



# DIW DC



*Annual Report*  
**2009**





*Excellence in Research  
and Teaching*

*Solutions for Effective  
Policymaking*

*Stronger Transatlantic  
Relationships*



## Chairman's Message



Sixty years ago, when traffic was cut off to West Berlin, the US and its Allies initiated an air campaign, transporting two million tons of food and supplies over the course of one year. It was the largest humanitarian campaign the world had ever seen. In 1987, at Berlin's famous Brandenburger Tor, Ronald Reagan famously pounded his hand on the podium and demanded "Mr. Gorbachev, tear down this wall!" On November 9, 1989, the world watched in utter disbelief and total elation the fall of the Berlin Wall. In 2009, 20 years later, Germany and the world celebrated this event that symbolically commemorates the sequence of events that brought an end to communism, the cold war, and eventually resulted in German reunification and Europe's reintegration. Today German-American friendship continues to thrive.

In this 60th anniversary year of the Berlin airlift and the 20th anniversary year of the fall of the Berlin Wall, I am proud to be the chairman of DIW DC' Board, a nonprofit American economics think tank specializing

not only in cutting-edge research, teaching and policy advice, but also in the development of stronger transatlantic relationships. This last skill is not one automatically associated with economics, but it is needed more than ever in today's incessantly changing financial climate associated with a myriad of social challenges. It is based on the idea of a mutual research partnership that stimulates the creation and exchange of thoughts, and thereby contributing to the preparation of comprehensive policymaking.

On January 20, 2009, Barack Obama was sworn in as the 44th President of the US. As he aspires to reform America, the world's hopes focus upon him to bring nations together in a peaceful, prosperous and healthy planet. Addressing the US Congress, German Chancellor, Angela Merkel, exhorted the world to help "overcome the walls of the 21st century" and said that "Global challenges can only be met with international cooperation."

Although the term *transatlantic relations* has come to mostly indicate relations between the US and Europe, they do not solely constitute the cynosure of DIW DC. I am therefore happy to see that DIW DC engages in research in Africa, strengthens its relations with the emerging giant China and even instructs delegations from some countries in the Caucasus region of Eurasia on economics and the benefits of nonprofit think tanks in political participation and economic transition. The DIW DC-led conference, "German Day

on Development,” at the World Bank also focuses on exploring and solving challenging economic and humanitarian issues in the developing world, from security and conflict to ethno-linguistic issues and migration.

Two other less celebrated anniversaries in 2009 were the 80 years since the beginning of the Great Depression and one year after the peak of the financial crisis in 2008. The Great Depression was probably the most momentous and dreadful economic event of the 20th Century. Triggered by the bursting of the housing bubble in 2007 and escalating with the collapse of Lehman Brothers in 2008, the economic and financial crises of 2008 were definitely the worst of the 21st Century. 2009 was the year of debatable recovery as many governments engaged in stimulus packages, buyouts of banks and insurance companies. The unexpected Keynesian measures in the US prompted many to talk about a “social-democratized” America. This is similar to the German idea of a social market economy in which free market excesses are tempered with support for those who are falling through the cracks.

Researchers around the world should therefore monitor and analyze this process to support governments in future decision making. A highly globalized economy and integrated financial markets need to go hand in hand with integrated research networks. Acting as “strategic optimists” and concentrating on the potential positive outcomes, it will set high expectations and keep the perspectives open for innovation, investment and high consumption.

I am elated to see DIW DC flourishing as an academic institute under the tutelage of its Executive Director, Amelie Constant. In 2009, in its third year of existence, and economic downturn, DIW DC showed an unwavering commitment to its vision and research. DIW DC demonstrated remarkable performance providing knowledge and support to its many partners in the US and in Europe, hosting and teaching doctoral students and receiving academic visitors, teaching, organizing job market events, research workshops and conferences, and last but not least, engaging in original research. As this year’s essay by DIW DC contributor Professor Amanda Goodall shows, a scholar-leader will likely demand higher academic standards (page 42). This is what we strive for and I am sure that DIW DC’s success will continue in 2010 and the years to come. ■

Sincerely,



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



## Director's Message



In January 2009 and amidst the vicissitudes of the financial markets and the economic hardship around the world the new U.S. administration officially starts serving the country bringing euphoria and renewed hope. DIW DC too, started the year right on its successful path; it achieved several building blocks as it continues to expand its capabilities to create and share knowledge, to educate graduate students and the scientific community and to bring together scholars, policymakers and citizens from several parts of the world. Continuing its mission, the Institute found a strong demand for its product.

The evidence of our success is contained in this report. DIW DC has worked tirelessly to make its existence known and recognized. In 2009, DIW DC's researchers were active players and participants in several world leading and highly profiled policy orientated summits as well as scientific congresses around the globe (page 28). The Institute also co-organized and co-hosted several high-profile international scientific meetings such as

the Annual Meeting on the Economics of Risky Behaviors (page 17), the Annual Migration Meeting (page 21), and the German Day on Development (page 23). Moreover, the Institute organized policy events, transatlantic talks, book presentations, and lectures.

Apart from its active international engagement, DIW DC takes pride in its educational mission, which is tantamount to its research-based policy practices. With a strong commitment to educating and nurturing new generations of economic leaders, DIW DC manages and supervises the doctoral program of the DIW Berlin Graduate Center in DC. As in previous years, in 2009, DIW DC hosted twelve graduate students and offered two graduate classes and internships at leading and path-breaking international institutions and district-area universities. Besides courses and internships, DIW DC contributes to a dynamic superlative curriculum with extracurricular professional programs; giving outstanding opportunities to graduate students during their first-year visit in Washington DC (page 12). Consequently, students obtain a unique insight into the economic, social and political processes of the U.S. These potential future leaders return to Germany with a keen understanding of American culture and the inner workings of the U.S. economy, which will indubitably translate into stronger transatlantic relations.

In 2009, DIW DC achieved its official status of an academic institute as it signed an MOU with George

Washington University and the Elliott School of International Affairs. A strong bond between the two parties now includes close collaboration in research, teaching, exchange of students and faculty, etc. DIW DC also acts as a link between the university and Berlin in Germany. Working closely with other universities and think tanks in DC, the Institute has built a solid program for the exchange of fellows, students and scholars between the U.S. and Europe and has become a relevant reference for research, teaching, and policy activities.

Research is an important pillar of DIW DC's existence. In 2009, the Institute produced seven refereed journal publications, five fresh discussion papers, two edited volumes and three policy briefs (page 40). This is an impressive scientific and policy output. I am pleased that DIW DC's research output is often cited in prestigious reports such as the SOPEMI 2009 and the UNHD 2009 as well as in other scholars' papers.

While DIW DC continues its strong relations with Europe, it is also aware of geopolitics and the dynamic international development of regions and countries as well as the importance of networking of institutions. In 2009, DIW DC accomplished some key strategic goals in this respect. Among others, it reaffirmed and reinforced its partnership with leading policy research institutes in the emerging giant China (page 22) and actively engaged in research concerning the often neglected African Continent.

DIW DC's accomplishments could have never come to fruition, however, without the valuable guidance of its board members and its distinguished advisers. Our visiting fellows and interns have also been of great support. I want to especially praise the DIW DC staff for its hard work, dedication and commitment. I feel privileged to be working with a group of such talented, knowledgeable people and I thank them for their steadfastness and contributions to DIW DC's success. I am grateful and appreciative.

As the new calendar year 2010 begins, DIW DC also begins anew its quest for excellence. The Institute stands resolute to work even harder to raise the bar and accomplish its mission in an ever evolving and challenging world. ■

Thanks to all who have contributed to our accomplishments,

A handwritten signature in blue ink, appearing to read "A. Constant".

Prof. Amelie F. Constant, Executive Director

## Who We Are

**D**IW DC is an independent, nonpartisan, and nonprofit economics think tank incorporated in Washington, DC. Founded in January 2007, DIW DC conducts serious research in economics, provides solutions for effective policymaking, educates doctoral students, and specializes in researching and interpreting American and European economic trends for the transatlantic market, serving as a platform for joint research and policymaking. DIW DC takes pride in its independent original research, in enriching the understanding of public policy issues, and in offering services to the scientific community and to the wider public.

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 in policymaking institutions on both sides of the Atlantic (U.S., Europe, China and Africa) with the aim of stimulating transatlantic research exchange and providing unique insight into all parties' 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. Guillermina Jasso, Ph.D.
- Prof. Amelie F. Constant, Ph.D.
- Prof. Dr. Klaus F. Zimmermann



## DIW DC Board of Distinguished Advisers

The DIW DC Board of Distinguished Advisers (BoDA) 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 project the Institute, further strengthen DIW DC's connections and ensure continued relevance to the national and international business communities. The international and interdisciplinary character of the Institute's transatlantic vision is stronger. The 2009 BoDA members include:

- Prof. Rebecca Blank, Ph.D., Brookings Institution and Department of Commerce
- 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
- Prof. Edward Lazear, Ph.D., Stanford University

## Resident Ph.D. 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 graduate classes, participate in internships, and are given the opportunity to interact with some of America's leading economic minds. The 2009 doctoral student residents include:

- Franziska Bremus
- Angela Fiedler
- Felix Groba
- Hendrik Hagedorn
- Andreas Harasser
- Katharina Moll
- Tony Muhumuza
- Maria Nieswand
- Beatrice Pagel
- Nina Wald
- Michael Weinhardt
- Aleksander Zaklan



## 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 scholars and businessmen. Students are given career advice and encouraged to make lifelong American connections. DIW DC works closely with American universities and students as well. It enjoys partnerships with Georgetown University and George Washington University, both strong international leaders in scholarship and public policy. As a visiting professor at George Washington University, DIW DC's Executive Director, Amelie Constant, shares her in-depth knowledge of the economics of migration and the labor markets 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 and knowledge. Organizing substantive workshops and meetings and inviting policymakers and other stakeholders and NGO's, the Institute communicates its unbiased research to the policymakers, the media and the public.

### **Stronger Transatlantic Relationships**

While DIW DC is an American company, it has a very international orientation and flair. 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 renown 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. Collaborating with other think tanks and organizations in Europe, China and Africa, DIW DC values transatlantic relationships and strives to create stronger and deeper relationships across the Atlantic. Each country can serve a unique paradigm to the other country that can be very valuable in our ever globalizing world. 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.

The Institute is also affiliated and collaborates with many other DC think tanks, international organizations, the local German expatriate community and other German and European businesses. Through these connections, DIW DC bridges the gap between academic research and public policy as well as between the U.S. and over the Atlantic Ocean regions. ■



## DIW DC Expands Graduate Center Curriculum with Classes, Internships and Seminars in DC



For the third year running, students of the DIW Berlin Graduate Center of Economic and Social Research spent the spring semester at DIW DC as part of their studies ([http://www.diw.de/english/graduate\\_center/7795.html](http://www.diw.de/english/graduate_center/7795.html)). Established in 2006, the DIW Berlin Graduate Center offers a pioneering and innovative international doctoral program in Economics and Sociology. The 3-year intensive program offers rigorous academic courses (core and field) in economics, sociology, statistics, and methodology. All classes are taught in English. The program also offers a well structured internship program – as applied specialization.



