



IZA Policy Paper No. 15

**Agenda 2020:
Strategies to Achieve Full Employment in Germany**

Hilmar Schneider
Klaus F. Zimmermann

March 2010

Agenda 2020: Strategies to Achieve Full Employment in Germany

Hilmar Schneider

IZA and DIW Berlin

Klaus F. Zimmermann

IZA, DIW Berlin and University of Bonn

Policy Paper No. 15
March 2010

IZA

P.O. Box 7240
53072 Bonn
Germany

Phone: +49-228-3894-0

Fax: +49-228-3894-180

E-mail: iza@iza.org

The IZA Policy Paper Series publishes work by IZA staff and network members with immediate relevance for policymakers. Any opinions and views on policy expressed are those of the author(s) and not necessarily those of IZA.

The papers often represent preliminary work and are circulated to encourage discussion. Citation of such a paper should account for its provisional character. A revised version may be available directly from the corresponding author.

ABSTRACT

Agenda 2020: Strategies to Achieve Full Employment in Germany

This strategy paper by the Institute for the Study of Labor (IZA) shows ways in which Germany once more can attain full employment in the coming decade. Much of what the previous government's "Agenda 2010" has put into motion has clearly steered labor market development in the right direction. The reforms are one of the main reasons why Germany has been more resistant to the recent financial and economic crisis than other countries. While these achievements should not be called into question, further action is necessary. The IZA concept includes the following elements:

(1) *Education reform*: Early childhood education must be improved. Social background should no longer determine future career prospects. More independence and competition between schools and universities would improve the quality of education. Selection of students into different secondary school tracks should occur at a higher age. The dual system of apprenticeship training could be shortened. College tuition fees could be replaced by a graduate tax.

(2) *Welfare state reform*: A consistent implementation of the principle of reciprocity would create additional employment incentives and make working for a living worthwhile again even for the low-skilled. Workfare is socially just and promotes independence rather than producing dependency. Child benefits should be granted primarily as vouchers.

(3) *Job placement reform*: The problem groups of the labor market need one-stop support tailored to their individual needs as soon as they become unemployed. IZA proposes the creation of job centers that act independently from local and federal authorities in order to avoid the organizational maze of unclear responsibilities.

(4) *Immigration policy reform*: Germany needs high-skilled immigrants to cope with demographic change and skilled labor shortages. A selection system for permanent immigrants and a market-based solution for temporary immigrants would substantially increase the economic benefits of immigration and create additional momentum for the realization of full employment.

JEL Classification: J08, J18, J21, J24, J38, J61, J68, I28, I38

Keywords: labor market policy, Agenda 2010, Hartz reforms, workfare, job center, education, demography, migration policy

Corresponding author:

Hilmar Schneider
IZA
P.O. Box 7240
D-53072 Bonn
Germany
E-mail: schneider@iza.org

1. Introduction

The Institute for the Study of Labor, as one of the leading international research institutes and scientific networks in the field of labor market research and employment policy, presents this strategy paper as a **concept of future labor market policy in Germany**.

It shows ways in which Germany once more can **attain full employment in the coming decade**, by building upon proven policy tools and approaches. Much of what Agenda 2010 has put into motion has clearly steered labor market development in the right direction and should therefore remain in place. However, further action is necessary.

The aim of the IZA strategy paper is to objectify and substantiate the debate on the future of the welfare state and labor market, and to give this important social discussion a **clear direction**.

IZA's generally optimistic evaluation of employment prospects in Germany is based on three main observations:

1. The speech given by German Chancellor Gerhard Schröder on March 14, 2003 entitled "Courage to Change," but popularly known as "**Agenda 2010**," created a new public consciousness about the link between "employment, individual responsibility and safeguarding the future," even in the face of much resistance. At that time the underlying message was: we will require more responsibility and a greater contribution from the individual person. This key message must remain the stable determining factor for labor market policy in the coming years. **The principle of providing support and making demands has been the basis for employment success** in recent years.
2. Important reforms have been introduced since 2003 which have brought about a new way of thinking and behaving. The outcomes of this will be examined more closely below. Generally speaking, this approach to the problem has proven to be correct in principle. It has contributed to, among other things, a stabilizing of the labor market, even in times of crisis, and the creation of new jobs. Despite its mechanical flaws and a hesitant pace of reform, this process of **new orientation of labor market policy** has been shown to be **successful**, even in a relatively short period of time. This must be systematically followed through. **Important elements of reform must not be subject to negotiation**.
3. Especially due to demography and its consequences, the parameters of the labor market will drastically change in the coming years compared to the situation at the turn of the millennium. On the one hand, there is an easing of the labor market due to demographic changes and the opportunities resulting from new areas of employment; on the other hand, there is growing financial strain on labor through the burden of increasing social contributions. New employment opportunities can come from this if politicians, unions and management react sensibly to this process of change. Society and politicians must be aware that **education and migration policies** face especially difficult challenges in light of a **shrinking and aging working population** and the simultaneously **growing demand for human capital**.

Germany, like all economies, is subject to continuous structural change. This change means that new qualification requirements emerge and old ones disappear. The past has taught us that it is extremely difficult even in the short run to list definitively the future qualification requirements. One only has to think of the advance of the Internet and the importance it has gained for everyday life in just about ten years. Nowadays no one knows for certain what the new requirements will be, even when trends become apparent. Many signs point towards the rise of the Green Economy. Health and care may also experience considerable growth.

The education system in Germany will therefore also bear much of the responsibility in the future. An important prerequisite to surviving the structural change is an education system which is as flexible as possible. Germany has no need to hide past achievements in this; however, one must not forget those who cannot keep up with the growing educational requirements. Whereas high-skilled workers should face hardly any difficulties in adapting to future changes as well as in the past, the group of those who are low-skilled will be confronted with increasing problems in the labor market. Before the labor market reforms, mass unemployment was mainly characterized by what was in fact early retirement, but with its abolition the group of low-skilled has moved to the forefront. The causes of their unemployment cannot always be solved with more education. A policy directed towards the goal of full employment must first and foremost start here, without losing sight of an efficient education system.

A consistent education policy is necessary to achieve the goal of full employment, but it alone is not enough. The same goes for improving the low-pay sector. Full employment can only be achieved with a combination of both.

