract them is the big issue. Denmark is also facing an increasing non-Western immigrant population that is not faring very well and therefore tries to

Besides the scientific program, the AM² includes many social events, usually related to migration, that provide additional food for thought. This year included a visit to the museum of history with an exhibition about guest workers in Germany and a visit to the Deutsche Post Office Tower. Participants also celebrated the 5th anniversary of the conference, enjoyed ethnic food from several countries, and listened to Zimmermann's insightful dinner speech on "My Immigration."

The week-long meeting ended with closing remarks by Amelie Constant who thanked everyone for their contributions and the highly stimulating and provocative meeting. ■



International Metropolis Congress



DIW DC participated in the 13th International Metropolis Conference in Bonn, Germany on October 27-31, 2008. The largest migration conference in the world, this year's Metropolis theme was "Mobility, Integration and Development in a Globalized World," and included more than a hundred parallel workshop sessions, plenary sessions and talks.

DIW DC Executive Director Amelie F. Constant co-organized and presented at the workshop "Ethnic Identity in a Globalized World" (with DIW DC Chairman Klaus F. Zimmermann), bringing together leading scientists on ethnic identity and diversity in the context of a globalizing world from several social sciences and different countries. The speakers presented and debated the notion of ethnic identity and how it evolves and changes with time, as well as discussed the four states of a positive and two-dimensional ethnic identity, namely: assimilation, integration, marginalization

and separation. Besides the standard culprits of unsuccessful immigrant integration – such as low human capital and newness in the host country – are the host society's negative attitudes towards immigrants.

While the experts agreed that exposure in the host society, sociocultural adaptation and fluency in the host country language are positively correlated with integration, they cautioned that complete assimilation or absorption into the host society may not be the best strategy for the economic success of ethnic minorities.

Constant also presented her work on circular migration at the "Are Circular Migration, Development, and Immigrant Integration Compatible Policy Goals?" workshop, organized by Lisa Roney and Carlos Iturregui. The workshop attracted many attendees and lively discussion. ■



“Frontiers in Labor Economics” and 10th Anniversary Celebration

DIW DC participated in the high-profile events commemorating the 10th Anniversary of IZA, a special partner of DIW DC. The 2-day celebration included the scientific conference “Frontiers in Labor Economics,” an expert panel discussion on “The Economist’s Role in Policy Advice,” the anniversary gala, and the award ceremony for this year’s IZA Prize in Labor Economics that went to Lord Richard Layard (London School of Economics) and Stephen J. Nickell (Nuffield College, Oxford).

For a decade now, IZA has been devoted to high-quality fundamental research and international policy advice in all areas of labor economics, and has built a global network of more than 850 Research Fellows and Affiliates. “In its short life, IZA has become the mantra of labor economists, a must online visit for every labor researcher,” said DIW DC Executive Director and IZA Deputy Program Director in Migration, Amelie F. Constant, who was honored to be part of these events. Constant chaired and moderated the Monday morning session on “Monetary Policy, Labor and the New Financial Disorder” in a conference room packed with the “Who’s Who” of economics, politics, and the media.

David G. Blanchflower (Dartmouth College) discussed macroeconomic literacy, numeracy and, their implications for monetary policy, and underscored his concerns about the global financial markets crisis. He drew upon his experience as a member of the Monetary Policy Committee of the Bank of England to further discuss the London’s vulnerability as an

important financial center. Bombarded by questions from the audience, Blanchflower also suggested measures that London should take to maneuver



out of the impending economic recession with rising unemployment and fear of deflation.

Blanchflower agreed with Constant that enforcing further education, especially for youth, is a prudent measure to decrease unemployment in the short-run and reap the benefits of higher human capital in the long run. Investments in infrastructure, such as buildings, bridges, and highways, are also safe steps to ebb economic recession in the short- and medium-term. Richard B. Freeman (Harvard University and IZA) elaborated on the labor market aspects as he briefed the audience on the new financial



disorder, restructuring the American economic model and the economic analysis of institutions and incentives. Freeman went over the early warnings signs that were ignored, such as the “.com” crash, the ENRON scandal and lax accountability in the subprime mortgage market. He was baffled at how the best, the brightest, and the highest-paid brains appeared to have no inkling of the situation, and at how easily the free market system broke down. He said that “the financial meltdown is due to market forces and normal responses to incentives and not abnormal, amoral greed.” He also stated how this crisis has changed economists and policymakers alike into instant Keynesians, calling the government to the rescue.

This retreat of orthodoxy has opened the door for new thinking and a new role for labor looking forward. Hilmar Schneider (IZA Director of Labor Policy) and Hartmut Lehmann (University of Bologna) offered constructive discussions to the issue. All experts agreed that the markets remain and will be fragile for a while. Constant tried to end the session on an optimistic note, quoting Greenspan that this is a “once in a century credit tsunami” and will not happen again.

In the afternoon expert panel, DIW DC distinguished board member Jan Svejnar (University of Michigan, Ann Arbor) highlighted the need to provide policymakers with clear and concise recommendations based on available research findings. The highlight of the meeting was the “Petersberg Declaration Call for Reform,” a comprehensive labor market manifesto of the most important challenges for labor market policy during the next election period in Germany and beyond. The declaration contains a number of concrete recommendations for Germany’s future labor policy.

IZA has also developed its own employment program, which includes the following key proposals described in “Full Employment Is Not a Utopia” (see IZA Compact Special Issue, December 2008): an implementation of workfare principles that encourage work instead of financing unemployment; overdue reforms in education policy; rendering social services more marketable; aligning immigration policy with Germany’s economic needs; separating redistribution from social security in the tax-benefit system; and enabling risk-taking through social security. ■



German Day on Development

As part of its mission to build stronger transatlantic relationships and promote excellence in research, DIW DC hosted the first annual German Day on Development on December 3 in conjunction with partners the World Bank, DIW Berlin and the Institute for the



Future of Labor (IZA). Presented at the World Bank, German Day on Development provided a forum for disseminating outstanding German research

internationally and facilitating academic cooperation between the U.S. and Europe.

The conference was opened by Michael Hofmann, Executive Director for Germany at the World Bank. Hofmann emphasized the importance of establishing conferences like German Day on Development to promote German research to the outside world. DIW DC Chairman Klaus F. Zimmermann introduced the participating research institutions to the Washington, DC audience, highlighting DIW DC's unique insider position as an American economics research institution that closely cooperates with its European partners. The conference was moderated by Amelie F. Constant, Executive Director of DIW DC.