With a 20 percent acceptance rate, the program is highly competitive. It enrolls about 20 international Ph.D. students per year. There are no tuition fees and the students receive a respectable scholarship per month. In this program, students receive close and personal supervision while DIW Berlin ensures their future employability in research institutions, universities, policy institutions and international organizations. The objective is to produce outstanding researchers, professional policy advisors and future leaders. We provide a research environment that allows developing exceptional talents, as well as training the ability to analyze economic and social policy issues.

The added value of this doctoral program is its yearly training module in Washington DC. DIW DC is an integral part of the doctoral program, as it plans, manages and supervises it. The Washington Program involves two months of intensive and rigorous graduate courses at DIW DC and a one month internship at leading American think tanks, international and governmental institutions and universities in the DC area.



In January, the students attend an Economic Policy Class. Dr. Richard O’Neil, economist and Chief Advisor of the Federal Energy Regulatory Commission (FERC) teaches this class with a concentration on antitrust, regulation policy and problems.



In March, Professor Dirk Krueger from the University of Pennsylvania in Philadelphia teaches a dynamic and advanced macroeconomic theory class covering topics such as modern day quantitative equilibrium business cycle models and policy analysis in order to examine current research frontiers.

**Internships organized by DIW DC for the DIW Berlin Doctoral Students**

With the best interests of the doctoral students in mind, DIW DC organized prestigious internships at high profile think tanks, organizations and universities in the DC area for February 2009. These internships are designed to offer the best match with the students’ interests and a high profile exposure. The students work closely with top-notch researchers and professors on a project that has often led to paper co-authorships. Among the institutes hosting DIW student internships in 2009 were:

- Franziska Bremus: The Bureau of Labor Statistics (BLS)
- Angela Fiedler: The World Bank
- Felix Groba: The Tower Center in DC and APSA
- Hendrik Hagedorn: The Center for Strategic and International Studies (CSIS)
- Andreas Harasser: George Washington University, Economics Department
- Katharina Moll: The Urban Institute
- Tony Muhumuza: The International Food Policy Research Institute (IFPRI)
- Maria Nieswand: Federal Energy Regulatory Commission (FERC)
- Beatrice Pagel: Federal Energy Regulatory Commission (FERC)
- Nina Wald: The World Bank
- Michael Weinhardt: The University of Maryland - College Park
- Aleksander Zaklan: The International Monetary Fund (IMF)



The Berlin students also enjoy all that Washington has to offer including tours to the U.S. Capitol building and senator’s offices on Capitol Hill and attended Congressional hearings in the House of Representatives and the Senate. This year the students were in Washington during a momentous period and experienced first hand the Obama presidential inauguration in January, with all its heightened political consciousness.



### **Social and Professional Program**

DIW DC provided a social program for the students to make them familiar with American lifestyle and the professional world. Prof. Constant has given the students ample information about DC events and happenings, and sightseeing (to the White House, the Capitol, etc.). Very often it happens that professional program have some social events in them.

### **The students also participated in:**

- The 2-day Job Market Presentations of 14 candidates, held at DIW DC and
- The 1st Annual Conference on the Economics of Risky Behaviors in DC, a 3-day event with 16 paper presentations, a keynote, a distinguished lecture and an honored special talk.

Part of the extra-curricular activities for the doctoral students is the “Distinguished Scientists and their Stories” lecture series. Participating in presentations by job market candidates during their interviews at DIW DC is another part of the doctoral students training. This is a very valuable exercise as they get to know young graduate students like themselves from the best universities in the country, to observe what the hottest dissertation topics are, what the latest trend in econometric techniques is, and how job talk presentations are conducted. Mingling with the job candidates and making connections is certainly the added value of networking for the doctoral students.



DIW DC is also proud to congratulate Dr. Cullman, the first student to graduate from the DIW Berlin Graduate Center in 2009. Astrid Cullman joined the doctoral program in September 2006. She spent the spring semester of 2007 in Washington at DIW DC. Her dissertation is on the Polish Electricity Market. Dr. Cullman is currently a research associate at the DIW Berlin Department of Innovation, Manufacturing and Service.

### **About the DIW BERLIN Program**

The DIW BERLIN Graduate Center strives to train and graduate young doctoral students from all over the world with a research environment and institutional training. Doctoral students at DIW BERLIN enter into a three year program in which during their first winter term the students attended advanced-level courses in microeconomics, macroeconomics, econometrics and economic policy in Berlin and Washington DC. They are also placed in two internships; one in Berlin and one in Washington DC. This is a unique opportunity offered by DIW BERLIN which allows their students to develop an in-depth practical understanding of what it means to work in applied economic research.

The faculty of the Graduate Center consists of permanent staff and invited visiting lecturers including Dr. Amelie F. Constant, executive director of DIW DC. She is also a visiting professor at the Elliott School of International Affairs at George Washington University, and Vice Dean of the Graduate Center in Berlin. ■



**DIW DC**



**DIW Berlin**

## EVENTS

### Annual Lecture Series at DIW DC: “Distinguished Scientists and their Stories” in the Spring



Every spring, DIW DC organizes a lectures series for the DIW Berlin doctoral students who reside in DC. This series is designed to offer students a view of the real world and broaden the spectrum of their graduate education; it 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 job market talks, a survival guide to the doctoral program, recipes 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. The following group of scientists, high profile businessmen and businesswomen as well as other important government officials participated in this series of events in 2009:

- Prof. Rebecca Blank, Ph.D., Senior Fellow, The Brookings Institution and Under-Secretary at the Department of Commerce for Economic Affairs
- Prof. Francis Vella, Ph.D., Georgetown University
- Ms. Kelly Foley, University of British Columbia (Vancouver)
- Mr. Hein Bogaard, University of Michigan (Ann Arbor)
- Mr. Mark Kutzbach, University of California (Irvine)
- Mr. Moritz Ritter, University of Toronto
- Ms. Tanika Chakraborty, Washington University in St. Louis



- Mr. Saumik Paul, The World Bank
- Mr. George Joseph, The World Bank
- Mr. Hani Mansour, University of California (Santa Barbara)
- Mr. Howard Rosen, The Peterson Institute for International Economics
- Mr. Radoslaw Stefanski, University of Minnesota
- Mr. Aaron Sojourner, Northwestern University
- Ms. Sebnem Ucar, University of British Columbia
- Ms. Chikako Baba, University of Wisconsin
- Mr. Brian Scholl, University of California (Berkeley)
- Mr. Jacek Suda, Washington University in St. Louis
- Mr. Bernhard Welschke, President of the Representatives of German Industry and Trade (RGIT)
- Dr. Christoph Schemionek, Liaison Officer, Representatives of German Industry and Trade (RGIT)
- Dr. Martin Bodenstein, Ph.D., Board of Governors of the Federal Reserve System in DC
- Prof. Dr. Klaus F. Zimmermann, DIW Berlin, Free University of Berlin, Bonn University, and IZA
- Mr. Wolfgang Jakubek, Managing Director, Deutsche Telekom in Washington DC
- Prof. Spyros Konstantopoulos, Ph.D., Boston College
- Dr. Dean Baker, Ph.D., Director, The Center for Economic and Policy Research
- Ms. Diana Furchtgott-Roth, Hudson Institute
- Prof. Dr. Frauke Kreuter, University of Maryland
- Prof. Robert Foust, George Washington University
- Prof. Amelie Constant, Ph.D. Executive Director, DIW DC, and George Washington University
- Mr. Wolfgang Pordzik, Executive Vice President, DHL Americas
- Dr. Julia Lane, Ph.D., The National Science Foundation ■



## Inaugural Annual Meeting in Washington, DC on the Economics of Risky Behaviors

Risky behaviors touch individuals and families alike and go beyond race, gender and age. They affect the realm of economics, education, health, sociology, political science, psychology, law, security, criminality and police enforcement. What causes individuals to engage in risky behavior and what are the risk factors for risky behavior? Is it all in the brain - are people hardwired for risky behavior? What are the roles of culture, ethnicity, adverse childhood experiences or socio-economic status? What kind of disincentives would discourage individuals from risky behavior? What are the implications of risky behavior on other outcomes like education, marriage and employment? Can risky behavior be managed or channeled to a positive outcome?

The First Annual Meeting on the Economics of Risky Behaviors (<http://www.iza.org/link/riskonomics>)

managed to shed light onto some of these questions. Co-organized by DIW DC Executive Director, Amelie F. Constant (IZA Deputy Program Director in Migration and Professor at George Washington University), and IZA research fellow, Professor Erdal Tekin (Andrew Young School - Georgia State University) and with the financial support of DIW DC, GSU and IZA, the meeting advanced cutting-edge research on the economics of risky behaviors and attracted an international audience of leading scientists. At the three day meeting (March 20-22, 2009), sixteen papers were presented and discussed.



Renowned criminologist Alfred Blumstein (Carnegie Mellon Heinz College) gave the conference's keynote speech entitled "Risky Behavior in Crime and the Criminal Justice System." He discussed national crime trends over the last 20 years and the particularly high incarceration rates in the US.

During his distinguished luncheon address "Minimizing the Risk of Prisoners' Reentry into the Community," Stefan LoBuglio (Pre-Release and Reentry Services in Montgomery County, MD), gave valuable insight into pre-release centers. In his powerful and motivational speech, Dr. LoBuglio emphasized that the current challenges in pre-release and reentry are foremost related to implementation and information issues, notwithstanding the risk prisoners take to use their privileges to escape.



The meeting, designed to foster interaction and exchange of ideas among the participants in a relaxed atmosphere, also included some special social events, such as a reception at the DIW DC headquarters and dinner at Foco de Chão. The honored dinner speaker was DIW DC Chairman Dr. Zimmermann, who gave a witty and timely talk relating risk behavior to trust, forecasting, the financial crisis and the wealth of nations. Co-organizers Amelie F. Constant and Erdal Tekin thanked the participants and look forward to hosting the Second Annual Meeting on the Economics of Risky Behaviors in March 2010 in Atlanta, Georgia. ■



## G8 + 5 National Academies' Meeting in Rome



Appropos Italy's G8 Presidency, the G8 + 5 Academies met ahead of the G8 Summit to discuss pressing global issues. On the agenda this year were international migration and new technologies for the production and conservation of energy. The idea is that the conclusions of the Academies' Meeting will be communicated to the heads of states and government before the summit. DIW DC Executive Director Dr. Amelie Constant participated in the G8+ 5 National Academies' Meeting at the Accademia Nazionale Dei Lincei in Rome Italy. The two day meeting held on March 26-27, 2009 at the Plazzo Corsini. The Italian Minister of foreign Affairs, Franco Frattini gave one of the opening addresses. He emphasized how

important energy technology research and migration are to the Italian administration and to all European Union countries. Creating accountability and taking responsibility to combat illegal immigration and human trafficking are top priorities to be addressed. Reforming legislation to help refugees and fostering professional training for legal migrants are essential problems whose solutions should be tackled immediately. Dr. Constant addressed such concerns directly with her speech "Challenges and Potentials of a Global Economic Migration Regime." The migration workshop in which Dr. Constant presented was chaired by Jose Franco from the Mexican Academy of Sciences (pictured left). Representatives from all 13 Academies were present: *Royal Society of Canada*, Canada; *Académie des Sciences*, France; *Deutsche Akademie der Naturforscher Leopoldina*, Germany; *Accademia Nazionale dei Lincei*, Italy; *Science Council of Japan*, Japan; *Russian Academy of Sciences*, Russia; *Royal Society*, United Kingdom; *National Academy of Sciences*, United States of America; *Academia Brasileira de Ciências*, Brazil; *Chinese Academy of Sciences*, China; *Indian National Science Academy*, India; *Academia Mexicana de Ciencias*, Mexico; *Academy of Science of South Africa*, South Africa. Egypt also participated in an observer's capacity. The meeting ended with a visit to the Sistine Chapel, a guided visit of the Quirinale palace and a farewell dinner. ■



## Facing the Global Economic Crisis: The German Perspective

Fifty years after the “Deutsches Wirtschaftswunder” and twenty years after the fall of the Berlin Wall, Germany’s economy, the largest in Europe, has been hit hard by the global downturn. World demand for



well-made, but expensive German exports is declining. According to DIW DC Chairman Dr. Zimmermann, the global economic crisis has its origins in many factors: insufficient regulation of the financial markets; improper incentives in the finance sector; the Federal Reserve’s establishment of low interest rates and even (for a time period) negative real interest rates; the bursting of the housing bubble (in the U.S., th U.K. and Spain, but not Germany); overconsumption due to wealth illusions; worldwide over-capacity in sectors like the automobile industry; the rapid spread of information; and a synchronized global decline in trade, especially investment goods.