2. Past achievements should not be questioned

The manner in which Germany has so far navigated through the worst financial and economic crisis since the Second World War has attracted considerable attention world-wide. **Germany seems to have found a pioneering formula for a combination of security and flexibility in the labor market**, much to the envy of both Americans and other Europeans. The German labor market, which was criticized a few years ago for being rigid and expensive, has subtly gone through a fundamental change. The starting point of this transition has been put down to the reforms laid out in Agenda 2010. The renunciation of the policy of rewarding non-work, the liberalization of temporary work and the efficiency-enhancing organizational reform of employment administration have succeeded in **reducing structural employment** for the first time in three decades.

The labor market reforms have been accompanied with consistent corporate restructuring efforts. Trade unions have also set the right **priorities in wage bargaining** by giving precedence to **job security**. This in turn has been rewarded in the petering out of the economic crisis. If the goal of full employment is not to be lost sight of, there can be no other alternative to the continuation and reinforcement of these wage-bargaining strategies.

These measures have kept unit labor costs in Germany virtually constant since the mid-1990s while they have risen considerably in the most important comparable countries. All of which has resulted in a substantial rise in the **international competitiveness of German companies in recent years**.

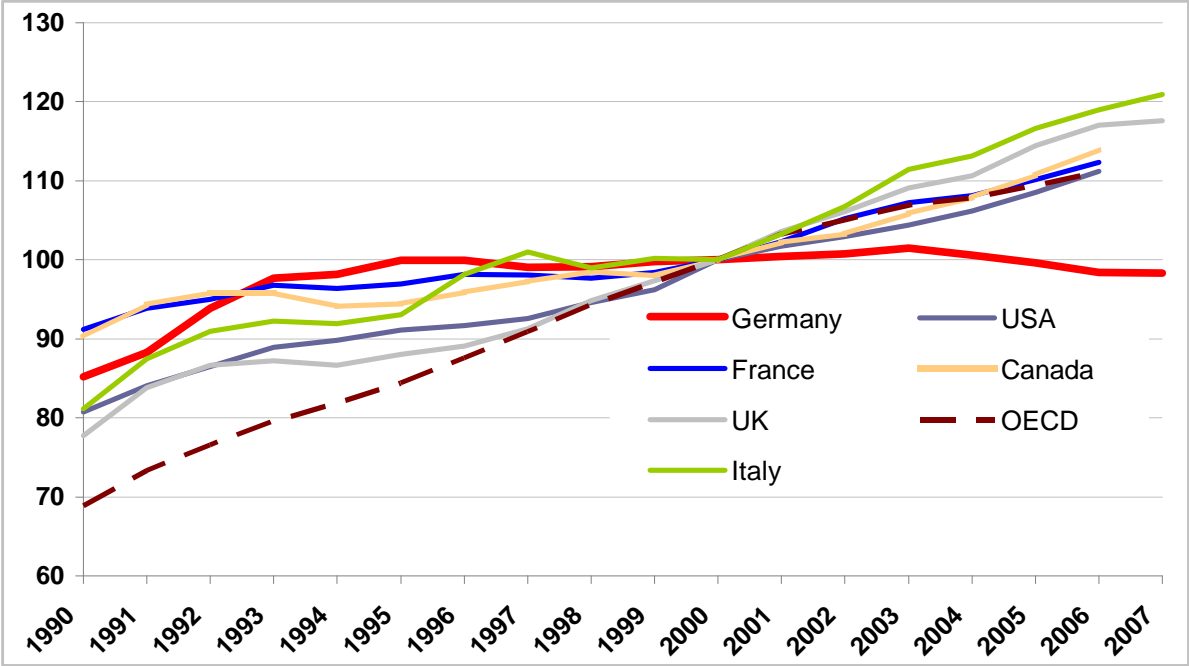
The most striking progress can be seen in the **reduction in unemployment by more than 1.4 million since 2005**. Even at the end of the crisis year of 2009, unemployment was at its second-lowest since 1994; in the former East Germany unemployment even sank to its lowest level since reunification. Employment hardly decreased in comparison with 2008 and is still at a record level of over 40 million employed individuals. This is all the more remarkable because working hours have been drastically reduced. The fact that this has not resulted in a comparable decrease of employment shows how highly businesses rank holding on to **their qualified workers**.

This was undoubtedly helped by the rapid expansion of short-time work with few bureaucratic hurdles, which created an enormous buffer. Many companies, however, have since then returned to regular employment. The number of short-time workers had nearly halved by the end of 2009, following the

peak in May of that year, without having resulted in a noticeable increase in the number of unemployed.

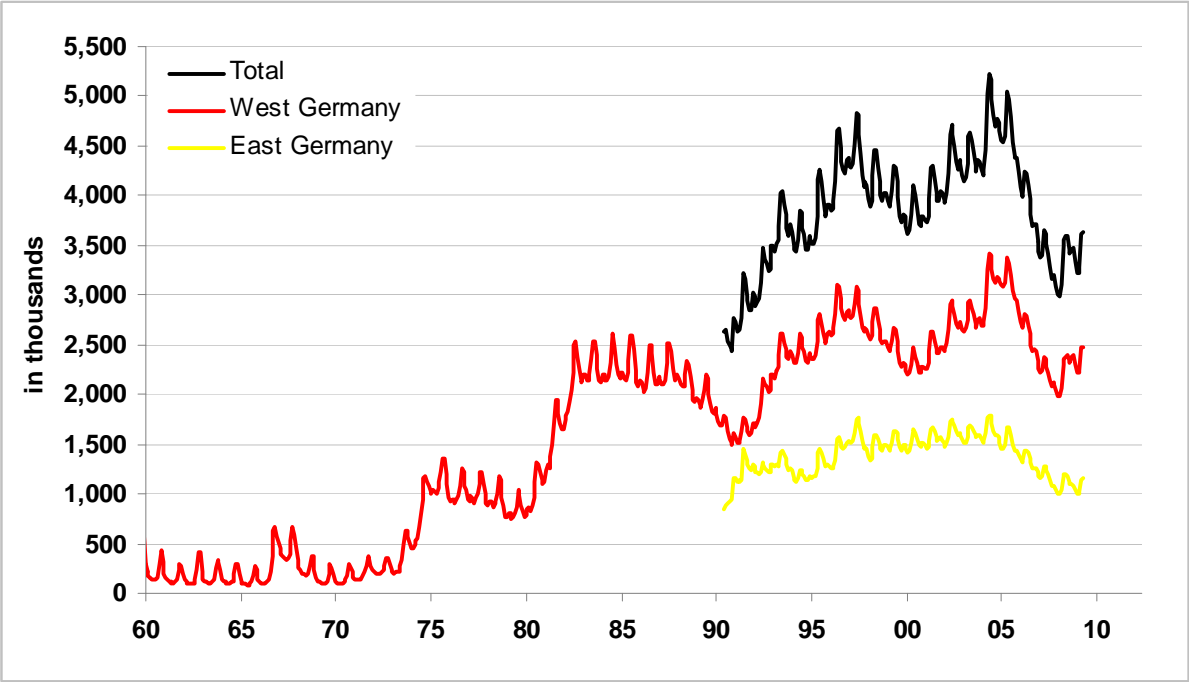
The policy instrument of short-time work has thus fulfilled its purpose as a crisis buffer. It is now time for a gradual return to its “normal level” in order to discourage companies from delaying structural adjustments, which are independent of the crisis.