Leading the presentations was Markus Frölich, who presented his research on “Teacher Shortages, Teacher Contracts, and Their Impact on Education in Africa: Evidence for primary education in Mali, Niger and Togo.” With completion of primary education in Africa at the rate of only 45% overall, countries in Africa are experiencing a massive need for new teachers. If this need is not met, students must face a considerable increase in class size, which already averages 45 students across the continent. The situation, says Frölich, has been exacerbated by massive population growth, but needs cannot be met because of budget constraints. Frölich's research suggests that reducing the wages of contract teachers would permit hiring more teachers and would not necessarily lead to a loss in quality. This result, he argues, is consistent with theoretical arguments about the role of incentives, selection and training effects. He

also demonstrated that there is some evidence that contract teachers might contribute to a reduction of inequality in educational outcomes. Frölich, a professor at the University of Mannheim, completed his research with Jean Bourdon and Katja Michaelowa. Discussion of their work was led by Emiliana Vegas, Senior Education Economist of the Human Development Department at the World Bank.





Randall Akee of IZA presented his joint work on “Parents’ Income and Children’s Outcomes: A Quasi-Experiment with Cash Transfers.”

Akee’s research focused on information supplied by a Duke University longitudinal study with rich data on Native Americans. Midpoint during the study, a casino was built on Eastern Band of the Cherokee Nation property, with the profits from the casino being shared by the Eastern Band community. Akee and Duke University co-authors William Copeland, E. Jane Costello, Adrian Angold and Gordon Keeler isolated the data to focus on the impact of the additional casino income on the Eastern Band families. Their results show that children in the community attended school longer and participated in less crime in the period when family incomes were supplemented. Akee’s research was discussed by Emmanuel Skoufias, Lead Economist of the Economic Poverty Reduction Group at the World Bank.



“Violent Conflict and Inequality” was presented by Tilman Brück and Marc Vothknecht of DIW Berlin and co-author, Cagatay Bircan of the University of Michigan. Brück, Vothknecht and Bircan explained how they used 44 years of cross-country panel data to estimate war-related changes in income inequality. Rather than investigating the specific effect of each conflict, the authors prefer a macro approach, which they believe offers better assessment of the average distributional effect of violent conflicts. Brück, Vothknecht and Bircan’s work reveals rising levels of inequality during war, especially in the early period of postwar reconstruction. They attribute lagged distributive effects of conflict, such as the impact of war on human capital formation and public health, as a potential explanation of such patterns of inequality during the course of war. Their work was discussed by Gary Milante of the Research Department of the World Bank.



The final presentation was held by Joppe de Ree of DIW Berlin. De Ree presented his work on “Localizing conflict spillovers: introducing regional heterogeneity in conflict studies,” which examines whether the effects of conflict spillovers (a phenomenon where war in one country leads to war in a neighboring country) are overestimated in academic literature. De

De Ree uses econometric measures to answer this question, which reveal that although conflict onsets are clustered in particular areas, this could be due to similar clustering of country-specific causes, such as poverty, shared colonial backgrounds and artificial borders, not necessarily to spillovers. By not adequately controlling for country-specific factors, researchers could spuriously identify a spillover as the root cause of a conflict. De Ree's econometric analysis allows for different types of heterogeneity, revealing that while geographic clustering of unobserved effects leads to overestimating spillover effects; randomly scattered, unobserved effects lead to underestimating the spillover effect. De Ree's research shows that spillovers may not be equally relevant for all regions of the world and that important spillovers are found in Africa, but not in other world regions. A neighbor at war, moreover, increases the probability of war onset by 4%. De Ree's work was co-authored by Maarten Bosker of the University of Groningen and discussion of their work was led by fellow presenter, Markus Frölich.

Historically, economic research on developing countries has not been a priority for German social scientists, says Frölich. As the German Day on Development showed, however, this is changing. Academics at DIW DC, DIW Berlin, and IZA Bonn have not only increased



the amount of research they conduct on developing countries, but their research is more empirical and policy-oriented than ever before, according to Frölich. When Hofmann concluded his opening speech at the conference, he ended it with a hope for the future: he expressed a wish, echoed by Zimmermann and Constant, that German Day on Development will become an annual fixture at the World Bank and a jumping-off point for a closer relationship between all involved.

The conference was followed by a reception at DIW DC, which enabled participants from all four participating organizations to mingle informally and facilitated interaction between junior and more senior economists. ■



The Financial Crisis: A Roadmap to Rescuing a Faltering Economy

While housing and financial markets boiled and festered, officials long denied there were any problems. The U.S. government waited until October before officially recognizing the burst housing bubble and the meltdown of Wall Street. Former Federal Reserve Chairman, Alan Greenspan, a staunch believer in free markets, acknowledged that the meltdown had revealed a flaw in a lifetime of economic thinking as he, himself, was in a “state of shocked disbelief.”

Pandora’s box, however, had only just been opened. In the weeks that have followed, countless banks, mortgage companies, high-risk-management institutions, and automotive oligopolists have folded, desperately seeking the government’s support. Markets and countries intertwined by globalization have left few parts of the world untouched by the crisis. The credit crunch and the realization that Main Street is also infected has produced mistrust of the system and fears about the unknown extent of damage that can spread to the labor market. Utterly concerned, the G7/8 and G20 leaders met in Washington, DC in mid-November 2008 to coordinate an action plan to solve the global financial, credit, and economic crisis.

The key to a successful outcome is a worldwide concerted action where governments around the world adopt a mixed strategy of coordinated short and long-term measures to handle the crisis.

In the wake of that meeting, leading economic experts from around the world and from different schools of thought produced recommendations to tackle the international financial crisis (see www.diwdc.org/Global_Credit_Crisis.pdf for the full publication). Some even recommended measures to ward off the looming recession. They showed a remarkable degree of consensus on what must be done by policymakers.

In the short-term, they must:

- Contain the panic and stabilize the financial system

In the long run, they must:

- Reform the financial system through regulation
- Revive / implement social programs to minimize the impact of the recession on vulnerable groups
- Repair damage done

to the housing market, retirement accounts, and pensions

The stabilization of the financial system would be achieved by quick bank recapitalization, albeit not without repercussions. In Europe, concerted action by the European finance ministries is deemed imperative to succeed. In the U.S., it would mean direct capital injection

into banks (as opposed to taking troubled assets off bank balance sheets).