What can be done? World governments should regulate the financial markets, says Dr. Zimmermann, and free banks from “toxic assets” (create bad banks and recapitalize banks) so they can begin to rebuild. At the labor market level, a nice provision for staving off unemployment, increasing labor force participation and earnings, as well as furthering education and training, is the “short-term working allowance” (*Kurzarbeitergeld*). Dr. Zimmermann calls for a continuation of reform policy, promoting increased globalization, labor market reforms and human capital formation as the keys to seeing Germany, and the world, out of the global economic crisis.

Co-organized by DIW DC, the luncheon seminar was held at The Hudson Institute Center for Employment Policy Director and moderated by Senior Fellow Diana Furchtgott-Roth. It was attended by high-profile community members from local universities, embassies, research institutes and the World Bank. ■



## EU Expansion Book Presentation Draws Large Crowd

To a packed house with standing room only, DIW DC's chairman Dr. Zimmermann presented his talk, "After the Honeymoon: Labor Market Implications Five Years after EU Enlargement." The luncheon book presentation, which garnered an audience double DIW DC's goal, presented findings from Zimmermann's latest book publication, *EU Labor Markets After Post-Enlargement Migration* (co-edited by Dr. Martin Kahanec). DIW DC Executive Director Dr. Amelie Constant co-organized this event with the Center for Strategic and International Studies in Washington (CSIS). Hosted by CSIS, the program was moderated by Dr. Sidney Weintraub, William E. Simon Chair in Political Economy at CSIS.



Are immigrants from new EU member states a threat to the Western welfare state? Do they take jobs away from natives? Will source countries suffer from brain drain or demographic instability? These and other burning questions were addressed by Dr. Zimmermann. There is no evidence that post-enlargement labor migrants would on aggregate displace native workers or lower their wages, or that they would be more dependent on welfare. While brain drain may be a concern in source countries, the anticipated brain circulation between EU member states may, in fact, help to solve their demographic and economic problems.

According to Dr. Zimmermann, free labor migration generally benefits the economy by improving the allocative efficiency of labor markets in both the home and host countries and by benefiting the migrants themselves. Skilled immigrant circulation facilitates international trade and the transfer of technologies and knowledge by eliminating bottlenecks to economic development. Closing or tightening borders may have a more negative impact on a nation. Dr. Zimmermann states that "Paying people to leave is very ineffective; giving them a passport to do so is much more effective." ■



## Annual Migration Meeting (AM<sup>2</sup>) Goes Strong for the 6th Year



Co-organized by DIW DC Executive Director and IZA Deputy Program Director in Migration Amelie F. Constant and Barry Chiswick (University of Chicago and IZA Program Director in Migration), AM<sup>2</sup> took place on May 21-23, 2009 at IZA in Bonn, Germany. The meeting was again successful in including eleven scholarly papers from different countries and on a variety of migration topics. The highlight of the meeting was the

Julian Simon Lecture, delivered by famous economic historian Prof. Jeffery Williamson of Harvard University. Williamson's lecture, entitled "Vanishing Third World Emigrants?" examined the third world's emigration life cycle since the 1960s.

The lively conference sessions were structured with paper presenters and formal paper discussants as well as with audience participation and discussions. The right mixture of veterans in the field and junior researchers guaranteed a productive exchange of ideas. In addition to the talks presented at the meeting, participants enjoyed several social events. The three-day meeting concluded with closing remarks from Constant and Chiswick, who thanked the participants and invited them to apply to the seventh Annual Migration Meeting in June 2010 at IZA in Bonn. ■

## "Measure for Measure: Sizing up Ethnicity" Keynote Lecture in Jevnaker, Norway



The Quantitative Methods in Social Science is a network initiated by the European Science Foundation. Through seminars and summer schools, state-of-the-art methods and research in social sciences is being taught to a new generation of European researchers. Executive Director Amelie Constant was involved in this new educational method and was invited to give a keynote to the "Multi-Attribute Analysis and Projection of Ethnic Populations" workshop held in Jevnaker, Norway, on June 3-5, 2009. On June 3rd, Dr. Constant delivered the lecture "Measure for Measure: Sizing up Ethnicity," based on her research over the last few years on the measurement of ethnic identity and its impact on various socio-economic outcomes. Young researchers active in the field and experienced scholars presented their latest work in this successful workshop. The consequences of different definitions for analyses and projections as well as the role of sensitivity analysis were also discussed.

The workshop was co-organized by Nico Keilman of the University of Oslo, Philip Rees of the University of Leeds and Frans Willekens of the Netherlands Interdisciplinary Demographic Institute. It addressed in further detail on how to define an ethnic minority or an immigrant through a detailed analysis of demographic behavior and labor market behavior. ■



## Trans-Continental Cooperation: Successful Trip to the Emerging Giant ... China

Early Fall 2009, Professor Amelie F. Constant, Executive Director of DIW DC was part of a high profile Delegation of Scholars from DIW DC and IZA in an academic explorative trip to China. The trip's goal was to meet with scholars in China, participate in a joint conference and give presentations and talks in several cities. This trip was successful in promoting the institutes in this emerging giant.



The delegation met with scholars, faculty and administrators at the China Institute of Industrial Relations (CIIR), the China Center for Economic Research (CCER) at Beijing University, Tsinghua University in Beijing and the National Bureau of Statistics of China. At Beijing Normal University (BNU), Professor Dr. Klaus F. Zimmerman, Chairman of DIW DC's Board and IZA Director presented his book on EU Enlargement. Professor Amelie Constant presented the DIW Berlin Graduate School. The delegation also met with the labor group at BNU's Business School and discussed future collaboration, especially with respect to migration.

At the 1st Annual CIER/IZA Workshop on Research in Labor Economics that took place at Renmin University of China, Professor Amelie Constant presented her co-authored paper on "What Do New U.S. Immigrants Know about the Labor Markets in the U.S. and their Home Countries? Perceptions of Earnings in Selected Occupations." The successful conference was well attended by officials from the Chinese Ministry for Human Resources and Social Security, and by scholars from Europe, China and Australia who discussed and debated labor market issues, from the financial crisis to education, to the mental health of immigrants, etc. At the Shanghai School of Finance and Economics, the delegation gave talks on intra-EU migration and the DIW Berlin Graduate Center. In Xiamen and at the Wang Yanan Institute for Studies in Economics (WISE) of Xiamen University, the delegation gave talks in a room overflowing with attendees. Amelie Constant in her capacity as the vice-dean of the DIW Berlin Graduate Center presented the program, gave brochures and urged students to consider applying to the Graduate Center. Hong-Kong and the Chinese University of Hong-Kong (CUHK) was the last stop of the delegation's road show. A meeting with Nobel laureate Mundell was the highlight of this visit. ■

## Challenging Labor Market Policy and Evaluation

A collaborative coordination between DIW DC, IZA and Georgetown University, produced the 5th IZA Conference on Labor Market Policy Evaluation, held on October 2-3, 2009 at Georgetown University in Washington, DC. The conference started with a welcome

reception at DIW DC the previous evening. Professor Francis Vella, chairman of the economics department, opened the first day of the conference. During the intellectually challenging two days, 15 papers covering labor market policy evaluation were presented and discussed. ■

# German Day on Development



For the second year, German Day on Development was co-organized by DIW DC, IZA, DIW Berlin, and the World Bank and took place at the World Bank building. Attended by various World Bank officials, this event provided an excellent opportunity for experts to discuss research results of leading German research institutes on development and migration issues and to enhance collaboration and communication between researchers in Washington, DC and Germany. A welcome and introduction was headed by Dr. Michael Hofmann, Executive Director for Germany at the World Bank, Dr. Klaus F. Zimmermann, Chairman of DIW DC's Board, and Dr. Amelie F. Constant, Executive

Director of DIW DC. Economics specialists presented extensive research analysis on a large range of topics from the employment crisis and automatic stabilization to conflict and violent development to ethnicity and migration. Session A included lectures in regards to the employment crisis, automatic stabilization and labor market initiatives.

Session B was composed of lectures that focused on conflicts in various parts of the world including behavioral foundations of violent conflict, Ukraine's Orange Revolution and post-genocide Rwanda. Session C paper presentations on ethnicity, migration, and discrimination included Dr. Amelie F. Constant's and Bienvenue Tien's research paper on "Brainy Africans in Fortress Europe: For Money or Colonialism?" The productive scientific meeting ended with a reception at DIW DC, and dinner with a speech by Professor Tilman Brueck of DIW Berlin and Humboldt University on "Development Economics Research in Germany - Past and Present." ■





## And the Prize Goes to Happiness!

In October 2009, DIW DC joined partner Institute IZA to celebrate several high profile events in conjunction with the annual IZA prize in labor economics. The kick-off was the policy forum “The Global Economic Crisis and Labor Markets” on Thursday October 22, 2009 in Washington, DC. It drew prominent government officials from Washington, DC, economic experts from all over the world and journalists and members of the scientific community.

After a warm welcome by DIW DC Executive Director Dr. Amelie F. Constant and chairman of the board and IZA Director Prof. Dr. Klaus F. Zimmermann, David G. Blanchflower gave the keynote address on “What to Do about Rising Unemployment in the OECD?” Two panel discussions followed. Dr. Amelie F. Constant moderated Panel I with prominent speakers Tilman Brück of DIW Berlin and Humboldt University, Carol Graham of Brookings, Theresa Osborne of the Millennium Corporation and Sonia Plaza of the World Bank.

The theme of this panel was “The Economic Crisis: Labor Market Impacts on Developing Countries.” Professor Jan Svejnar, the guru of development economics, gave the introduction and set the stage for Panel I. He discussed the current economic crisis and the impact it has had on the labor market of developing countries. The panel assessed the damages, acknowledged the remaining issues and also discussed successful cases, as in South America.



“The Job Crisis: Do Governments Matter?” moderated by Professor Dr. Klaus F. Zimmermann was the title of Panel II. The panel’s distinguished speakers were Alan B. Krueger, Assistant Secretary for economic policy and Chief economist of the U.S. Treasury Department, David G. Blanchflower of Dartmouth College, Lord Richard Layard of The London School of Economics and Political Science and Andrew J. Oswald of the University of Warwick. Professor Rebecca M. Blank, Under Secretary of Commerce for Economic Affairs at the U.S. Department of Commerce gave the introductory speech about the government’s role in the job crisis



and credit crunch. Alan Krueger enlightened the audience by giving a detailed account of the Obama Administration’s current and future strategies. Both panels ignited lively discussion from the audience of about 100 attendees, previous IZA winners Richard Layer and Alan Krueger and the current prize laureate.