**International comparison of unit labor costs:
Germany well-prepared for crisis**



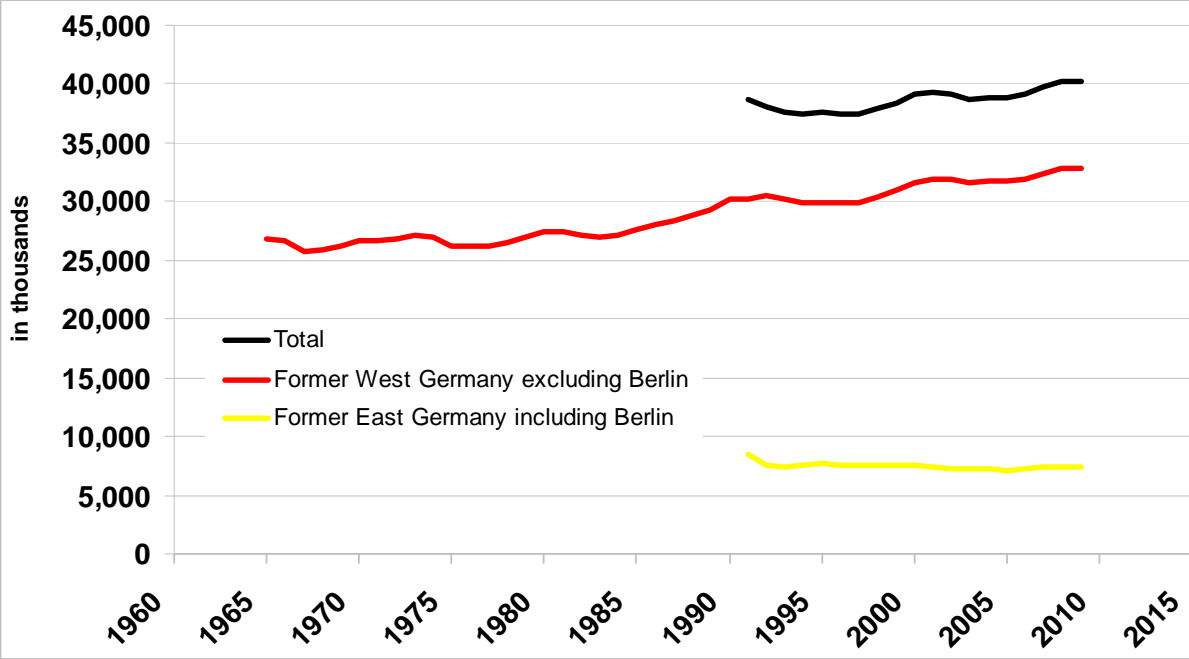
Source: OECD Stat, October 2007

**Unemployment trend in Germany:
Reforms have a visible impact**



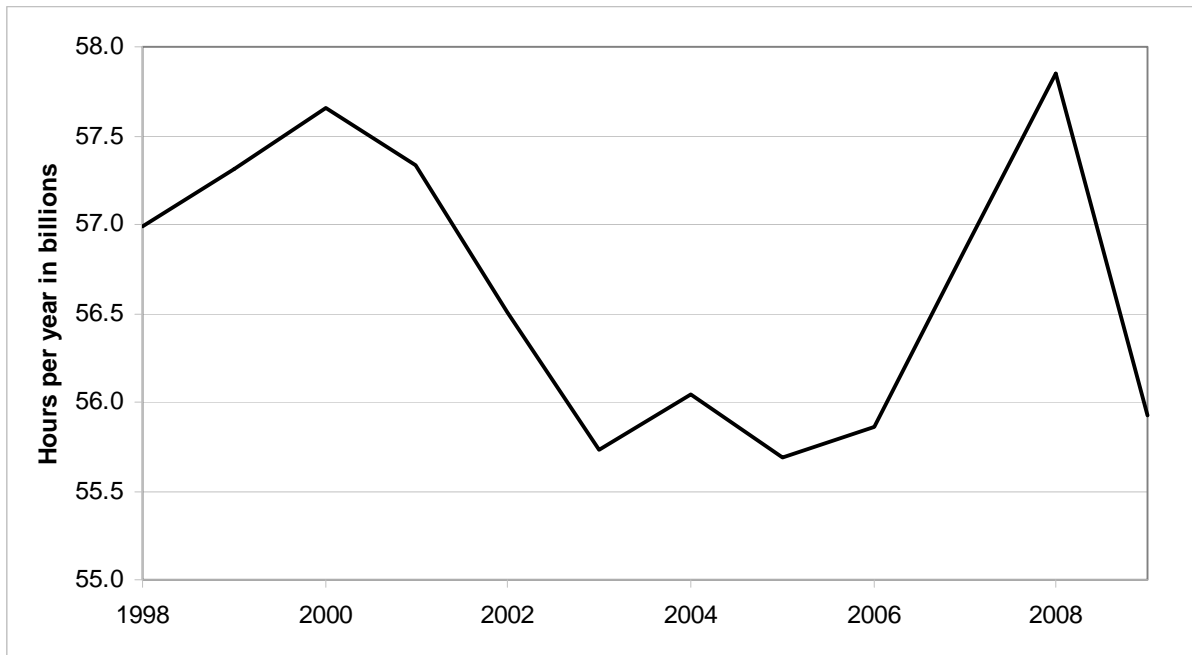
Source: Federal Employment Agency

**Employment in Germany:
Stable at a record level**



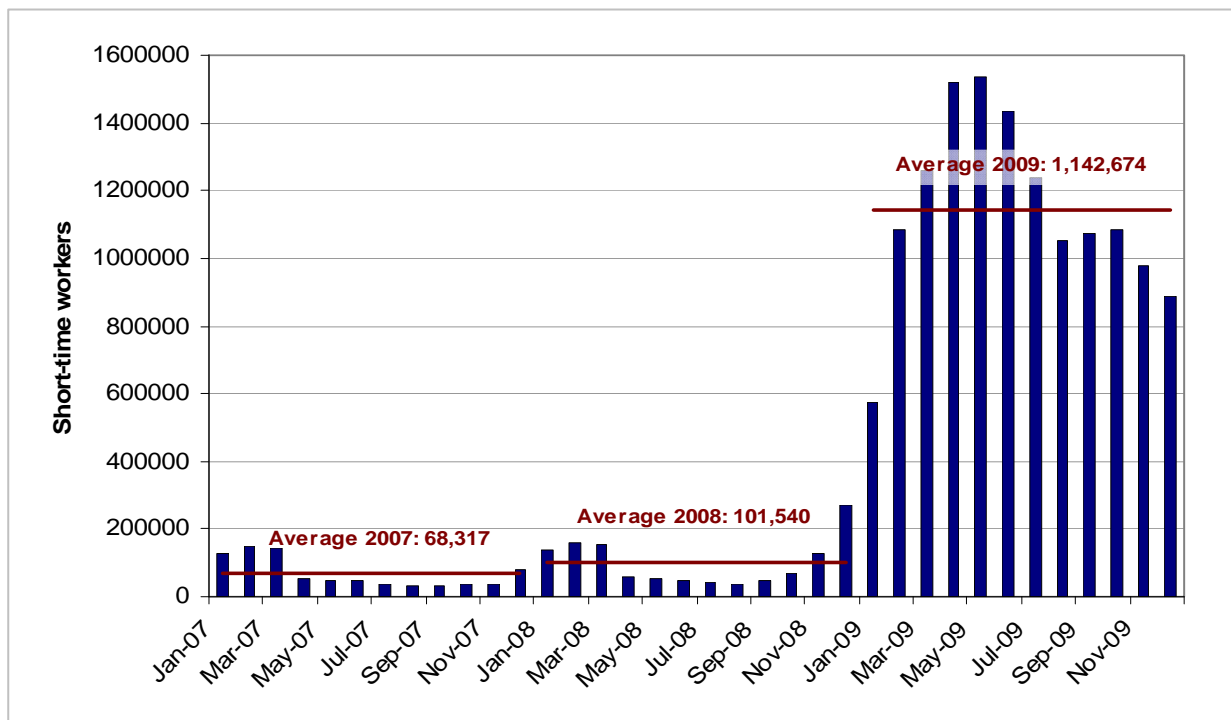
Source: Federal Statistical Office

**Working hours in Germany:
Strong buffer against the crisis**



Source: Working Group "Erwerbstätigenrechnung des Bundes und der Länder"

**Short-time work in Germany:
Gradual return to normality**



Source: Federal Employment Agency

How closely the labor market is connected to government regulations is shown particularly by the **rise in the labor market participation rate of older people by 15 percentage points to 54% in only five years**. For decades it had seemed as if an apparent declining productivity of older workers had been responsible for the decrease in their employment opportunities. We now know that financial incentives often defined the position of older workers in the employment process. As long as the welfare state actively promoted early retirement options, companies and employees made ample use of it.