In addition to this, some economists argue that a blanket guarantee should be placed on bank liabilities by central banks, and that it is necessary that this be done simultaneously around the globe.

DIWDC Chairman Klaus F. Zimmermann contributed to the paper, emphasizing the coordination of international responses to the crisis.

Zimmermann noted that early reactions of the markets suggest that attempts to calm the markets and restore trust are not effective in the short term. The key to a successful outcome, therefore, is a worldwide concerted action where governments around the world adopt a mixed strategy of coordinated short and long-term measures to handle the crisis. The proper response to a financial crisis, according to Zimmermann, is an internationally coordinated flow of the money supply, low interest rates, guaranteed interbank lending and savings deposits, along with the replacement of incompetent managers and the provision of public capital funds through a temporary partial-nationalization (British model) or through the divestiture of risky assets in a “Bad Bank” (Swedish model).



Zimmermann calls for national, supra-national (at the regional level), and international cooperating control institutions to be equipped with stricter auditing rights for the entire banking sector, including banks, hedge funds and rating agencies. Meritocracy principles should apply to the remuneration of managers, who are dedicated to the long-term success of the business and are also guided by the responsibility for entrepreneurial actions. Additionally, governments should continue the medium-term expenditure course and pursue at the same time forceful, growth-oriented investments, in particular, those in infrastructure, construction, education, research, innovations and the family.

While it is obvious that bad loan decisions and dubious practices in the financial sector have gravely damaged the global financial system, the U.S. government’s policy of over-activism; its antithetical stance to imposing regulations on derivatives; the Federal Reserve’s excessively low interest rates and its resistance to use its power to crack down on subprime mortgages have also contributed to the current crisis. Europe’s failure to provide early systemic responses only fuelled the fire. The greatest loss of the financial crisis, however, is the financial sector’s massive loss of faith in itself. The sector and the markets will only be able to settle down when a new international architecture of finance has taken shape. ■

Why has the recession had only a limited impact on the German labor market so far?

The development of the German labor market is markedly different in this business cycle compared to the previous business cycle. Despite the German economy entering a recession in the spring of 2008, German employment experienced a strong, continuous increase until October 2008. Likewise, unemployment exhibited a substantial decrease until November 2008. Compared to previous downturns, this is a new phenomenon.

In the current cycle, employment has only increased with a time lag. During the upturn and rise in production in the previous cycle, however, employment and output increased concurrently. Of course, other special factors such as an intensification of labor market policies aimed at raising employment in the run-up to the last federal election definitely played a role during that time. Likewise, employment started declining shortly before the end of positive output growth in the previous cycle. The labor market, therefore, does not generally react with a lag to a decrease in output. This fluctuation in employment has roughly mirrored the movement in unemployment. Figure 1 illustrates the fluctuations in unemployment and GDP during the business cycle from 1998 to 2004 and from 2004 to now. Changes in government administrative procedures notwithstanding, the number of unemployed workers increased significantly as a result of combining social and unemployment benefits into one framework in 2005.

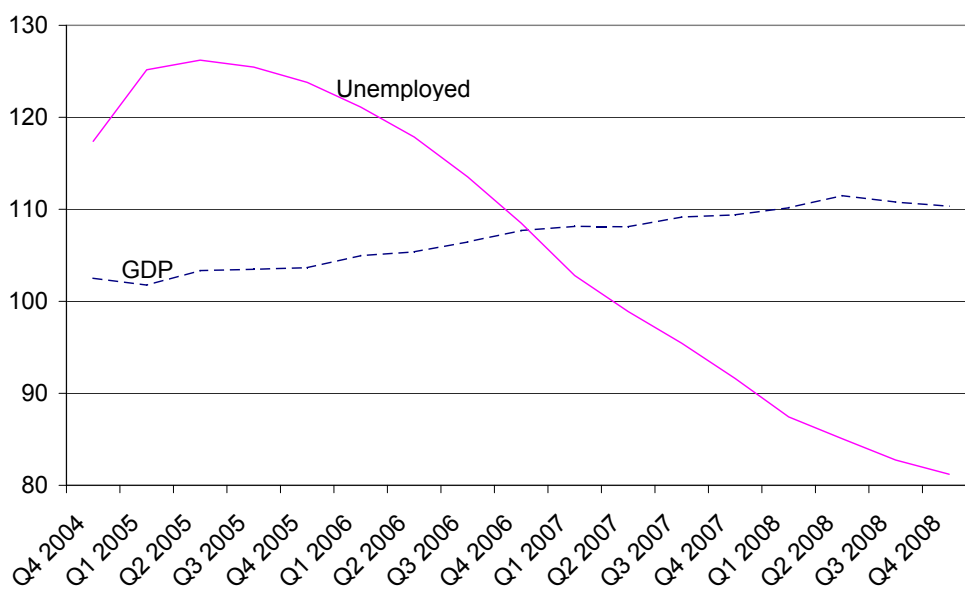
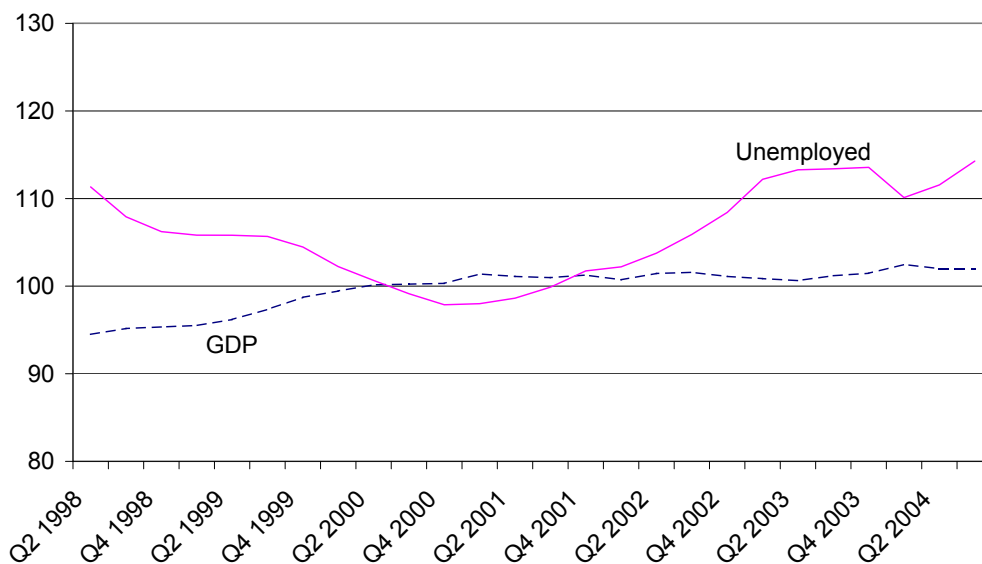
The question remains, however, which factors, other than business cycle effects, influenced the development of the labor market in the current cycle. These factors might be found on both the demand and the supply side of the labor market. Policy measures might have played a role as well.