Following the policy forum, Dr. Richard Easterlin participated in a book signing of his newest book

“Happiness, Growth and the Life Cycle,” where participants and attendees of the conference had a chance to meet and converse with him and learn about his work and his many contributions to the economics discipline.



Amongst many distinguished guests, international labor market and other experts in economics, pundits and politicians during an extravagant dinner banquet celebration at the Mayflower hotel, Dr. Richard Easterlin accepted the IZA Prize Award. Easterlin is a Professor of Economics at the University of Southern California, a member of the National Academy of Sciences and the American Academy of Arts and Sciences, a former Guggenheim Fellow and past president of the Population Association of America and the Economic History Association. His outstanding research and analysis has contributed to the advancement of understanding behavior in many fields of economic study including areas of labor supply decisions and the economics of the family. He is mostly known for his ground breaking work on subjective well-being and on the relationship between demographic developments and economic outcomes. For 50 years now, Easterlin continues to enlighten and nurture the social sciences and inspire new researchers.

Following the eloquent laudation by Andrew Oswald, a moved Dr. Easterlin was awarded with this year’s IZA prize along with an award of 50,000 Euros. The IZA prize winner’s accomplishments were further celebrated at the award ceremony where musical performances opened an extravagant dinner event.



Easterlin’s pioneering work on happiness and his famous “Easterlin Paradox,” stating that economic development will not raise happiness, is now rediscovered and revisited. In February 2008, French President Nicholas Sarkozy vigorously pushed to substantially revise the quintessence of the economic progress measurement, which has so far been estimated on the basis of GDP growth. He convened the Nobel laureates composed Commission on the Measurement of Economic Performance and Social Progress, whose conclusions show quite clearly that a nation lives on more than just impressive-looking GDP statistics and that citizens’ happiness should also signal the economic health of a country.

The 6th IZA Prize Conference on Frontiers in Labor Economics was about “The Economics of Well-Being and Happiness” to honor Professor Easterlin. Following the Policy Forum and Official Award Ceremony of October 22, 2009, the program was filled with paper presentations about the Economics of Well-Being and Happiness. Participants took advantage of this conference to thank Professor Easterlin for his tremendous contributions to the scientific community, discuss the entire conference and brainstorm for the future of happiness. ■

## Trans-Atlantic INFRADAY

Continuing its close cooperation with DIW Berlin, DIW DC represented by its Executive Director, Dr. Amelie F. Constant, was honored to give a talk at the welcoming reception of the Transatlantic INFRADAY Annual Conference. In her address, Dr. Constant emphasized the interdependence between the goals of such a conference and the work at DIW DC and invited the over 30 assembled researchers (economists and engineers) to continue their important research.

Co-organized by DIW Berlin and the University of Maryland, the INFRADAY Conference was held at the Resources for the Future in Washington, DC on November 13, 2009. The conference's theme was "Network Modeling and Infrastructure Policy for a Sustainable Future," covering a range of topics such as renewable energy, natural gas, transportation and infrastructure investments and pollution. The international conference was well-attended by researchers from the U.S. and Europe. Three keynote speeches were given by Andy Kydes from the United States Department of Energy, Professor Dr. Georg Meran of DIW Berlin and Karen Palmer from Resources for the Future. ■



## Fellowship Program – Now accepting applications

Washington, DC, is an ideal location for researchers who are also interested in policy. Not only is it the seat of all three branches of the United States federal government, the World Bank, the International Monetary Fund, 22 colleges and universities, 172 foreign embassies and innumerable think tanks, lobbying groups, NGOs and professional associations, but it is also home to DIW DC, a leading independent, nonpartisan, nonprofit economics think tank. The DIW DC Fellowship Program enables academics and scientists to come to the district and enjoy DIW DC's prime resources, central location and close ties to policymakers, embassies, fellow research institutions and universities, all while pursuing a project in one of DIW DC's research areas or a general socioeconomic topic of interest to DIW DC. Applicants must have an advanced degree and be working on an approved project. They should set their own timeline for their visit and, once accepted, may stay from one month up to one year, with the opportunity of seeking renewal after one year. Fellows will be responsible for all their own costs, including office space, and travel. Fellows will also be responsible for obtaining a visa to come to the U.S.

*To apply, please send a CV, cover letter, a 2-page project proposal, 2-3 references and suggested timeline to: Anastasia Xidous at [xidous@diwdc.org](mailto:xidous@diwdc.org) ■*

## DIW DC Part of International Non-Profits Education

DIW DC participated in a USAID sponsored training program about not-for-profit think tanks for an official delegation from Azerbaijan. The goal of the program is to teach people how to create and manage think tanks and robust organizations that are critical for assisting governments in economic transition. On July 21st, the Azeri delegates visited DIW DC for a discussion with Executive director Amelie Constant about how to create, support, and manage an economic think tank in Washington DC. Being the founding director of a think tank herself, Dr. Constant shared with them various strategies about staffing a think tank and how such decisions can affect the outcomes of each think tank's performance. Dr. Constant additionally discussed topics such as member credentials and ways to maintain in house experts while outsourcing other aspects of the think tank to consultants. Dr. Constant emphasized how crucial think tanks are within a country due to the valuable information they communicate to the media as well as to policymakers. Maintaining a connection between the government, the media, as well as other institutions and universities are ways in which Dr. Constant suggested the delegation go about creating a credible standing for newly formed think tanks. The delegates walked away with some valuable information to take back with them to Azerbaijan as they attempt to start their own think tanks. ■

## Internship Program at DIW DC

DIW DC thanks the four summer interns, **Lucy Axton** (American University), **Lauren Jarrell** (American University), **Jin Woo Kim** (George Washington University), and **Stephan Kohzer** (IZA and University of Bonn), for their valuable help to the Institute. DIW DC is accepting applications for the spring and summer internships in the fields of economics, public relations and administration.

DIW DC also thanks volunteers Marina Dathe and Christopher Dielmann for their contributions to the public relations and research areas.

*If you are interested in interning at DIW DC, please contact Anastasia Xidou, Program Coordinator for more information at: [xidous@diwdc.org](mailto:xidou@diwdc.org) or call 202.429.2904 ■*



## DIW DC Executive Director Receives “2009/2010 Professional Woman of the Year Award”

Dr. Amelie F. Constant has been awarded for her accomplishments, achievements and professional history as Professional Woman of the Year by the National Association of Professional Woman. NAPW recognizes Dr. Constant for her outstanding leadership and commitment within her profession. ■



## 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 2009, either by organizing sessions, chairing sessions, presenting papers, discussing papers, and/or having an exhibition booth. Every year, DIW DC is present at the annual meetings of the most important international economic associations.

- The First Annual Meeting on the Economics of Risky Behaviors, Washington, DC
- George Washington University Opportunity Knocks Fair, Washington, DC
- American Economic Association Annual Conference, San Francisco, CA
- Migration Summit of the Migration Policy Institute, Athens, Greece
- United Nations Human Development Migration Meeting, Princeton University, New Jersey
- G8 + 5 Academies of Science Meeting, Rome, Italy
- Voice of America Radio Interview, Washington, DC
- Weekly Lecture Series, German School of Washington, Potomac, MD
- "Labor Market Mobility: American Movers vs. European Stayers, GMF, OSA & DOL, Washington, DC
- German Marshal Fund Transatlantic Academy Meeting, Washington, DC
- Population Association of America Annual Meeting, Detroit, MI
- 6th Annual Migration Meeting (AM<sup>2</sup>), Bonn, Germany
- DIW DC Book Presentation at CSIS: "After the Honeymoon: Labor Market Implications Five Years after EU Enlargement," Washington, DC
- Multi-Attribute Analysis and Projection of Ethnic Populations: "Measure for Measure: Sizing up Ethnicity," Jevnaker, Norway
- "Global Green Recovery – Will the Next Recovery be Green?" Germany Embassy, Beijing, China
- 1st Annual CIER/IZA Workshop on Research in Labor Economics, Remin University, China
- 2nd German Day on Development Annual Conference, World Bank, Washington DC
- 2009 IZA Prize in Labor Economics, Washington, DC
- 2009 IZA Prize Annual Conference on Frontier in Labor Economics, Washington, DC
- 2009 IZA Policy Forum "The Global Economic Crisis and Labor Markets," Washington, DC
- 5th IZA Conference on Labor Market Policy Evaluation, Georgetown, Washington, DC
- Second Annual Trans-Atlantic INFRADAY: "Conference on Applied Infrastructure Modeling and Policy Analysis," Washington, DC
- "Facing the Global Economic Crisis: The German Perspective," Hudson Institute, Washington, DC
- Wang Yanan Institute for Studies in Economics (WISE), Xiamen, China

- European Society of Population Economics (ESPE) Annual Meeting, Seville, Spain
- CEPREMAP/CEPR Conference in Paris, France

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

- Washington Internship Institute, Career Day, Washington, DC
- Deutsche Schule, DC, Washington, DC

**Additional In-House Events:**

- Graduate Center of Economic and Social Research/ Accelerated Graduate Teaching Program; 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"

**Events Attended by DIW DC Staff:**

DIW DC's staff attended numerous functions, lectures and seminars throughout 2009 representing the institute such as:

- The German Marshall Fund of the United States: "The Transatlantic Trends Survey 2009: The Obama Bounce in Europe: Its Reach, Its Limits. Results of a New Poll," Washington, DC
- The World Bank: "The Second International Conference on Migration and Development," Washington, DC
- CATO Institute: "Freedom and Prosperity in Central and Eastern Europe: 20 Years after the Collapse of Communism," Washington, DC
- The Heritage Foundation: "Health Care Co-Operative: A Viable Alternative to a Public Plan?" Washington, DC
- Center for Strategic & International Studies and The institute for International Finance: "Economic Transformation and the Future of Capitalism: Lessons Learned from Poland's Success in Economically Turbulent Times," Washington, DC
- Deutsche Welle: "A Farewell Reception Honoring Mr. Ruediger Lentz and Introducing his Successor Mr. Miograg Soric," Washington, DC
- Friedrich Naumann Stiftung; "Twenty Years Ago: The Fall of the Berlin Wall," Washington, DC
- American Enterprise Institute: "The APEC Summit: A Future for Transpacific Regionalism?" Washington, DC
- George Washington University: "What Can OES Data Tell Us About increasing Wage Inequality?" Washington, DC
- "First 100 Days," Bertelsmann Conference, Washington, DC
- "Highly Skilled Immigration in a Globalized Labor Market," American Enterprise Institute, Washington, DC