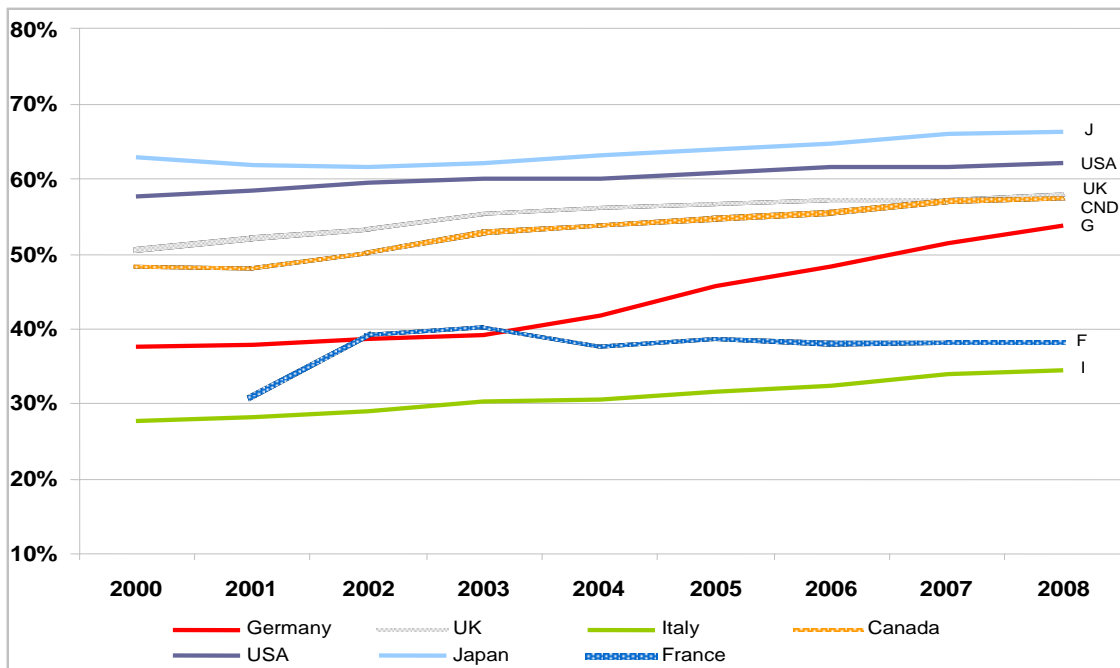
Since early retirement options have been drastically restricted, either employees or companies have themselves been forced to bear the costs which arise from an early exit from the labor market, which they are evidently not prepared to do. This is where the still very strong employment protection legislation suddenly comes into effect, a right which in the past many employees themselves had willingly sold. As a result companies have suddenly “discovered” that their older employees are indeed still of use.

In the same breath the myth that older workers prevent younger ones from entering the labor market has been shattered. **The labor market participation of 15-24 year olds has also been increasing since 2003**. The number of jobs in an economy evidently is not a fundamental constant which can be met with a redistribution of work. It is much more a number which can be actively influenced by institutional regulations. It is now only a question of finding the right regulations.