There is some indication that this time the employment threshold (i.e. the level of productivity at which employment increases or decreases, respectively) has decreased. It is evident that employment in sectors with relatively high productivity, such as manufacturing, energy or financial services, developed disadvantageously for a significant number of years. On the other hand, employment in sectors exhibiting rather lower productivity levels, such as simple services, grew at above average rates. In addition, there is a strong expansion of low wage, and thus low productivity, employment.

The German labor market changed substantially due to the liberalization of temporary employment in early 2004. From then on, the number of temporary workers has been expanding rapidly. Firms employing temporary workers have enjoyed greater flexibility as a result of this reform. Essentially, the existing employment protection rules eroded and a new institutionalized form of marginal workforce emerged. However, this new form of workforce faces a particularly high risk of being downsized during business cycle downturns. The number of

GDP and unemployment during the business cycle

(Indices, normalized with 2000=100 for both variables)



1. Adjusted for price, seasonal and calendar effects
2. Adjusted for seasonal effects

Sources: German Statistics Office, German Federal Employment Agency, DIW Berlin projections

temporary workers increased until the spring of 2008 and after that it stagnated until the fall.

It appears that the Hartz IV* reform of 2005, which was directed at the long-term unemployed, also had an impact on the German labor market. In particular, it induced unemployed workers to increase and intensify their job search efforts, and caused a decrease in underemployment by more than the average for some particularly problematic groups in the labor market. Evidently more and more unemployed workers are willing to re-enter employment and are willing to do so more rapidly. In addition, the current unemployed are less picky regarding the type of work and amount of remuneration compared to unemployed workers in previous years. It is likely that the effectiveness of job placement has also increased.

The greater flexibility of the German labor market is probably not a sufficient explanation, however, for its relative immunity to the recession during the past year. It is possible that overstretched and increased production capacities played a role. An additional explanatory factor may be changing drivers of economic growth, with private consumption having a more prominent role. As a result, employment has increased in the consumption sector, which exhibits below-average productivity.

The above discussion is partly based on inference from plausible hypotheses. However, more research is needed to answer the question of why the labor market has become more independent from business cycle fluctuations. Last year's beneficial development must not be

explained by stating that the overall employment potential has declined, as is sometimes claimed. First, there is no evidence for such a decline and second, while such a decline could explain the decrease in unemployment, it cannot explain the equally large increase in employment. ■

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*Named for Peter Hartz, head of the government commission for labor market reform, Hartz IV seeks to enhance the German labor supply by reintegrating long-term unemployed to the labor market, raising their chances of obtaining a job and improving government job mentorship. Hartz IV has been part of the general labor market reforms (Hartz I to Hartz IV) that effectively reduced the duration that individuals can receive significant unemployment benefits, thus creating a more immediate need to return to the job market. The Hartz IV reform took effect on January 1, 2005.

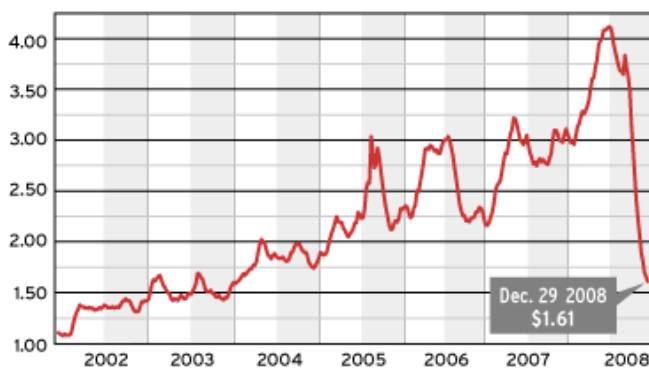
Commodity Prices in 2008

Volatile commodity prices in recent years have been attributed to a changing economic climate and a mix of droughts, spikes in oil prices, increasing meat consumption in developing countries, and diversion of food crops to energy-saving biofuels. In March of 2008, Asia saw rice prices surge to a 20-year high, a sign of global food inflation that put many into poverty. Rice-producing nations such as the Philippines, Thailand, India and China saw prices of rice, corn, pork, and cooking oil rise. The global increase in prices was met with tariffs as a measure to counter these expenses. Then with the financial panic following August 2008, an economic slowdown led to lower demand. Investors retreated from commodity futures into safer havens like government bonds. Although the decline in demand has eased fears of inflation, government, as well as industry analysts, including the United Nations, have projected that global food prices will remain elevated. ■

The Rise and Fall of U.S. Gasoline Prices in 2008

Americans faced increasing crude oil prices in early 2008, with a peak at \$150 a barrel in July. A change in the U.S. economy, however, led to a drastic decline in gas prices later in the year. Gasoline prices reflected an all-time low in late December, lingering around \$1.60 a gallon. According to the American Automobile Association (AAA), prices are down \$1.43 from a year ago. Consumer confidence declined as Americans were losing jobs and housing markets and investment groups deteriorated. More Americans began cutting back on expenses, including gasoline consumption. The Organization of Petroleum Exporting Countries (OPEC), provider of nearly 40 percent of the global supply, has announced production cuts. Although this has done little to stop the slide in prices, recent unrest in the Middle East could lead to supply shortages secondary on crude markets. ■

U.S. AVERAGE RETAIL GASOLINE PRICE, REGULAR GRADE (PER GALLON)



SOURCE: Energy Information Administration

MSNBC

Scientific & Policy Output

Refereed Journals

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Event Participation

Organization of Conferences and Invited Presentations:

Consistent with its mission to produce original economic research and to disseminate the Institute's knowledge to the scientific community, the political arena and the general public, DIW DC's staff participated in the following scientific events in 2008, either by organizing sessions, chairing sessions, presenting papers, discussing papers, and/or having an exhibition booth. DIW DC is represented at the annual meetings of the most important international economic associations.