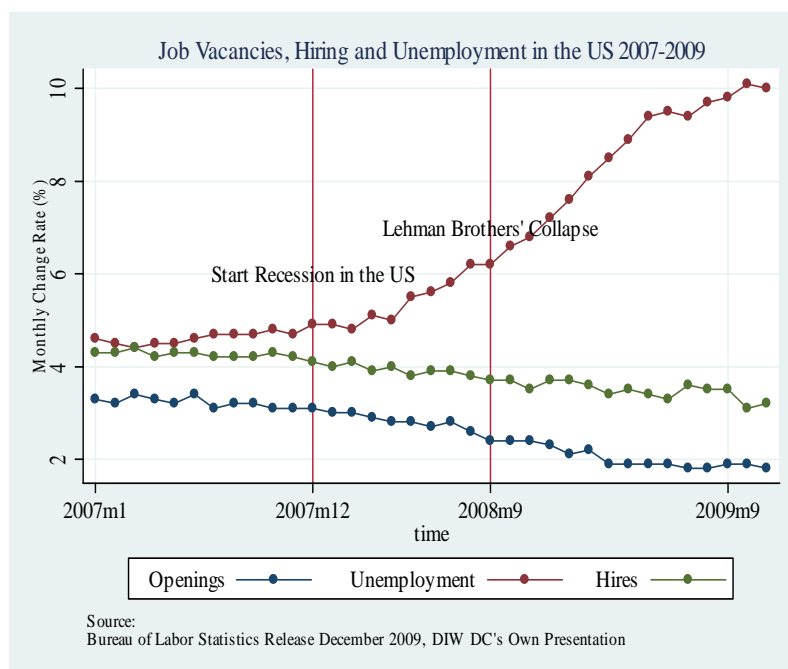
- USAID Training Program: “Non-profits Think Tanks”, Washington, DC
- “The Effects of Race on Entrepreneurship,” Hudson Institute, Washington, DC
- RGIT: “Study on German Firms in the US during the Financial Crisis”, Washington, DC
- Migration Policy Institute (MPI) several lectures and talks, Washington, DC
- United Nations Human Development “Overcoming Barriers: Human mobility and Development” Book presentation, Washington, DC
- Atlantic Council of the US: “Keeping Emerging Markets Afloat: IMF Response to the Global Crisis.” A discussion with Dr. Youssef Boutros-Ghali, Minister of Finance, Egypt; Chairman, International Monetary and Financial Committee, Washington, DC
- Library of Congress and MPI: E Pluribus Unum Prizes with honored guest speaker Secretary of Labor Hilda L. Solis, Washington, DC
- Brookings Institute: “Economic Crisis, Political Rebound: the State of the European Union in 2009,” Washington, DC
- Hudson Institute: “Health Care Reform: The Long-Term Fiscal Impact,” Washington, DC
- CSIS: “The Future of Transatlantic Relationship: Afghanistan, NATO’s New Strategic Concept, and the Challenges of Burden Sharing,” by his Excellency Karl-Theodor zu Guttenberg, Washington, DC
- Migration Policy Institute: “Stuck in a Revolving Door: Iraqis and Other Asylum Seekers and Migrants at the Greece/Turkey Entrance to the European Union,” Washington, DC
- The Friedrich Naumann Foundation: “The European Election: Implications for Europe and Germany,” Washington, DC
- The Friedrich Ebert Foundation: “Living Democracy” with Hon. Niels Annen of the German Bundestag and John K. Glenn of the GMF, as well as a reception marking the farewell of Dr. Almut Wieland-Karimi and the introduction of her successor Pia Bungarten, Washington, DC
- The World Bank: International Conference on Diaspora and Development, Washington, DC ■



## Jobless Recovery déjà vu?

On December 3, 2009, upon an invitation of President Obama, top economists and business owners met to discuss and regenerate fresh ideas about job creation in the US. Figure 1 depicts job openings and hiring rates juxtaposed to unemployment rates in the US. Since December 2007 and the debut of the recession in the US, as designated by NBER, the unemployment rate has been rising. In fact, based on the Bureau of Labor Statistics numbers, the unemployment rate skyrocketed after the fourth quarter of 2008, reaching double digits (10.1 percent) in October 2009. This is actually the highest unemployment rate since 1983 (WSJ Dec. 05, 2009). Unquestionably, high unemployment rates are frightening, politically detrimental – as people lose jobs – and constantly on the headlines. Prudent economists, however, know that it is also very important to look at vacancy rates or job openings. It is possible that high unemployment co-exists with high vacancies. The obvious reason is that there is mismatch between demand (what employers want) and supply (what the unemployed can offer). At which phase of the business cycle the economy is, is also important. During periods of economic expansion, we expect a high rate of vacancies that is also increasing fast and low unemployment rates. Conversely, during recessionary periods we encounter few job openings and higher unemployment rates. Figure 1 shows that both job openings and hiring rates follow a downward trend. By September 2009, the job openings and hiring rates have reached a low of 1.8 and 3.5 percent, respectively. Following economic theory, one can say that the US labor market is in contraction. What is rather unusual during this contraction is the high unemployment rates and the very few vacancies.

**Figure 1: US Labor Market Evolution**



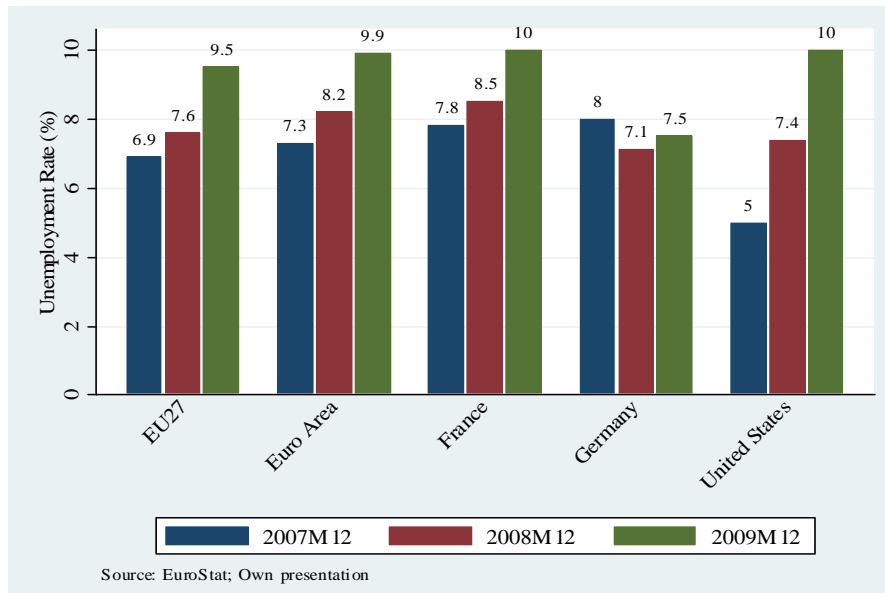


The question remains: Will this recovery be “jobless” as it happened in 2001? The answer comes from economic theory. By definition:

$$\textit{Growth in employment} = \textit{Output Growth} - \textit{Productivity Growth}$$

If productivity increases faster than output this creates unemployment. Obviously, high productivity means that firms can produce more output with fewer workers. High productivity characterized the 2001 recovery. At the time, the economy witnessed a substantial capital investment or “retooling,” most of the recession was in manufacturing, and demand for output was not sufficiently high. This time, things are different. Job losses in manufacturing are only one fourth while the sectors hit the most are the construction and financial services sectors. Employment, however, rose in temporary help services and the healthcare sector (BLS November 2009). The November 2009 report of the Bureau of Labor Statistics claims that the “unemployment rate edged down to 10.0 percent,” which somehow “raises hopes that unemployment has neared its peak and the economy is gaining a momentum” (WSJ Dec. 05, 2009).

**Figure 2: Monthly Harmonized Unemployment Rates in Selected Countries**



With the exception of Germany, Figure 2 shows the US and the EU experiencing increasing unemployment rates since the end of 2007. The unemployment rate in Germany in December 2007 was higher (8.0 percent) than the EU27, the Euro Area, France and the US level. It dropped in 2008 to 7.1 percent and rose slightly in 2009. Still, it is much lower than the US or EU unemployment rates. The “short term working allowance” among other things has certainly helped to stave off unemployment. ■

# China's Rise. How High can it Go?

By: Amelie F. Constant and Bienvenue N. Tien

*“China is not a superpower, nor will it ever seek to be one. If one day China should change its color and turn into a superpower, if it too should play the tyrant in the world, and everywhere subject others to its bullying, aggression and exploitation, the people of the world should ... expose it, oppose it and work together with the Chinese people to overthrow it”*

**-Deng Xiaoping, April 10, 1974 during the UN General Assembly.**

“Optimists learn Russian, pessimists learn Chinese,” was the adage during the cold war. Nowadays, however, this proverb does not appear to hold. China's economic ascension has turned the country into the cynosure of (international) scholars and businesses as well as of public policymakers. China is now seen as a global economic superpower, joining therefore the club of economic superpowers, members of which are currently the United States and the European Union. But what are the criteria that a contender country must meet to fulfill the requirements of becoming an economic superpower? As mention in Bergsten et al. (2009), a country must be (1) large enough to significantly affect the world economy, (2) dynamic enough to contribute importantly to global growth and (3) sufficiently open to trade and capital flows to have a major impact on other countries. Apparently, in their words, “China is, however, far more deeply integrated into the world economy than either of the economic superpowers” (p. 9).

Currently, according to the World Bank, World Development Indicators (2009), China's population is estimated to 1.3 billion and the life expectancy at birth in 2007 was about 73 years compared with 68 years in 1990. The purpose of this essay is therefore to reconsider and elaborate some facts about China.

In the following lines, we first give a brief demographic overview associated with some major historical events that ultimately shaped China's destiny. We analyze China's economic foundations – among others its human capital building process that undoubtedly led the country to becoming a ‘global player.’ We then examine China's international trade and finance relations with the U.S. and finally we discuss China's emerging role in the world and its relationships with other countries and continents like Africa.

## **The Beginning of a People's Nation**

About 60 years ago, on October 1, 1949, Mao Zedong and the Communist Party of China announced the founding of the People's Republic of China (PRC). It should be noted, that China's historical events known in the literature are mostly from the Mao era to present, neglecting therefore the Pre-Mao era, which is quite important. President Hu Jintao (2005) describes this period as follows: “Beginning the mid-19th century, China was reduced to dire misery as the country suffered one humiliating defeat after another and the population languished in poverty and starvation as a result of brutal foreign aggressions and corrupt and incompetent feudal rulers” (as cited in Das 2008).

By proclaiming the PRC, Mao and his entourage successfully accomplished one of their two main goals: that of breaking China's status as 'half colony' and thus achieving sovereignty vis-à-vis Japan, the U.S., England and France. The second goal was the land and property reform à la Soviet Union. In the process of these land reforms, landowners became dispossessed and previously landless rural households were given grounds. By 1954, the communist party's leadership ordered a gradual dismantling of the household-based economy. Consequently, individual properties were merged into larger entities, collectively managed and cultivated. Likewise, in the cities, the communist party took over the course of the 1950's - and almost nationalized - the entire industry and commerce sectors. However, a turning point of this social course of the communist party was interrupted as Mao Zedong launched in 1958 the 'Great Leap Forward' which was later abandoned (in 1961). The goal of such an ambitious program was, indeed, to prepare for the leap of the nation into a communist society. But due to allocation deficiencies of energies and resources, as judged by historians, this campaign failed and ended up with more than 20 million Chinese victims. Bearing personal consequences, Mao Zedong pulled back from active politics. From 1961 to 1965 other representatives in the party's leadership were in charge of the economic consolidation course. Among these representatives was Deng Xiaoping, who will be later referred to as the Chief architect of the 'reform and opening-up policy' (Heilmann 2005).

In 1978, and after Mao's death, Deng Xiaoping becomes de facto the ruler of China. He officially launches the Four Modernizations (agriculture, industry, science and technology, and national defense), thus formally marking the reform era (Bergsten et al. 2009).