This is the basis on which to build. **The call for a general revision of labor market reform is misguided**. However, shortcomings and mistakes need to be corrected; the right tweaks and adjustments need to be made. There is every indication that the positive development in the labor market will then continue afresh once the crisis has been overcome – provided that Germany does not return to the mistakes of the past.

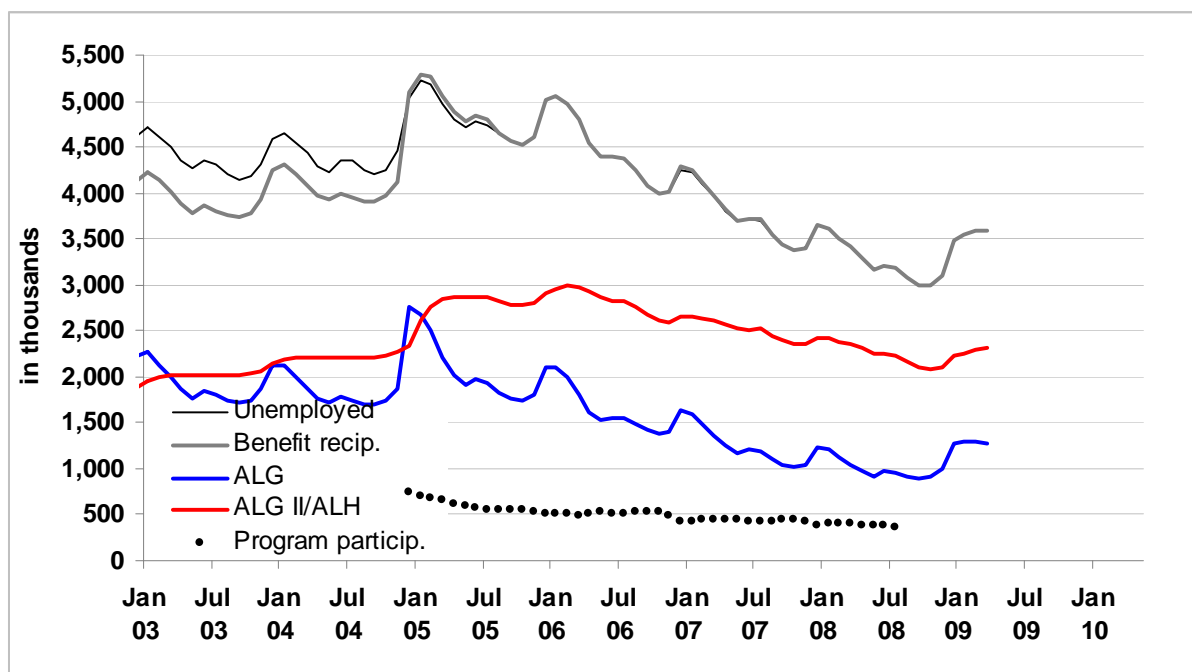
Rulings from the Constitutional Court regarding the reform of job centers and the basic minimum income level have aroused a wide debate on future income support. In the face of a still smoldering crisis many are afraid of losing their jobs. The introduction of Hartz IV abolished many benefits, including unemployment assistance. As a result the amount of benefit can drop to the income support level in as little as 12 months after becoming unemployed. The pressure on those unemployed to find a job as quickly as possible has increased because of this. This explains not only a large part of the labor market success but also the political resistance against the Hartz reforms.

**Labor force participation rates, 55 to 64 years of age:
Boosted by the abolishment of early retirement**



Source: OECD Employment Outlook 2008

**Trend in unemployment:
Long-term unemployed are main problem group**



Source: Federal Employment Agency

The unemployed are prepared to make greater concessions to avert the threat of income loss. The result is that the **unemployment duration has noticeably decreased** and the proportion of unemployed who go from receiving unemployment benefit type I to unemployment benefit type II is clearly lower than before when the process was from unemployment benefit to income support. In this way unemployment was actually halved, albeit only among those who receive unemployment benefit I. They are prepared nowadays to accept jobs which they would not have done under past conditions. This may be regrettable, but it cannot be denied that it is still better to accept a job which pays less than the last one than to become long-term unemployed.

Overall the **initiated reforms** have started off a new way of thinking and behaving. They have clearly **alleviated unemployment and promoted employment. This is also true for problem groups in the labor market.** Furthermore, recent studies have refuted the notion that the labor market reforms are threatening the middle class. On the contrary, the data show that the worry of social meltdown is unfounded. Everything has so far indicated that the perceived subjective threat of social decline is clearly greater than the objective risk. **The vast majority are able to escape unemployment in time or even avoid it altogether, which was not the case in the past.**

Long-term unemployment remains as ever the most serious problem. It forms the core of structurally rigid unemployment. Although the 2005 reforms have improved the labor market chances of long-term unemployed, they have not wholly succeeded in providing the exact help this group needs. The number of short-term unemployed has fallen considerably more quickly than the long-term: hence the proportion of long-term unemployed of all those who are unemployed has risen and is still over 50%. However, long-term unemployment has a destructive effect. It not only leads to stigmatization of those affected, but it is often accompanied with a lingering loss of being able to organize oneself. Offers of further qualifications are insufficient in helping their plight.

3. The need for reform in the education sector

The importance of knowledge and education is gaining ever more importance as a key resource for growth and prosperity, all the more in the face of the imminent demographic change. Even before the PISA study it was recognized that the German education system had to be put to the test. In the face of an internationalization of labor markets, German education institutes have fallen behind. On an international comparison, childcare facilities with qualified programs are too few, educational outcomes have too great a regional variance, the average time required for school, training and university is too long, and the proportion of workers with no qualifications is still too high. All of these show that the education factor is not being sufficiently utilized as a key to the labor market. To a certain extent it is also a failure of the market, as the importance of education and further training is not being recognized early enough and, by international comparison, human capital is not being sufficiently rewarded. **In a phase when using the available knowledge most effectively should be all that matters, allowing highly qualified workers to emigrate to countries which offer much more attractive working conditions is a luxury Germany cannot afford.**

The goal of an improved education policy however must not only be the further accumulation of knowledge. Far more important is acquiring the ability to learn ("learning to learn"). The basis here must be laid at a young age. Therefore a curriculum should be designed in a manner which creates a sturdy base for lifelong learning.