- American Economic Association Annual Conference in New Orleans (January 3-6, 2008)
- Southern Economic Association Annual Meeting, in Washington, DC (November 20-22, 2008)
- Trans-Atlantic INFRADAY Annual Conference, at Resources for the Future in Washington, DC (November 14, 2008)
- Metropolis International Migration Congress 2008, in Bonn Germany (October 26-31, 2008)
- European Society of Population Economics Annual Meeting (ESPE), in London (June 18-21, 2008)
- Western Economic Association International (WEAI) Annual Meeting (July 2008)
- EU Minority Conference at the Berlin Lunchtime Meetings in DIW Berlin (March 12, 2008)
- NIS-Users Conference at Vanderbilt University in Nashville, TN (March 27-29, 2008)
- Employment and Development Annual Conference in Rabat, Morocco (May 4-7, 2008)
- Fifth Annual Migration Meeting (AM2) (May 2008)
- 2nd Migration Topic Week at IZA in Bonn (May 18-24, 2008)
- IZA Workshop on Research in Economics: Rewards, Evaluation and Funding, at IZA in Bonn (May 25-27, 2008)
- German Marshall Fund, Transatlantic Academy in Washington, DC (October 14, 2008)
- Frontiers in Labor Economics, Annual Conference at the IZA Prize, at Petersberg, Germany (November 30-December 1, 2008)
- German Day on Development Annual Conference, at the World Bank in Washington, DC (December 3, 2008)

DIW DC's staff gave invited talks/presentations at the:

- Seminar series of the Economic Department of the Virginia Commonwealth University in Richmond
- Institute for the Study of International Migration (ISIM) at Georgetown University
- Seminar on the Functioning of Labor Markets, Foreign Service Institute, U.S. Department of State
- Migration Policy Institute (MPI)

Additional In-House Events:

- Graduate Center of economic and social research/Accelerated Graduate Teaching Program (January 4 – March 31, 2008); Organized in conjunction with DIW Berlin, high-level core and field courses are offered at the offices of DIW DC.
- Economic Policy
- Macroeconomics
- A monthly internship program at DC's think tanks offers valuable on-the-job training
- Lecture Series "Distinguished Scientists and Their Stories"

Additional Events:

- DIW DC's staff attended high profile seminars at IFPRI, GABC, APSA, the German Embassy, MPI, CSIS, Goethe Institute, and GMF to name a few.
- DIW DC's researchers have also served as Experts/Referees in scientific journals and the media.



Refugee Camp Research in Greece



refugees survived years of prison and torture before escaping to Greece, where they now wait for their case to be decided. While they wait, they cannot work or move around Greece or Europe. The camp is under the aegis of the Red Cross, which provides them with shelter, food and medical care. Their meager means do not allow them to send their children to school, despite free schooling; they claim that they do not have the means to buy their children books, pens, pencils, or a school uniform. ■



With the help of Prof. Dr. Savas Rombolis, Scientific Director of the Institute of Labor and professor at Panteion University, and local labor unions, DIW DC Executive Director Constant and Chairman Zimmermann visited a political refugee camp in Athens, Greece occupied by Kurd refugees from Turkey, Iran, Iraq, and Syria; the camp is located 60 km outside Athens, in Lavrion. The DIW DC group stayed for the day and talked to the camp's staff. Dr. Constant also interviewed several refugees and asked forceful questions.

Police statistics show that 300-500 illegal aliens arrive in Greece per day, paying about 3000 Euros to come to Europe. Many of the

Contract Teachers, Primary Education and Student Performance in Africa

Jean Bourdon, Institute for Research on the Sociology and Economics of Education, France

Markus Frölich, University of Mannheim and IZA, Germany

Katharina Michaelowa, University of Zürich, Center for Comparative and International Studies, Switzerland

Investing in children's education is undoubtedly a must for every country. Achieving universal primary education for a rapidly increasing youth population is not always as easy; especially in developing countries with poor resources. To meet the increasing demand for primary school, many African countries need to recruit more school teachers. Public school teachers, however, are mostly civil servants with permanent appointments and rather high salaries relative to GDP per capita. In order to extend primary education for all and meet budget constraints, many African countries have launched large teacher recruitment programs. Accordingly, "contract teachers" are no longer hired as civil servants, but on the basis of (often yearly) fixed-term contracts with lower salaries; these positions also have lower qualification requirements and require less professional training. While this policy clearly facilitates hiring more teachers to meet the demand, it raises grave concerns about educational quality and effects on student achievement, as these new contract teachers may be less qualified and presumably also less satisfied with the working conditions.

Gauging the success of these reforms in terms of student achievement is of paramount importance. This vital issue has not been well studied, unfortunately, despite the widespread introduction of the contract teacher reform in the mid-1990s. Scant literature on this matter in Africa shows that contract teachers (i) generate positive effects in general (Duflo, Dupas and Kremer, 2007) but (ii) have a higher turnover, whereby good teachers leave the profession early (Vegas and de Laat, 2003). While a study on contract teachers in India finds positive effects, it is nonetheless confounded by a simultaneous decrease in class size (Muralidharan and Sundararaman, 2008). Duthilleul (2005) provides an overview on contract teachers in Latin America and South Asia.

A study by Bourdon, Frölich and Michaelowa (2008) analyzes the impact of contract teachers on educational quality in three West African countries that implemented contract teacher reforms in the mid-1990s. Employing very informative and comparable data for Mali, Niger and Togo, their study is using the same estimation approach and identical instruments for measuring education performance. While these countries show many social, economic and cultural similarities and introduced the contract teacher programs to cope with similar problems, they differ in the way these programs were implemented as well as in the characteristics of the actual contracts. This, in turn, raises the question which factors are important for a successful contract teacher reform.