In short, China's history from the mid-19th century to the reform era of Deng Xiaoping can be summarized as being a country first dominated by feudal incompetence which leads to political and social disorder and economic turmoil. During the Great Leap Forward (1958-1961), and the Cultural Revolution (1966-1976), in the mid-20th century and in particular in the 1960's, the country suffered from severe famines and its economic fortunes reached their nadir. China transformed itself from being once, at least at the death of Mao Zedong, one of the poorest and most autarkic economies in the world, to emerging as an economic giant in 2008. This success happened after three decades of broad-based market oriented macroeconomic reforms and restructuring, and through the now renowned Gai Ge Kai Fang, or 'change the system, open the door' or 'open-door policy' (Dias 2008, p. 3; 5).

### **China's Prominence in the Economic Firmament in the 21st Century**

Economically, China's huge emergence within a couple decades has been appreciated in a way that words speak for themselves. Remember the famous phrase of Jeffrey Sachs (2004) "Welcome to the Asian Century"! One might at first think that it is quite an exaggeration. However looking at some key economic indicators Sachs' remark is quite prophetic. Overall, the Chinese economy can be characterized as an economy in full mutation. As depicted in Table 1, private consumption accounted for 45% of GDP in 1995; in 2008 the same aggregate is about 35%. The investment share however increased within this time period. In 1995, investment was around 40%, reaching almost 44% in 2008, in spite of the worldwide financial crisis. In 2008, at the international level, only China's investment reached over 40 percentage points of the GDP, followed by India with 36%. In all other Western developed economies, Germany, Japan and the U.S., investment shares were clearly below a quarter percentage point of their respective annual GDP.

**Table 1: Share of Real GDP (in percent)**

Country	1995				2000				2008			
	Consumption		Invst	NX	Consumption		Invst	NX	Consumption		Invst	NX
Pvt	Govt	Pvt			Govt	Pvt			Govt			
China	44.9	13.3	40.3	1.6	46.4	15.9	35.3	2.4	35.3	13.3	43.5	7.9
India	66.3	11.1	24.6	-1.5	64.2	12.9	25.9	-1.9	57.2	9.8	36.2	-4.3
Germany	59.5	19.6	22.1	-0.9	58.9	19.0	21.8	0.4	54.7	18.4	20.3	6.8
Japan	56.7	15.5	27.7	0.4	56.2	16.9	25.5	1.5	55.5	17.6	23.2	4.9
USA	67.7	16.2	17.2	-0.9	68.7	14.4	20.8	-3.9	71.0	14.5	17.5	-3.3

Source: Adapted from CEIC, IMF's WEO, Prasad (2009), authors' presentation;

Note: NX stands for Net Exports (Exports – Imports)

Table 2 shows average GDP growth rates over the period of 2000 to 2008 for China, India, Germany, Japan and the U.S. The last column shows the employment growth in the formal sector. Compared to all other economies in Table 2, China recorded a double digit GDP growth (10.2%) over the period of 2000-2008. China is followed by India with 7.2%, leaving the other developed countries far behind. At the same time, the contribution of investment and net exports plays a key role in China's economic emergence. Investment accounts for 5 percentage points and Net Exports for 1.1 percentage points, which is higher than Japan, U.S. and Germany. Even the average contribution of net exports to growth is negative in the U.S. over the period 2000-2008. Table 2 also shows the employment growth. As Prasad (2009) suggests, a different way to think about the composition of growth is about how much employment is generated in the process of achieving that growth rate. It is quite striking that China's net employment growth was barely 1%, compared to India (2%). "The Chinese growth model, which has relied to a great extent on investment growth, has resulted in limited employment growth and a substantial increase in the capital output ratio. It would seem that a growth model that generates high GDP growth but only minimal employment growth is not welfare-improving, especially in a less developed economy like China that has a high level of unemployment and underemployment" (Prasad 2009).

**Table 2: Contributions to Growth and Employment Growth, 2000-2008 (in percent)**

Country	GDP Growth Contributions						
	GDP Growth	Consumption			Investment	Net Exports	Employment Growth
Total	Private	Government					
China	10.2	4.1	2.8	1.3	5.0	1.1	0.9
India	7.2	4.1	3.5	0.5	3.6	-0.3	1.9
Germany	1.4	0.5	0.3	0.2	0.1	0.9	0.4
Japan	1.5	1.0	0.6	0.4	0.2	0.5	-0.1
USA	2.3	2.3	2.0	0.3	0.1	-0.1	0.7

Source: CEIC, IMF's WEO, ADB, Prasad 2009, authors' presentation

China's role in international trade is also debated. Following Prasad (2009), Table 3<sup>1</sup> shows in much detail to

<sup>1</sup> Prasad (2009) defines the first three columns, for both 2000 and 2008, as follows: the ratio of total trade (imports + exports), exports and the trade balance (exports – imports) to GDP. The measure of exports and imports used here includes goods and nonfactor services.



what extent the selected countries depend on international trade. Germany's average ratio of exports to GDP is 46.7%, suggesting a high level of dependence on exports. China follows with an average ratio of 33.0% in 2008 compared with 20.8% in 2000. This shows that China's economic rise is also associated with high reliance on international trade. Japan and the U.S. are both below 20% in 2008 compared with their level of 21.2% and 25.7% in 2000. This might partially be justified through the financial and real economic crisis starting in late 2007.

**Table 3: Openness to Trade (in percent of GDP)**

Country	2000			2008		
	Total Trade	Exports	Trade Balance	Total Trade	Exports	Trade Balance
China	39.6	20.8	2.0	59.2	33.0	6.8
India	27.4	13.2	-0.9	54.3	24.0	-6.3
Germany	66.4	33.5	0.5	86.7	46.7	6.7
Japan	21.2	11.3	1.5	36.2	18.3	0.4
USA	25.7	10.9	-3.8	30.5	12.8	-4.9

*Source: CEIC, Asian Development Bank's Statistical Database System (SDBS), Eswar S. Prasad 2009, authors' presentation*

In addition, China's foreign exchange has risen to about 1.8 trillion by May 2008 worrying therefore some observers who think that China could plunk its dollars and consequently pose a threat to the U.S. Bergsten et al. (2009) contend that such a step is highly improbable because (1) any partial sale of their current dollar holdings would drive down the value of their remaining dollar holdings, (2) Chinese sales of dollars would drive up the price of whatever currencies they convert into. That can result in the appreciation of their own currency, renminbi, which in turn would adversely affect China's competitiveness, and (3) China would be branded an international pariah if it were to 'dump' its dollars in a precipitous manner that would generate global financial and economic instability. According to them, the only plausible situation that this could happen is if China thought that the U.S. might be about to freeze those holdings, like in Iran's case in 1979.

**Table 4: GDP, Current Account Balance, and Household Saving, 2008**

Country	Nominal GDP	Current Account Balance	As percent of GDP	Gross National Savings	As percent of GDP	Household Saving	As percent of GDP
	(USD billions)	Value (USD billions)		Value (USD billions)		Value (USD billions)	
China	4327.4	440.0	10.2	2333.4	53.9	1006.3	39.7
India	1209.7	-33.3	-2.8	479.0	39.6	264.4	32.0
Germany	3467.3	229.4	6.6	79.5	2.3	..	..
Japan	4910.3	158.5	3.2	344.1	7.0	157.5	20.3
USA	14265.0	-706.1	-4.9	1712.3	12.0	342.3	3.2

*Source: CEIC, IMF's WEO, Eswar S. Prasad (2009), authors' presentation*

We can now look at the savings behavior in China and compare it to other selected countries. It is argued that

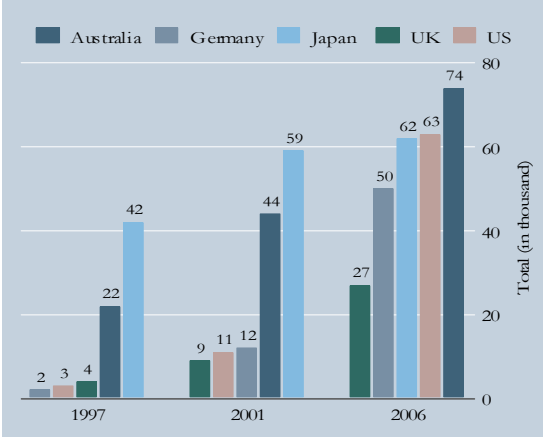
savings and investment are two of the most important variables for a developing economy because together they create productive capital stock, which in turn has material impact on the GDP growth rate (Das 2008, p. 11). A Gross National Savings rate of 53.9% and Household Savings rate of 39.7% in 2008 are by far higher in China than in Germany, Japan and in the U.S.

Many arguments have been made to justify this phenomenon. Justin Lin (2009) argues that in China the high level of corporate savings can partly be attributed to a financial structure largely dominated by state-owned banks and equity market with restricted entry, both of which favor large firms (as mentioned in Prasad 2009, p. 13). On the household’s side, however, Chamon and Prasad (2009) find that *“habit formation, demographics and the life-cycle hypothesis can not explain the rising household saving rate in China in the face of rapid income growth. Instead, the increasing private burden of education and health expenditures seem among the strongest candidates for explaining the increase in saving rates, at least during a transition period. Health expenditure-related risks can largely explain the dramatic increase in saving rates among elderly [urban] households”* (p. 20).

**Investing in Human Capital and Conquering the World**

Finally, this section is devoted to analyzing China’s human capital building and particularly looking at investments in Chinese students. Before coming to the Chinese higher education pursuit in the U.S., we first assess the overall trend of Chinese students’ country of study choices abroad. As depicted in Figure 1, adapted from Lasanoswki and Verbik (2007), one can see that Chinese students tend to go to study in Australia, Germany, Japan, the UK and the U.S. This trend is still persistent in 2006, as revealed in an UNESCO study. For example, in 1997, only about 2,000 students went to Germany compared with over 50,000 students in 2006. Also while in 1997, there were 22,000 Chinese students enrolled in Australia, in 2006 they were 70,000. However, within these top countries of destination, some attract more Chinese students than others. In 2006, the leading destination country for these students was Australia followed by the U.S. The U.S has become nonetheless a favorite destination for Chinese students in the recent years. As released by *the Institute of International Education* (November 16, 2009), in the academic year 2008/09, 98,235 students from China

**Figure 1: Destinations for Chinese Students by Select Host country, 1997-2006**



*Source: Adapted from Lasanoswki and Verbik 2007, DIW DC’s presentation*

were enrolled in a U.S. higher education institution compared with 81,127 in the previous academic year 2007/08. Chinese students represent therefore about 14.6% of foreign students in the U.S. in 2008/09.

On the other hand, U.S. students do not favor China as their country choice for higher education. According to *Open Doors 2009 Report on International Education*, U.S. students favor first the UK, second Italy, third Spain, fourth France, and fifth China. Based on an estimation of the academic years, 2006/07 and 2007/08 the numbers are around 11,000-13,000. The U.S. government is committed to 'dramatically expanding' to 100,000 U.S. students who study in China over the next four years, as mentioned in Marklein (08, 2009).

One question that has attracted researchers is associated with the increasing number of the Chinese students in the U.S. and their contribution to U.S. scientific productivity. In a recent study, Gaule and Piacentini (2009) looked at Chinese graduate students in Chemistry. They found that graduate students with a Chinese name are more productive than other graduate students in the same department (chemistry) and university.