Moreover, labor market oriented education policy must **ensure right from the start that as many social ranks as possible have the same chances regarding their later prospects in the labor market and potential income.** Only then can we make sure that latent talent and ability can fully take effect. As justified as state intervention may be in this regard, it is just as necessary to involve individuals in the risks of educational choice to prevent the otherwise imminent danger of wrong decisions on investment in human capital.

Investing in more early childhood education and care

The crucial basis for cognitive and non-cognitive development begins early in childhood. In addition, the family background plays a critical role in early childhood development. Hence the support of early childhood education is not only socially justifiable but also economically efficient because early childhood education is relatively inexpensive due to the dynamic nature of the development of cognitive and non-cognitive abilities. Furthermore, an increase in the labor market participation of women, as well as a move away from the single-breadwinner model, can only be achieved if there are childcare facilities of sufficient quantity and quality. Therefore, learning should begin early and **kindergartens with pedagogically trained staff should be made widely available** for children aged two and older.

An increase in the quality as well as temporal adjustment of childcare facilities can be achieved by increasing competition among the providers. To achieve this, the support should be switched from the present support of the object (kindergarten) to support of the subject (child). Instead of giving direct subsidies to kindergartens, the government should issue **non-transferable vouchers to parents**, whose value depends on the household income. This gives parents the possibility of using the voucher at a childcare facility of their choice, in accordance to their own time restriction and quality requirements. **This means that there is considerable improvement in access to education in particular for children from homes with less income.** Furthermore, the voucher model ensures that childcare facility providers focus more on the needs of the parents.

The expansion and reform of early childhood care can be an important prerequisite for a child's later success at school, in training and profession, and also the increase of labor market participation for women. The nature of these measures means that labor market success first bears fruit in the long term and thus all the more sustainable.

Increasing quality and equal opportunity in the school system

The PISA study has shown that on an international comparison the average German school performance is relatively low and the correlation between school success and family background is relatively high. Therefore school reform is urgently required, not least against the backdrop of the ever-increasing importance of human capital in international competition. Reduction of class sizes or an improvement in technological resources alone is insufficient. Instead it is necessary to create **positive incentives in the school system for a stronger focus on performance.** This can result from more thorough external testing of schools, the introduction of a single external test like the *Zentralabitur*, and encouraging more competition between schools. This requires greater independence of schools in recruiting personnel and deciding the levels of (performance-related) pay.

Compared to other countries, Germany selects students at a relatively early stage for the different secondary school tracks. The choice of school tracks, however, depends strongly on the family background and has a great influence on opportunities later in working life. It has been shown that

equal opportunities increase when student selection for the different levels of secondary education happens at a later age than is common in Germany. More equality in opportunities and an increase in the investment in education for children from poorly educated households necessitate a delay in when the selection is made.

In contrast to when student selection is made, the length of schooling has hardly any influence on educational outcomes or the equality of opportunity. However, there is call for an increase in the number of schools which are open the whole day (*Ganztagsschule*) since these schools allow more women to work, which is an important prerequisite for the move away from the single-breadwinner model.

Modernizing the dual education system

The dual system, which combines classroom learning with vocational training, is still one of Germany's strengths and should remain, albeit in a modernized form. Jobs which require formal training must be concentrated on core occupational profiles as broadly defined as possible to prepare trainees better in technological improvements and a changing labor market. A too severe and rigid differentiation of the occupational profiles makes adjusting to technological and structural change more difficult later on and obstructs the necessity to acquire new skills and change jobs. This general training should concentrate on building a basis for broadened occupational profiles, and as a rule confine training to two years. The exams could take place after the first half of the training period. The remaining time could then be used by the company responsible for firm-specific training at the company instead of the vocational school. On the one hand, such a reform gives the trainees a broader basis, upon which new occupation requirements can later be specifically built. On the other hand, it is also more appealing to the company, as there is enough time spent obtaining firm-specific human capital during the training period.

Moreover, permeability of education needs to be improved. Better access to higher education institutes for qualified professionals can make a contribution. Opening up universities and vocational colleges to graduates of the dual system strengthens on-the-job training and supports the refocusing of colleges on occupational qualification following the introduction of the bachelor degree program. It simultaneously preserves the link in the dual system between learning and working, despite the growth in tertiary education. Technical colleges in particular should increase the number of courses offered, at which trainees of the dual system can study instead of the vocational schools.

It is especially second and third generation immigrants and young adults with few school qualifications who repeatedly fail to find apprenticeship training positions. Other young adults have problems meeting the theoretical requirements of most apprenticeship regulations. They therefore fail to acquire a vocational degree and hence are regarded as low-skilled, although they could be quite successful in the labor market. Those without any school qualifications find the labor market increasingly difficult. **Therefore, the dual education system should also remain accessible to young adults with learning difficulties or few school qualifications**, who currently often receive state-sponsored preparatory courses or subsidized training courses in schools. **A targeted opening up of the education system for young adults with little school success or learning difficulties** would be better than a gradual taking over of training by the government. This can be achieved by reducing the theoretical requirements in at least those parts of the training which are not as essential for working successfully in the profession in practice. These slimmed down training courses could lead to a vocational degree without expecting too much of the young adults in the scholastic and theoretical areas. Such a degree would prevent being stigmatized as low qualified.

Correctly charging university fees

It is socially unjust not to charge university fees, as non-academics would be using their taxes to finance better potential earnings of future academics. Nonetheless, it depends on how the fees are charged. Lump-sum payments made during the study and depending on the *Bundesland* of the university are neither efficient nor just. It prevents competition between universities and simultaneously acts as a barrier to university education, especially for children of poorly educated households. Therefore greater autonomy should be given to universities in deciding whether, and which, study programs require specific fees. To avoid building any financial barriers for those intent on university education, it may make sense to **pay for the fees with a graduate tax on successful completion of a degree program, which would come into affect with the first job and would be raised progressively over a course of time.** To act as an incentive to students, the size of the fee should depend on the length of the study program and their grade point average; and it should be purposely structured to cover the costs of education. In this way it would not replace the university funding by the *Bundesländer*.

This form of university fees increases competition between universities and leads to a more sensible focus on the customer. In addition, students will be forced more than before to weigh up the costs of their chosen study with the benefits. The fees should be complemented by incentives to offer scholarships from legacies and other trusts to reduce further the danger of undesired social selection.