The study provides important new results that are expected to be relevant for other sub-Saharan African countries, too, as well as for the design of new contract teacher programs in the future. It analyzes two important research questions: (i) What are the effects of contract teachers on educational inequality in student outcomes? That is, are there differential effects of contract teachers on different segments of the student performance distribution? Put differently, do contract teachers affect weak and strong students the same way? (ii) What is the educational quality of contract teachers on average, and how does this compare across countries? In other words, do all countries under study experience positive, negative or mixed results after they implemented the contract teacher reform?

All About Teachers

With the exception of student teachers, substitute teachers and teachers under probation, teachers are employed as civil servants in most countries. Teacher salaries follow rigorous pay scales and usually increase with age. During the 1990s, primary teacher salaries were rather high in many African countries. MINEDAF (2002) suggests that primary teacher salaries should not be greater than 3.5 times the GDP per capita. However, in many francophone African countries, including Mali, Niger and Togo, teacher salaries were clearly beyond this benchmark. In the Sahel countries Mali and Niger, primary teacher salaries even amounted to more than 6 times the GDP per capita. The most extreme case was Niger, however, with a ratio as high as approximately 10 times the GDP per capita. This figure was more than ten times higher than the corresponding figure for India and about six times higher than most OECD countries. With such high salaries relative to national income, it was obviously impossible for Niger to hire the necessary number of teachers to meet the rising demand for education for its rapidly expanding populace. This problem is echoed in Mali and Togo, as well as in a large number of other predominantly francophone African countries, albeit on a less dramatic scale. Figure 1 illustrates teacher salaries in sub-Saharan Africa at the end of 1990s, that is, at the time when average teacher salaries (relative to GDP per capita) were at their peak.

From the mid-1990s onwards, engaging contract teachers at considerably lower salaries than traditional civil servants appeared to be the sole solution for most countries for staffing their schools. Prior to this state strategy, parents had often resorted to similar private initiatives, opening their own schools with privately engaged teachers on short-term contracts and with lower pay. The unsustainable level of public salaries thus triggered the contract teacher reform, with teachers being hired on short-term contracts, reduced salary, training and qualification requirements.

In Niger, no more civil servants were engaged in the teaching profession at the primary level after the reform in 1998. In 2000, contract teachers already made up the majority of the primary teacher population and their salaries accounted for only one third of those in the civil service. In fact, it seems that the long-term maintenance of teacher salaries far above market rates had effectively paved the way for a radical change in teacher employment policies once the traditional system finally collapsed. Note that under earlier rules and regulations funding had been insufficient to train and

countries. Privately employed contract teachers earn much lower salaries than traditional teachers in all countries, and often much less even when compared to the new public contract teachers. In addition, the privately engaged contract teachers do not only face the potential challenge of a fixed-term contract that may or may not be renewed, but they also face close monitoring by the parents in the responsible local community who actually (directly or indirectly) finance their post.

Table 1: Distribution and Remuneration of Primary Teachers According to their Statute

Country	Breakdown by Statutes (%)			Wages Relative to GDP per Capita				
	Civil Servants	Contract Teachers		Civil Servants			Contract Teachers	
		Public ¹	Private ²	Total	Full	Assistants ³	Public ¹	Private ²
Benin (2005)	54.7	16.4	29.0	5.2	5.7	3.9	2.1	1.1
Burkina Faso (2002)	64.1	23.6	12.2	5.8	7.1	5.1	5.6	2.2
Cameroon (2002)	34.9	20.4	44.7	5.3	5.7	4.1	1.4	0.8
Chad (2003)	38.4	17.2	44.4	7.4	8.2	6.0	1.7	0.4
Congo, Rep. of (2005) ⁴	55.0	14.0	31.0	2.8	2.9	2.62	1.3	na
Guinea (2003)	30.9	38.9	30.1	3.4	3.5	2.7	1.9	1.2
Ivory Coast (2001)	87.3	0.0	12.7	4.8	5.0	3.0	-	-
Madagascar (2003)	46.1	0.0	53.9	4.4	-	-	-	1.0
Mali (2004)	35.7	34.7	29.6	7.5	-	-	4.8	1.0
Niger (2003)	46.0	50.2	3.8	8.9	10.5	8.0	3.5	-
Senegal (2003)	43.6	41.5	15.0	5.7	6.2	4.9	2.6	na
Togo (2001)	35.0	30.5	34.6	6.4	7.8	5.4	3.3	1.3
Average (12 countries)	47.6	24.0	28.4	5.6	6.2	4.5	2.8	

¹Public: under contract with public authorities

²Private: engaged by and/or under contract with parents or local communities. This does not always correspond to the local terminology. In Togo, for instance, community teachers tend to be classified officially as “public,” while the term “private” refers exclusively to expensive and well-equipped schools run by other external providers such as the church

³Assistants are public employees engaged as a support of full teachers

⁴In Congo, salaries are calculated relative to GDP in 2003 in order to avoid the artificial effect of the change in petroleum prices in 2005

Source: World Bank (Africa Region) and Pôle de Dakar (2007, p. 66), slightly updated by the authors

Further cross-country differences in contract teacher programs exist with respect to entry requirements in terms of educational attainment and professional training. Typically, professional training has been reduced from several years to a few months, weeks or even just on-the-job training under the mentorship of senior teachers. In Mali and Niger, pre-service training requirements were reduced to 3 months and 45 days respectively, while in Togo, contract teachers do not necessarily receive any professional training at all. Cross-country differences are less pronounced with respect to educational attainment required to enter the teaching profession. In Mali and to some extent in Togo, upper secondary education is required as a minimum, while lower secondary attainment is sufficient