### **China in Africa**

Over the last couple of years, the international community has witnessed China's massive presence in Africa. According to Gu (2006), China's 'come back' to Africa occurs at a time where the dominance or presence of other superpowers on the continent is steadily shrinking. Between 2000 and 2007, the trade between China and Africa rose from \$10.6 billion to \$73.3 billion. That makes a growth rate of about 30% p.a.; making China therefore the third largest African trading partner, behind the U.S. and the E.U. (Besada et al. 2008, p. 3). However, Chinese officials maintain that this growing presence has been emphasized solely based on business<sup>2</sup>. In a recent study, Broadman et al. (2007) find that the current patterns of trade and investment between Africa and Asia/China is considerably driven by complementarities between the two regions; for instance, Africa's needs for Chinese manufactured goods and machinery and China's needs for Africa's natural resources. For them, that differs from the recent growth in Africa's trade with the EU and the US, which is largely based on preferential treatments in these two markets.

In sum, we have accessed China's steps toward becoming a global economic superpower. Historically, the country has gone through many black days before Deng Xiaoping, the era of the 'open-door policy' which was initiated in the late 1970's. Since then, China has reoriented and adapted its economic system and within three decades, the country is seen worldwide as a superpower. Key economic indicators show an overall favorable growth for China. Among the developed nations, China has emerged to be the first exporter in the world, relaying therefore Germany to the second place in 2009. China's savings rates are also higher than in any other nation. Its increasing foreign exchange rate (about \$1.8 trillion in May 2008) is subject to fears and speculations. Some observers think that China would plunk its dollars and pose a threat to the U.S. However,

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<sup>2</sup> C.f. to China's deputy foreign minister, Zhou Whenzong's comment: "Business is business. We try to separate politics from business.... You [the West] have tried to impose a market economy and multiparty democracy on these countries which are not ready for it. We are also against embargoes, which you have tried to use against us", as mentioned in Besada et al. (2008, p. 15).

experts think that considering some issues, i.e. China's own currency appreciation, which could derive from such an action, make the situation rather improbable. Nonetheless, it is noteworthy to mention here the statement of one Chinese ambassador during China's negotiations to enter the WTO: "We know we have to play the game your way now but in ten years we set the rules!" (As cited in Bergsten et al. 2009, p. 9).

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## Scientific & Policy Output

### Refereed Journals

“Ethnosizing Immigrants,” *Journal of Economic and Behavioral Organization*, (A.F. Constant, L. Gataullina and K.F. Zimmermann), 2009, 69/3, 274-287

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# Socrates in the Boardroom: Why Research Universities should be Led by Top Scholars

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## Introduction

What difference can leaders make to the performance of research universities? According to my data they can make a big difference. My research asks the question: is there a relationship between the characteristics of a leader and organizational performance; should the leader essentially be a manager or an expert? The conclusion, supported by evidence, is that research universities should be led by outstanding scholars – experts in the core business of universities, that of research and teaching. Being a good manager is not alone a sufficient condition.

This research is motivated in part by the recent emphasis on ‘managerialism’ in universities and more widely in the public and private sectors in a number of countries. There has been a suggestion that managers, as leaders, may be preferable. This work argues that in universities, where the majority of employees are expert workers, having a leader who is also an expert is beneficial to performance. The alternative argument takes the form: what a leader in a university or knowledge-based sector needs is primarily high managerial ability allied merely to some acceptable minimum level of technical ability. By contrast, what the later data in this study suggest is a fairly smooth relationship between the leader’s level of scholarship and a university’s quality. The greater is the first, the greater is the second.

*“Is there a relationship between the characteristics of a leader and organizational performance?”*

My research draws from four separate datasets. It starts by looking at who currently heads the world’s top 100 universities and business schools. Next I explore whether the characteristics of a leader in position today can tell us about the future success of their institution. Finally, using interview data from twenty-six university leaders in the United States (US) and United Kingdom (UK), I present possible explanations for why better scholars may make better leaders.

It is important to emphasize that scholarship is not viewed here as a proxy for either management experience or leadership skills. An ‘expert’ leader must have expertise in areas other than scholarship. Also, it should not be assumed that all outstanding researchers will inevitably go on to make good managers or leaders. Before

their step to the top position, most university presidents have gained management experience as provosts, pro-vice chancellors or deans, or by running major research centers or labs. This was the case with virtually all of the four hundred leaders examined in this study.

### **Leaders of the World's Top Universities**

The most prestigious and wealthiest universities in the world arguably have the widest choice of leadership candidates. If it can be shown that they appoint top scholars as their leaders, this could be one form of evidence that, on average, better researchers may make better university presidents. Economists would call this a form of 'revealed preference' (about the organizations' underlying objectives). As suggested earlier, scholarship is not viewed here as a proxy for either management experience or leadership skills but something *in addition* to that. However, a priori, if what really matters in a leader is managerial ability, it would not be expected that universities would be led by successful researchers.

In the quantitative analyses I focus on one set of measures of a university leader's research performance, namely, the person's lifetime scholarly citations. Citations are generally viewed as a reliable indicator of research achievement over an individual's whole career. Publishing conventions differ across academic disciplines. For example, scientists publish many more articles than social scientists, and subsequently they tend to accrue higher numbers of citations, whilst far fewer are assigned in the humanities. To adjust for this discrepancy, each leader's lifetime citations have been normalized into what I call a citations 'P-score,' where:  $P\text{-score} = \text{President's individual lifetime citations normalized for discipline.}$

Identifying whether better universities select reputable scholars as presidents tells us something about the actions of top institutions, and also gives us a starting place for trying to understand whether universities might actually perform better under their leadership. If there is no association between the characteristic of scholarship and university quality, then my hypothesis that research universities achieve more when led by distinguished scholars is unlikely to be correct.

To identify the top 100 universities in the world, I use the 'Academic Ranking of World Universities' (SJTU) produced by the Shanghai Jiao Tong University. The bar diagram in Figure 1 shows the average lifetime citations (normalized for discipline) of each of the 100 presidents by the position of their university in the global ranking. The 100 universities are grouped into quintiles (the '1-20' group refers to the top of the SJTU table and 1 equals Harvard).

As can be seen there is a clear monotonic decline – the higher the university is placed in the global ranking, the higher are the lifetime citations of its leader. In other words, better universities appear to hire better scholars to lead them. This relationship is statistically significant.

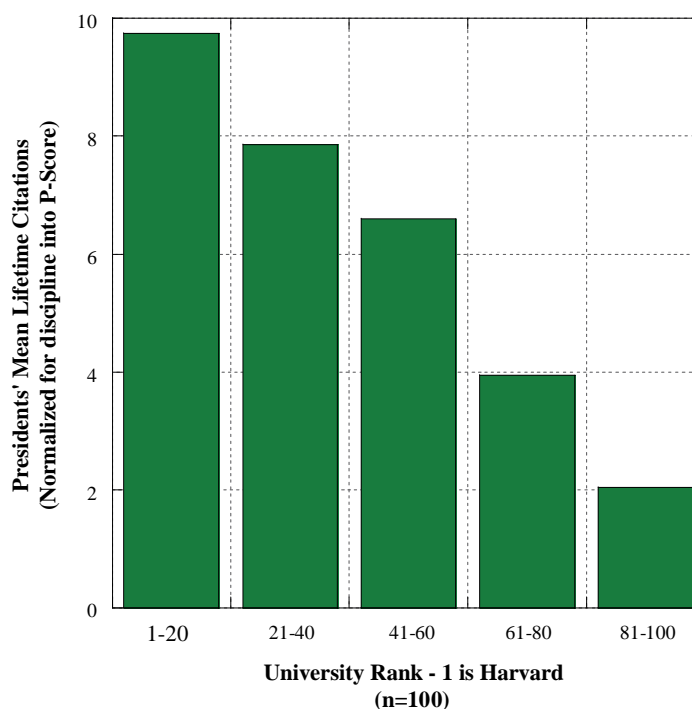
A similar statistically significant association exists between the position of a business school in the Financial



Times MBA ranking and the lifetime research citations of its dean. Business schools higher in the FT ranking appear to hire better scholars to lead them. That the relationship between scholarship and performance exists in business schools is interesting, because they are more applied than regular academic departments.

Of the top 100 universities in Figure 1, the majority (51) are located in the United States. US universities are more likely to hire outstanding scholars as leaders. Rockefeller University's ninth president, the UK biologist Paul Nurse, is a Nobel Prize-winner, and he is not alone. David Baltimore, who stood down as President of California Institute of Technology in 2006, is also a Nobel laureate, as is J. Michael Bishop, Chancellor of University of California, San Francisco. Indeed California, with a population of 36 million, is home to many great institutions that are led by some of the most distinguished scholars in the world.

**Figure 1**  
**Presidents Who Lead Universities Higher in a World**  
**University Ranking have Higher Lifetime Citations**  
**(in quintiles)**

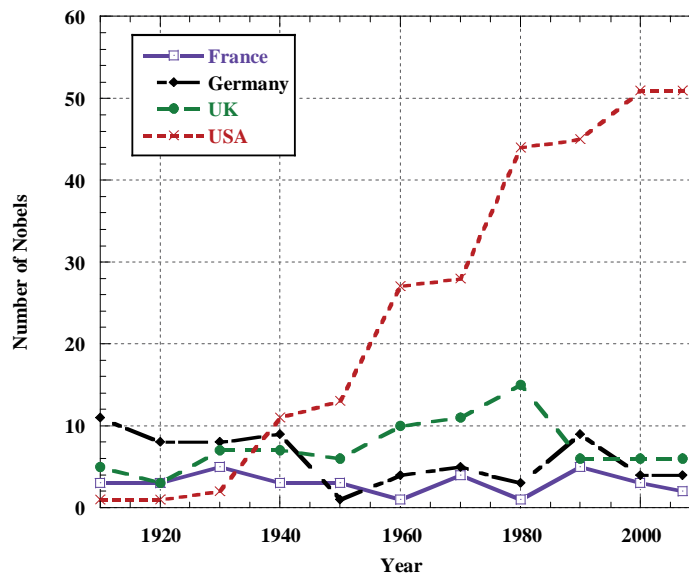


Importantly, US institutions also house most Nobel Prize-winners. The share of Nobel Prizes going to European universities compared with US institutions has declined considerably. In the first half of the 20th Century only 28 Nobel Prizes went to US universities in the fields of chemistry, medicine and physics. Since 1951, with the addition of an economics prize in 1969, 260 Nobels have been awarded to scholars located in America. And the gap continues to widen. Figure 2 shows the decline in Laureates in Germany, France and UK (the main recipient nations in the first half of the twentieth century) compared with the concomitant rise

of prizes going to US institutions.

Winning a Nobel Prize has little to do with a laureate's nationality. Instead, credit should lie with the institutions that attract these brilliant thinkers – universities that are often also led by brilliant thinkers.

**Figure 2**  
**Number of Nobel Prizes Awarded to Individuals**  
**in Institutions in France, Germany, UK and USA**  
**Between 1900 - 2007\***



\* Nobel Prizes awarded in chemistry, medicine, physics and economics from 1969.