4. The central problem of the welfare state: Low-wage work does not pay

It is particularly true of low-skilled workers that it is often not worthwhile to be engaged in regular work because the wages are often little more than welfare benefits when unemployed. The wages employers would have to pay for menial labor to pay off bear no relation to the market value of the service provided. Empirical studies for Germany have shown that the implicitly generated minimum wage calculated in this manner is in the range of 10 to 12 euros an hour gross.

A consequence of this is that Germany is a world leader in do-it-yourself, and **cash-in-hand work is on the rise.** The extent of the shadow economy can only be guessed. Estimations are that it generates one sixth of the GDP in Germany, which is equivalent to six to seven million illegal jobs when calculated proportionally to the number of employed. The cause of the high unemployment rate among the low-skilled can definitely not be that Germany has too few jobs.

There is currently sufficient employment in the low-wage sector for those who do not have any other employment prospects because of a lack of qualifications. However, it is a matter of making these jobs worthwhile.

5. Social justice requires the principle of give and take

Benefit claims should generally be coupled with an obligation for something in return in the form of work in the broadest sense, to which measures of further professional and social training belong. This means, so to speak, benefits have to be earned. This principle, also known as *workfare*, creates strong incentives to work in the low-wage sector for those people whose qualifications are not enough to attain a sufficiently high hourly wage in the market. Workfare works without lowering the basic minimum income level and results in higher income. Whoever has the opportunity to earn more with menial work than the minimum income level has an incentive to do so. **Workfare turns**

recipients of benefits into taxpayers, and thus helps to lower public spending and create more leeway for future investments. Furthermore, workfare prevents companies from paying low wages at the burden of the welfare state.

A welcome knock-on effect of workfare is the contribution in the fight against employment in the shadow economy. Whoever spends the time working to receive state benefits cannot simultaneously work illegally; whoever still prefers cash-in-hand jobs is at least no longer subsidized by the welfare state.

Workfare is socially just because transfer payments must be raised by the working population. Instead of the segregation of those in need, it signals to them that they are needed. Instead of producing dependency, it promotes independence. There is plenty of work necessary for this scheme; hence crowding-out effects caused by job opportunities created in this manner are not a valid counterargument.

6. Improving opportunities to earn additional income is not a solution

An alternative that is still being discussed in political circles is a more generous arrangement to earn additional income when claiming benefits. To make working more appealing the **German government has planned** to reduce the amount offset against the worker's benefits. Practically speaking this is **form of in-work benefits**, which are now recognized as being either **ineffective or financially unfeasible**, or even both. This also goes for the Citizen's Income model of the Free Democratic Party (FDP), all the more so for the diverse concept of an unconditional basic minimum income but also for the latest suggestion from the Confederation of German Employers' Associations (BDA), and this is saying nothing about the numerous forerunner models.

All these concepts face the insoluble problem that there needs to be a cut-off point where the in-work benefit ends. The higher this point is, the more people receive this subsidy and the greater are the deadweight losses. The effects on employment are all the greater, the higher the subsidy cut-off is; however, in all known models the cost of the deadweight losses increasingly becomes greater than the revenue effects generated by more employment. That said, the models produce more or less an incentive to work part-time. If, for example, the Citizen's Income suggestion from the FDP were implemented, one could even earn more with (subsidized) part-time work than with the equivalent (non-subsidized) work on a full-time basis.

Instead of expanding already existing in-work benefits, IZA recommends a stronger coupling to a quid pro quo basis: **whoever receives state benefits must be actively involved in something**; be it work, intensive job applicant training, or professional qualifications and further study. Those who have to give something in return for state benefits are, according to all indications, more prepared to accept a job in the open market, even if it pays little more than Hartz IV.

7. Dead end: Personnel placement consultancies

Even when many companies have long since moved on from short-time work and are on the path back to normal employment, others are confronted with job losses brought on by the financial crisis. Although compulsory redundancies in this case are, on the whole, possible, many companies fear the associated conflict potential. Personnel placement consultancies (*Transfergesellschaften*) offer here a promising way out, or at the very least lend a cursory hand. With the help of personnel placement

consultancies, mostly paid by the Federal Employment Agency, those affected are to be offered intensive assistance when looking for new employment. For this, however, the employment contract with the current employer is ended in exchange for a new, fixed-term contract with the placement consultancy in question. The workers are de facto giving up any job protection. They can officially remain with the placement consultancy for up to a year. The model is based on the idea that job seekers avoid being stigmatized when they are employed under the auspices of the consultancy; and hence they are in a better position to find new employment.

Evidence of any positive effects of personnel placement consultancies has yet to be shown.

The only study so far has come to the conclusion that the placement consultancies are no more effective than the Federal Employment Agency. Hence claims for an **expansion of the placement model cannot be justified**. In particular, there is an underlying danger that the period of entitlement to unemployment benefit can be abused. The supposedly improved protection can easily bring about the incentive to do exactly the opposite: namely the active triggering of the risk which was meant to be avoided.

8. Better options for children

The ruling from the German Constitutional Court on the basic minimum income level for a child has forced legislators to devise a new way of recalculating the amount which is both transparent and coherent; whether this will result in a higher amount, as expected by those petitioning the court, remains to be seen. Nevertheless, the revision of the basic minimum income level offers the opportunity to create equal opportunities in the education system. The PISA studies have shown that in this regard Germany is in bad shape: social background determines to a great deal later economic outcomes.

A **child and future-oriented social policy** must therefore direct all efforts to promote the conditions required to have access to equal opportunities early on in life. In this way existing social disparities can be overcome.

An increase of the basic minimum income level for children does not present a solution to this problem. Empirical studies have shown that children are not always the recipients of state benefits intended for them, and instead there is a danger that children are seen as a source of income. To tackle this problem, benefits for the educational and intellectual development of the children should be **in the form of vouchers**. A mere increase in the money received would not only be questionable with regards to the goal of the social measure, it would also intensify the current problem of a lack of incentive to find work for low-skilled workers.

9. The future of job centers

The Hartz reforms have created a **merged administration between federal and local government**, which the Constitutional Court has deemed **unconstitutional**. The solution left for legislators will boil down to a change in the constitution which will permit this form of organization. In principle, this should be welcomed. The top priority in the planned reforms of the job centers should be, in our opinion, **that every single customer is guaranteed one-stop support, a single adviser and effective and individual consultation right from the beginning**.