Table 2: Characteristics of West African Contract Teacher Programs

Country	Category (local names)	Reasons for reform	Minimum level of education and training	Duration of professional pre-service training	Duration of contract	Career plan or seniority bonus	Source of financing	Employer Management	Regularity of payment
Benin	State contract teachers Community teachers Community teachers	limited state resources "Spontaneous" schools	Junior secondary Flexible	Training periods in a 4-year sequence Flexible	2 years renewable once fixed-term contract	Under discussion	State Parents	State Local	Yes Generally yes
Burkina Faso	Contract teachers	Limited state resources Limited state resources Local initiatives	Secondary+ Selection Secondary+ Selection Flexible	1 year 1 year	Permanent Formally 2 years, but considered as permanent 1 year	Yes No till 2006	Regional State / external State Parents	Community-Based Decentralized level Decentralized level till 2006 Community	Yes No
Cameroon	Community teachers	Local initiatives	Flexible			No	Parents	Community	No
Chad	Community teacher	Limited state resources / creation of community schools	end junior secondary + selection process of applicants	9 months on the job; 4 months for those with a diploma	9 months (school year) but can be transformed into permanent	No	Parents and state	Community	No
Congo (Rep. of)	Contract teachers	Limited state resources	Junior secondary+ selection process	2 years apprenticeship with continuous training	Formally 2 years, but considered as permanent	No			
	Volunteers	Local emergency program	Junior secondary+ selection process	not fully documented	1 year, but can be transformed into permanent Limited	Local arrangements		Community, public service Community	Yes
	Community teachers (benevolent) Contract teachers	Parental initiative Limited state resources	Junior secondary+ selection process Full secondary + selection	2 years apprenticeship with continuous training 9 or 12 months	Formally 2 years, but considered as permanent 1 year but can be transformed into permanent	No		Decentralized level	Generally yes
Guinea	Contract teachers	Limited state resources	Full secondary + selection	9 or 12 months	1 year but can be transformed into permanent	No	State	Decentralized level	Generally yes
Madagascar	Contract teachers	Frozen recruitment for civil servants Local initiatives	Local initiatives Junior or full secondary	Flexible sometimes	Formally 1 year, but considered as permanent No contract	Under discussion No	State HIPC initiative Parents and aid	State Community	Generally yes No
Mali	Contract teachers Community teachers	Limited state resources Local initiatives	grades 11 or 12 Flexible	3 months	Permanent	In progress	State Donors / community	Decentralized level Communities / parents	Yes Yes
Mauritania	Temporary staff Retirees	Lack of competencies	Junior secondary	3 months	Permanent or 1 year	None None	State State	State State	Yes Yes
Niger	Contract teachers	Limited state resources	Junior secondary + 1 year in teacher training school + selection	1 year	Permanent contract after 4 years of experience	No	State + Aid	Decentralized level	No
Senegal	Educational volunteers	Limited state resources	Junior secondary+ selection process	3 months . 6 months after 2000	2 years for volunteers, half become permanent	Yes	State	Decentralized level	Yes
Togo	"Auxiliaries" or Contract teachers, Community teachers (volunteers)	Limited state resources	Junior secondary+ selection process Flexible	from none up to 3years Irregular, only administered by NGO	Permanent	Yes, but limited	State Communities / parents / aid	Decentralized Communities / parents	Yes Yes

Sources: Adapted and updated from Mingat (2004), Ndoye (2004) and Duthilleul (2005) using various World Bank education sector Country Status Reports (see e.g. World Bank 2002, 2004, 2005a, 2005b, 2006a, 2007 and World Bank (Africa Region) and Pôle de Dakar 2007) and expert communications

in Niger when coupled with the clearance of an entrance exam. Table 2 summarizes these programs for several countries.

Contract Teachers' Effects on Education Quality

The recruitment of contract teachers may affect the quality of teaching through a number of different channels. Although we can only estimate the total effect of teacher status on pupils' performance, it is insightful to discuss possible channels and predicted effects beforehand and relate these to differences in reform across countries. The following four channels are expected to affect education quality.

(1) Effects due to the new education and training requirements

One would generally expect that education and professional training prior to job entry should increase teacher performance. Accordingly, Togolese contract teachers, many of whom have not received any professional training at all, should be particularly disadvantaged on this account. They will less likely produce positive effects on schooling quality.

(2) Incentive effects due to the nature of the teaching contract

Critics argue that the new teacher contracts offer unfavorable conditions, are unfair and discouraging; short-term contracts could prevent personal investments in pedagogical training and school-specific human capital. The often irregular payments of the contract teachers' salaries can also add to the teachers' frustration and affect their effectiveness in the classroom. At the time our data were collected, Mali showed the greatest difference in salaries, so that in this respect, the Malian program might be the least conducive to teaching quality.

Proponents argue that contract teacher programs may bring about incentives conducive to better teaching and student learning. For teachers in non-permanent contract positions, further employment prospects depend on performance. This may enhance their teaching efforts. Among the three countries considered here, non-permanent contracts exist for all new contract teachers in Niger, for community teachers in Mali, and for the majority of community teachers in Togo. Moreover, because contract teachers are employed by local communities this can induce an additional, even more relevant incentive effect. Community teachers are usually selected and paid by parents, who have a high incentive to monitor the teachers; the teachers' job directly depend on parents' satisfaction. This should ensure at least a minimum standard of performance such as regular appearance of the teachers at their workplace. According to this position, we should expect an advantage of the contract teacher programs in Mali and Togo over the one in Niger, which relies on public contract teachers alone. In addition, in comparing Mali and Togo, we might expect an advantage of the Malian system, both due to the higher share of community teachers among the contract teachers and the greater autonomy of Malian community schools given the increasing involvement of the Togolese government.

(3) Selection effects

Changes in the employment conditions can lead to a different composition of candidates applying for teaching positions. Reduced entry requirements could, for example, lower entry costs and increase the attractiveness of (temporary) teaching positions. However, inferior contract conditions might reduce the number of highly skilled candidates. In addition, the higher demand for teachers would lead us to expect a lower quality of the marginal (newly employed) teacher. Given the strong acceleration of the recruitment process, the latter is likely to dominate. This effect may be substantial because in all countries the number of newly engaged teachers represents a substantial fraction of the young adult population with at least lower secondary education. The annual increase in teacher recruitment currently represents around 10% of qualified graduates in Mali and Togo and more than 20% in Niger.

(4) Dynamic effects

Inferior contract conditions may affect a teacher's behavior regarding their life-cycle planning. Highly qualified individuals with good alternative options, for example, may leave the teaching profession soon. This effect could lead to a different distribution of job experience before and after the reform, with a higher proportion of young, inexperienced and less qualified teachers. This is likely to have an impact on teaching quality.

The relevance of this effect, however, depends on the general labor market conditions. In the three countries considered here, alternative employment opportunities in the modern sector are extremely limited; only 25% of secondary graduates in Mali and Niger and only 10% in Togo find a job in the formal, non-agricultural economy. The dynamic effect, therefore, does not seem to be very relevant in any of the three countries under study.