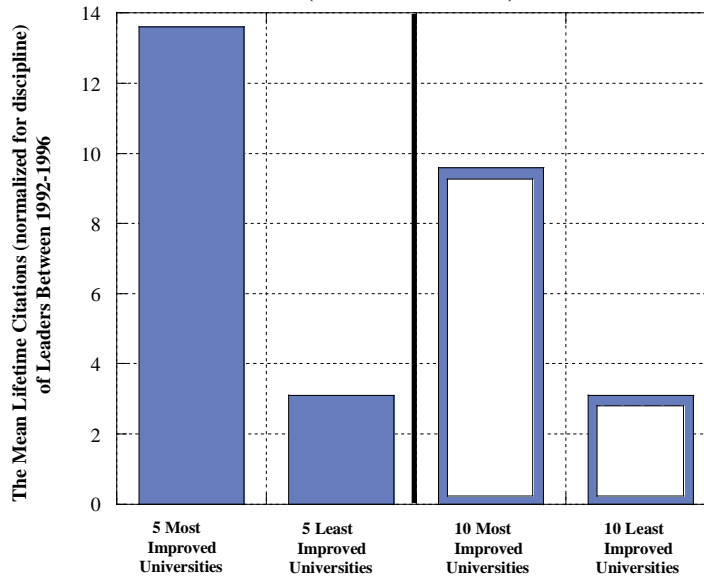
### **Evidence that Scholars Improve the Performance of their Universities**

Can the correlation in Figure 1 be explained simply by assortative matching or reverse causality? For example, Harvard and Stanford become great and then it is possible to attract and afford presidents who are outstanding scholars. To try to assess whether scholar-leaders actually *improve* the performance of their universities I examine longitudinal data. I follow the performance of fifty-five UK research universities in the Research Assessment Exercises. (The RAE is run by the British government. It uses peer review to assess each university's research output and then allocates funding according to quality and quantity.) Using regression equations and controlling for confounding variables such as size of institution, the results show that those universities led, a number of years earlier, by good scholars go on to perform better in the RAE.

Figure 3 presents the results in a simple cross-sectional bar diagram that correlates universities later performance in the RAE with vice chancellors' lifetime citations -- normalized for discipline -- some years earlier. The focus here is on the leaders of those universities that made the greatest gains, and the smallest gains, in the RAE between 1992 and 2001.

The universities that improved the most were overwhelmingly led by better researchers.

**Figure 3**  
**Universities that Improved the Most Between 1992-2001**  
**Were Led by Vice Chancellors With Higher Lifetime Citations**  
**(n=55 universities)**



### Why Scholar-Leaders Might Improve the Performance of Research Universities

The quantitative evidence above suggests that hiring scholar-leaders into research universities can result in improved research performance. Why might top scholars improve university performance? In interviews with university leaders in the US and UK (see Figure 4), four reasons emerged.

First, a president (vice chancellor, rector, principal) who is a distinguished scholar will have a better understanding of the core business of a university, that of research and teaching. This is key to the idea of ‘expert leadership’, that in core business relies on expert knowledge -- for example, in hospitals, law and accounting consultancies and architecture organizations where the leader must *first* be an outstanding expert in the relevant area of business. This particularly challenges the ideas of managerialism that would appear to promote management skills above expert knowledge. Arguably, top scholars, doctors, engineers or lawyers must also have management and leadership skills, and in my dataset of 400, almost all the leaders had progressed through managerial hierarchies in their institutions prior to the top job. A second explanation raised by interviewees, one that again relates to expert knowledge, is that a scholar-leader will likely demand higher academic standards. Arguably, it is leaders who should set the standards in

*“A scholar-leader will likely demand higher academic standards”*

any organization. This message is articulated by a dean in one of my interviews, “leaders are the final arbiters

**Figure 4**  
**Interviews with Leaders in Universities**

US Universities	UK Universities
Derek Bok, Former President, Harvard	George Bain, Former Vice Chancellor, Queen’s U Belfast
Kim Clark, Dean, Harvard Business School	Glynis Breakwell, Vice Chancellor, Bath U
Amy Gutmann, President, U of Pennsylvania	Bob Burgess, Vice Chancellor, Leicester U
Patrick Harker, Dean, Wharton School	Yvonne Carter, Dean, Warwick Medical School
John Heilbron, Fmr Vice Chancellor, Berkeley	Ivor Crewe, Vice Chancellor, Essex U
Jeremy Knowles, Former Dean, Harvard	Howard Davies, Director, LSE
Paul Nurse, President, Rockefeller U	Anthony Giddens, Former Director, LSE
Henry Rosovsky, Former Dean, Harvard	Alan Gilbert, President, Manchester U
David Skorton, President, Cornell	David Grant, Vice Chancellor, Cardiff U
Lawrence Summers, President, Harvard	John Hood, Vice Chancellor, Oxford U
Shirley Tilghman*, President, Princeton	Andrew Pettigrew, Dean, Bath School of Management
	Richard Skyes, Rector, Imperial
	Eric Thomas, Vice Chancellor, Bristol
	Nigel Thrift, Vice Chancellor, Warwick U
	Bill Wakeham, Vice Chancellor, Southampton U

\* I did not interview Shirley Tilghman; instead she was asked questions about my research by the Princetonian Newspaper.

of quality. Therefore it is right to expect the standard bearer to first bear the standard”. A number of UK vice chancellors said that it was easier to encourage others to submit articles to top journals for the Research Assessment Exercise if they had done so themselves.

Top scholars send out important signals to a number of audiences. That was the third explanation from interviewees. They signal a university’s priorities, act as a beacon when hiring other outstanding academics, are attractive to students and also potential donors. Finally, it was suggested that scholars are more credible leaders. A president who is a researcher will gain greater respect from academic colleagues and appear more legitimate. Legitimacy extends a leader’s power and influence.

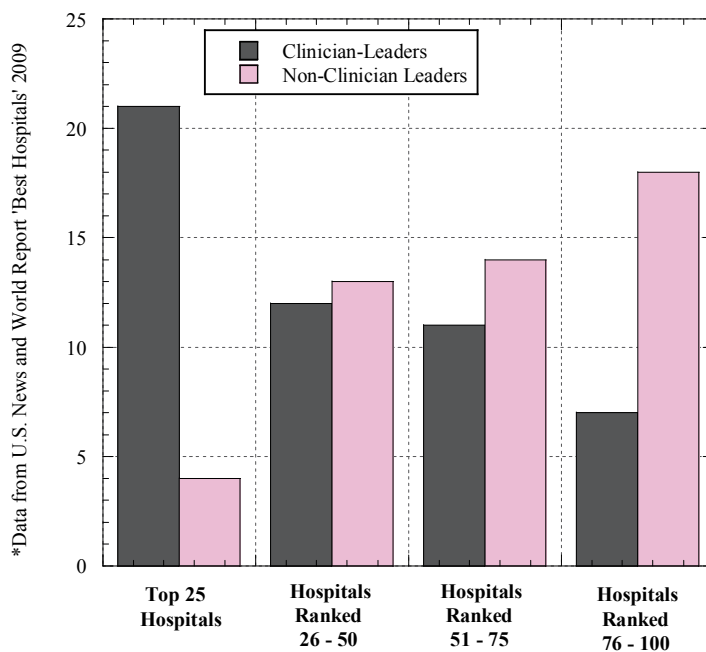
### **The Broader Implications of this Research**

I have presented a summary of evidence showing that in knowledge-intensive organizations, such as research universities, where the core workers are experts, hiring leaders who are also experts may improve organizational performance. My central argument is that where expert knowledge is the key factor that characterizes an organization, it is expert knowledge that should also be key in the selection of its leader. This research suggests that there is a direct pay-off from having leaders who are technical experts in their field as opposed to professional managers. These findings have major policy implications for universities, R&D units, and other important institutions, for example, hospitals.



The issue of whether hospitals perform better when led by physicians or professional managers is being debated world wide. This is the topic of my new research. Already I have discovered an interesting correlation; it is that the top 100 hospitals in the US – in three specialties of cancer, digestive disorders, and heart & heart surgery – are more likely to be led by CEOs who are physicians instead of managers. The findings are statistically significant and remain so after controlling for potential confounders such as size. Figure 5 presents the results in quartiles in the field of cancer.

**Figure 5.**  
**Proportion of Clinicians and Non-Clinician Managers as CEOs in the Top 100 U.S. Hospitals in the Field of Cancer: By Quartiles\***



As with the case of 100 universities, the most elite hospitals are likely to have the greatest choice of candidate. That the best-performing institutions are led systematically by medical experts rather than managers represents one form of evidence that physician-leaders may be effective CEOs of hospitals. These findings are only cross-sectional associations that will need to be supported by longitudinal inquiries, into the possibility that physician leaders might also improve the performance of their hospitals.

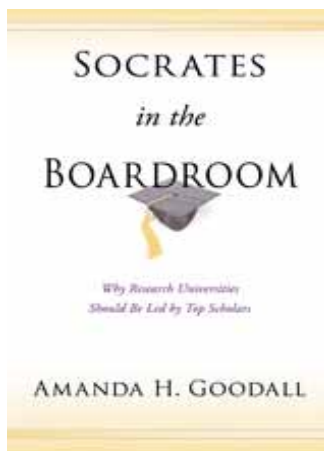
As suggested earlier, there are many other settings where expert leaders may improve organizational performance, from pharmaceutical companies to Formula 1 racing and banks. An important question for future discussion is how should experts be educated in managerial skills? Are generic MBAs appropriate for experts, or should business schools be designing management education that is situation-specific, in other words, tailored specifically to the needs of experts and professionals?

## Conclusion

The empirical research outlined above examines whether university performance is linked to leadership. It first shows that the best universities and business schools in the world are led by more established scholars, and then, uncovers evidence that leaders who are better scholars improve the later research performed by their universities. By constructing a new dataset, the research shows that the characteristics of a leader in position today are correlated with the future performance of the organization.

The question of why scholar-leaders might improve performance is addressed using interview data with twenty-six heads in US and UK research universities. Four key explanations are raised by interviewees: First, scholar-leaders are thought to be more credible leaders in universities. Greater respect is bestowed on distinguished researchers by their academic peers, which enhances a president or vice chancellor's influence. A second argument, one that is internal or behavioral, is that scholar-leaders have expert knowledge. In the context of a knowledge-intensive organization like a research university, having been an expert or top scholar may provide a head with a deep understanding of the organization's core business, which may have some bearing on the behavior of leaders. Third, it was argued that leaders must establish the quality threshold of their institution. The setting of an organization's academic standards was viewed by those interviewed as a significant part of the function of president or dean, and, therefore, one should expect the standard bearer to first bear the standard. Finally, it was suggested that a leader who is an established scholar signals the institution's priorities, internally to its faculty and externally to potential new academic recruits, students, alumni, donors and the media.

In recent years belief in the dominance of managers and managerialism has become ubiquitous, in the UK and in many other countries. Implicit in much government policy are the unproven assumptions that experts, such as academics and doctors, either cannot manage or are somehow inferior to professional managers. My research suggests that this position is flawed. I show that organizational performance is improved when expert leaders, not professional managers, are at the helm. ■



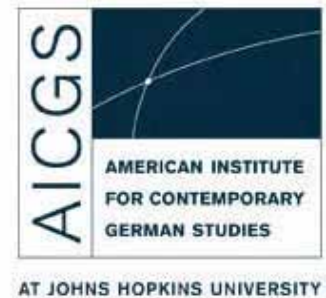
*This article is adapted from Amanda Goodall's recent book 'Socrates in the Boardroom: Why Research Universities Should be Led by Top Scholars', Princeton University Press (October 2009).*

## NOTES

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