This help often comes too late for young drop-outs, the unqualified, people with migration backgrounds, single-parent families and older recipients of Hartz IV. Hence these groups often remain dependent on state benefits for too long, sometimes permanently. For it is not only about help in finding a job for these groups with specific needs, but also about solving diverse social conflicts, family problems, a lack of motivation and qualifications, all of which prove to be barriers to finding work.

We recommend **strengthening the position of the caseworker**. The caseworker is the central figure at the job center for a successful integration process and new employment. Performance-related pay is necessary for good caseworkers and counselors, as is usual in other areas of industry; even in the public sector the idea of a **stronger link between pay and performance** is gaining ground.

Individual support which is tailored to individual needs must be improved. Particularly **single mothers** need more help not only to break out of the system of state transfers, but also to avoid their children becoming the next generation of Hartz IV recipients. Single parents with children younger than 18 make up around half of all benefit recipients with children.

In addition, benchmarking could increase competition for performance and competency among job centers.

Strictly speaking, support from a caseworker means the creation of a wide-reaching federal organizational structure. **Early intervention and support makes sense at the onset of unemployment**, especially for those in danger of becoming long-term unemployed, such as older, low-skilled or immigrant workers. An independent organization should support the whole process for these groups right from the beginning, i.e., at the time of job loss. Later, it should also take responsibility for all other long-term unemployed. Only in this way can structural unemployment be reduced once and for all. In addition, job centers could be created which are independent from local government and unemployment insurance and whose task is to find work in the most efficient manner, as is the model in the Netherlands (where it applies to all those unemployed). **In this model the task of finding work for these problem groups would be taken away from Federal Employment Agency and local administration**. In practice this would mean that the current structure in place for advising Hartz IV recipients would be dismantled, become independent and be replaced with one with expanded responsibilities and instruments. Only in this way can we ultimately avoid the collapse of effective support of job seekers in a federal structure which works against itself. The Federal Employment Agency could confine its work to processing the insurance payments, including the assistance given to the short-term unemployed.

10. Immigration policy in line with Germany's economic interests

Short-term, ever-changing needs are rapidly shaping **modern, world-wide interconnected labor markets**. Domestic workers do not always have the qualifications necessary to meet these changes swiftly. Therefore, temporary immigration in specific sectors of the labor market can be a valuable contribution in overcoming such growth-restricting bottlenecks. The realization has been gaining ground that an active migration policy can yield positive economic effects and that the continual **admission of highly qualified immigrant workers** is of great importance to German and European labor markets, as this contributes to both economic prosperity and a more even distribution of income. However, current German immigration laws are unable to accommodate either the current shortage of high-skilled labor or changing demography.

A central component of **actively selecting immigrants** is still missing from managing labor migration. Only once a **combined point and quota system has been established**, can all the rewards be reaped from the positive economic effects of continual immigration. In such an internationally established system, those interested in migrating have the opportunity to apply for specific jobs, while the government can carry out a rational selection with the help of flexible quotas and transparent criteria (qualification, language proficiency, age, family status etc.). Currently the government is still prohibited by law from making this selection. Germany must anticipate the **stiffer competition for ever diminishing human capital**; and it will have to seek out actively qualified migrants. This will be all the more successful, the more transparent the selection and admission process is designed.

A practical, simple solution is to allow, as a rule, all suitable qualified workers in the selection process into the country to live and work, on the condition that they have a contract of employment. **This would mean the labor market itself would act as a filter for labor migration.**

The first step has already been taken to allow admission of university graduates from East European EU countries in particular with the Labor Migration Regulation Act (*Arbeitsmigrationssteuerungsgesetz*). This hitherto little known law should be succeeded by the creation of a selection and quota system, which will strengthen Germany's position as the destination of high-skilled immigrants.

In this context a strategic immigration policy must also further improve **regulations governing work and residency** which apply to foreign graduates of German universities. This will help prevent the best from leaving Germany on successful completion of their degree, destined for another immigration country due to inadequate labor market integration here in Germany. Political and social interests must be strongly focused beyond the Labor Migration Regulation Act to capture systematically this target group for the German labor market and to avoid a loss of human capital. The corresponding political action should allow easier access to tertiary education for foreign applicants and dismantle bureaucratic barriers to the labor market which graduates face.

In light of a considerable information deficit, the Federal Employment Agency is not in a position to decide which immigrants the market requires. Ascertaining this requirement and effectively selecting immigrants can be achieved by auctioning work and residence permits. In the framework of a **government auction**, companies could temporarily fill jobs with immigrant employees. In this manner participating companies directly reveal the actual demand. Crowding-out effects in the labor market would be avoided, and education policy could draw conclusions on the skills in demand. Furthermore, this measure can help the government skim off a part of the corporate profit made from migration, which in turn can be reinvested in educational reform.

As ever, individuals in Germany with a migration background face **considerable barriers to integration**. Together with the long neglected, elementary responsibilities in the area of early childhood and schooling, the integration courses for new immigrants also demands a closer look. Alongside language training, the main element of these courses must be a focus on all areas of labor market integration. Elements such as how to apply for jobs, labor markets and local service infrastructure should be inherent components of the curriculum.

Many studies have shown **ethnic diversity** to be no obstruction to successful integration into the labor market; **moreover it is a recipe for economic success.**

11. Tomorrow's work environment

The **pooling of all social, political and economic forces and resources aimed at full employment** must be the guiding principle of the new decade.

First, it is a question of humanity. Work supports the fulfillment of personal happiness.

Second, it is a question of economic common sense. Chronic unemployment leads to severe tax losses, an overburdening of the social security system and leaves us with less maneuverability for the future.

Third, we find ourselves on the way to a new working society. This process of change has many aspects. It leads, for example, to more colorful résumés and new forms of employment, altered working times, increased mobility and greater demands of flexibility.

Fourth, and most important, are the **demographic changes**. They lead to a shortage of skilled labor in important sectors and hence threaten economic growth and social dynamism. In addition there is the international division of labor as a result of globalization.

Tomorrow's work environment has to survive a two-fold challenge: alongside the question "How do we purposefully help those looking for work?" looms ever more pressing the question "How do we purposefully help those areas which urgently require human capital?"

The scarcity of personnel resources in the coming years will be, even more than shortages in capital, the issue which will decide our future competitiveness. In this respect **labor market policy is also on the brink of a paradigm shift**. In light of tomorrow's work environment this is all the more true: there will be enough work in the future; it only depends on giving as many people as possible the chance to take part. For this to happen, the correct institutional requirements must be created. **Full employment in Germany is possible.**