Table 3 summarizes these effects for Mali, Niger and Togo. Regarding the incentive and selection effects, Niger could face the greatest difficulties with its contract teacher program. In Niger, positive incentives are limited, as the program is fully anchored in the public administration system. Moreover, the selection effect is expected to be negative due to the large demand and the limited supply of qualified candidates. In Mali, the most critical issue appears to be the incentive effect. If there exists an important disincentive due to low salary levels, Malian contract teachers should perform poorly. On the other hand, if the positive incentive effect that is related to parental responsibility and community monitoring dominates, Malian teachers should do rather well. The case of Togo could lie somewhere in between. Togo's marked disadvantage is its failure to provide pre-service teacher training on a regular basis.

Table 3: Expected Effects of Contract Teacher Programs

Effects	Countries		
	Mali	Niger	Togo
Training effect	- reduction to 3-months pre-service	- reduction to 45-days pre-service	- - no regular pre-service training
Incentive effect	+++ contract renewal may depend on performance; community monitoring - - salary reductions leading to lowest salaries	+ contract renewal may depend on performance - salary reduction	++ contract renewal may depend on performance; some community monitoring - salary reduction
Selection effect	- limited teacher supply	- - extremely limited teacher supply	- limited teacher supply
Dynamic effect	Not relevant given current labor market conditions	Not relevant given current labor market conditions	Not relevant given current labor market conditions

Note: The number of +/- signs indicates the expected strength of each effect relative to the same effect in the other countries

Empirical Evidence on the Impact of Contract Teachers

Employing novel nonparametric matching estimators and rich data, the study estimates the effects of contract teachers on pupils' performance. The data are uniformly collected, making results comparable across countries. The data were obtained from the "Program on the Analysis of Education Systems" (PASEC), which collects data on the 2nd and 5th grades of primary schools in francophone Africa. An important advantage of the PASEC data is that they contain detailed information about schools, teachers and students, including test scores in French and Mathematics at the end and at the beginning of the school year. The latter is very important to control for otherwise unobserved differences in ability, motivation and previous school inputs. The estimated average treatment effects of contract teachers on students' achievement turned out to be positive for Mali and negative for Niger. In Togo, the results were more subtle and depending on the grade: positive in the 2nd grade and negative in the 5th grade.

This study's added value is to also estimate the quantile treatment effects. That is, by looking at the entire distribution of the students' performance the analysis gauges the effects of contract teachers on bad or good students. Results show that for Niger, the effects are close to zero at the lower quantiles and negative for high performing students. In other words, whereas weak students do

not seem to be affected by the teacher status, the good students seem to suffer from being taught by a contract teacher. In Mali, the effects tend to be positive for both 2nd and 5th grades, particularly for the lower to medium quantiles. This implies that children at the lower end of the performance distribution seem to benefit most clearly from contract teachers. In Togo, one has to distinguish between the results for 2nd and 5th grades. In the 2nd grade, effects are positive without a clear pattern across quantiles. In the 5th grade, the effects are negative for the upper quantiles, but close to zero for the lower quantiles. This means that strong students are again relatively more negatively affected by contract teachers than weak students are.

Discussion and Conclusions

This study analyzed the impact of the “contract teacher” reforms in Africa on educational quality. Based on rich data from Mali, Niger and Togo and employing novel nonparametric estimation techniques, the study offers interesting conclusions along two dimensions. The first relates to comparing results across quantiles of the student performance distribution within the same country. The study concludes that contract teachers are more helpful to weaker students in lower grades than to stronger students in higher grades. When positive treatment effects are found, they tend to be more positive at the low to medium quantiles, and when negative effects are observed, they tend to be more pronounced at the upper quantiles. This pattern is remarkably stable across countries, and most pronounced for Niger 2nd grade and Togo 5th grade. This suggests that relative to traditional civil servant teachers, contract teachers are in a better position to work in a more difficult learning environment and to positively react to the needs of students with the most serious learning deficiencies. They thereby tend to reduce existing inequalities in overall student outcomes.

A possible explanation for this phenomenon could be that traditional civil servant teachers may be unwilling to move to disadvantaged areas, and un-motivated if they are still compelled to do so. Contract teachers, however, are often locally recruited and should therefore not face this problem. Moreover, coming from a similar background, they are more aware of the specific problems of the weak pupils; they speak their language, know their parents and thus may be better able to deal with the situation. Contract teachers may thus outperform traditional teachers when teaching weaker students, even if traditional teachers do better in a less disadvantaged student environment.

The second conclusion relates to the comparison of educational effects across countries, looking at the mean. Clearly, there are differences among the countries. As suggested by the initial hypotheses on both the incentive and selection effects, the contract teacher program in Niger shows the worst results, that is, either insignificant or clearly negative effects. These negative effects may be due to the very fast hiring of huge numbers of contract teachers relative to a rather limited base of qualified secondary graduates. Another reason could be the centralized nature of the reform, as contract teachers are public employees.

In contrast, the Malian results are consistently positive, and the results for Togo are mixed. In Mali and Togo, contract teachers have been introduced in a less centralized way and, especially in Mali, the system continues to work predominantly through the local communities. This could have led to a closer monitoring and more effective hiring of contract teachers, which may have contributed to this positive outcome. The positive results for Mali suggest that the potentially negative role of low salaries (if any) was overcompensated by the positive incentive effect induced by parental responsibility and monitoring in the case of Malian community teachers. As expected, Togo occupies an intermediate position which may be related to the fact that parental monitoring responsibility was reduced through the integration of parts of the contract teachers into the public administration system. Hence, a focus on local community and parental involvement in hiring and monitoring contract teachers, as well as a gradual, rather than an immediate reform process, seem to be warranted.

Overall, results indicate that the success or failure of contract teacher programs in terms of student performance depend on a careful implementation and monitoring of the system. Whenever contract teachers are directly engaged by parents or the local community, where they will feel the recognition of their effort and they can also be directly held responsible for their work, the incentive effects are positive. It should be noted, however, that relying on the cooperation of these groups tends to reinforce existing inequalities.

In short, despite lower pay and adverse working conditions, contract teachers do not necessarily perform worse than regular teachers and may even perform better. Apart from these effects on education quality, one should also keep in mind that the reform permitted the hiring of many more school teachers for a given budget. In order to achieve universal primary education, hiring contract teachers appears to be more or less inevitable. ■

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