

O P I N I O N

Labor Market Research and Economic Practice



There is hardly any corner in today's information society that remains unexplored. And in most cases, newly found insights enjoy wide dissemination. Yet, it is often claimed that academic science and politics are drifting ever further apart – particularly in the field of economics. As evidence in support of this claim, critics point out that governments are relinquishing their reliance on economists' advice. Economic science itself is accused of seeking refuge in the idealized world of mathematics, far away from the real world. These presumptions, however, are easily rebutted – especially the claim that researchers are so out of touch with reality that they have inadvertently maneuvered themselves into an offside position on the political playing field. It is certainly not a mere coincidence that the German *Wissenschaftsrat* (Science Council) established a commission to analyze the situation of empirical economic research in Germany, including the status quo of economic theory at universities.

The relationship between labor economics and labor market policy in Germany, however, seems to support the thesis of the two "separated worlds". Despite the continuing employment crisis that has hit

the labor market, very few economists have specialized in empirical labor market issues. Even among those involved with the *Bündnis für Arbeit* (Alliance for Jobs), labor market experts are hard to find. The highest entity of labor market policy advice to the German government is the *Institut für Arbeitsmarkt- und Berufsforschung* (Institute for Labor Market and Occupational Research, IAB). As part of the Federal Employment Service, it can hardly be seen as completely "independent", nor is it dominated by labor economists. Our strategic task here at IZA is to alleviate this deficit in labor market research and policy advice of economists.

In international perspective, it is certainly legitimate to say that labor economics has long been the "most empirical" sub-discipline of the economic sciences. This has been, to a large extent, the achievement of the labor economists associated with America's leading institution in this field, the National Bureau of Economic Research (NBER), who have shaped the debates in the most prominent international journals. The same is true for the Centre for Economic Policy Research (CEPR) in Europe. Nonetheless, this year's Nobel Prize in Economics, while it did go to a labor economist, was awarded to the "mathematician of labor market policy": IZA Fellow James Heckman, economics professor at the University of Chicago. Heckman received the award for his methodological contributions to labor market econometrics, but most of all – and this is important to note – for his influence on the scientific evaluation of labor market policies.

This may well be the best conceivable rebuttal to the thesis that economists lack contact with reality. Mathematics has become an indispensable tool, not just for modern science but also for the political practice. No doctor will discard his medical kit when facing a severely ill patient. But it is correct to demand that economists must overcome their speechlessness when called to the sickbed. Unfortunately, not everyone masters the

arts of mathematics and language as brilliantly as the likes of Paul Samuelson, Gary Becker, and Paul Krugman.

What lies at the heart of Germany's malaise in the field of labor market research? It is not that we lack the well-trained young labor economists to apply modern methods to the problems of our time. What we need is access to the opportunities of policy advice and research. The IAB currently holds the monopoly in both areas. First of all, the general inaccessibility of data constitutes a market entry barrier. Empirical labor market research is often impossible in Germany because the Federal Employment Service keeps existing data in an ironclad lockbox. Something like a "Free the Data" initiative could help to change this situation. The commission installed by the Federal Research Ministry to explore ways to make official data accessible to economists should place itself at the top of this initiative. An additional problem lies in the fact the policymakers rely almost exclusively on paid expert reports by the IAB.

In this situation, the German research community hardly has a chance to introduce "free" research findings into the decision-making process. Due to the lack of data access, these efforts depend on such special initiatives as the Socio-Economic Panel (SOEP) provided by the German Institute for Economic Research (DIW Berlin). That the evaluation of planned experiments in the low-wage sector was given exclusively to the IAB, while independent researchers were once again left out in the cold, is a fact that requires no comment. The best solution to the problem would be a combination of cooperation and competition. In this context, IZA also sees itself as a forum and a mediator between policymakers, IAB, and independent research.

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