# Germany's Employment Miracle: *Fact or Fiction?*

**BY URSULA ENGELEN-KEFER**

*An important expert looks behind the curtain.*

Europe is at the crossroads in trying to find ways out of a deepening crisis. Should it embrace German Chancellor Angela Merkel's austerity policies on the basis of a fiscal treaty with country-specific implementations? Or follow French President François Hollande's "Compact for Growth and Jobs" that government leaders endorsed at the recent EU summit? These EU summit resolutions have raised the question: How much can Germany's bitter experience with far-reaching labor market and welfare reforms in the middle of the last decade offer a way out of debt-laden Europe's worsening predicament?

Restarting economic growth and tackling high unemployment begins in the region of Regensburg, founded as a Roman fort by Emperor Marcus Aurelius, and now a booming mid-sized city in Bavaria. For the decades when Germany was divided, Regensburg's peripheral location close to the Iron Curtain hampered its economic development. But in the last ten years, the number of regular jobs has doubled compared with average

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**Regensburg, Germany:** *A high-tech region with a strong position in diversified export industries—automobiles, machine manufacturing, electronics, microelectronics, and building trades. In the last ten years, the number of regular jobs has doubled compared with average employment in the state of Bavaria. This dynamic region also represents what some call the "second employment miracle" of Germany.*

employment in the state of Bavaria, and grown six times faster than the average rate in Germany, where unemployment has reached a record low.

Since last fall, the number of apprenticeship places for young school graduates, which for many years was insufficient, is now considerably higher than the number of young people applying for them. The reasons for the employment surge in Regensburg were explained by a top manager of BMW: "Our local BMW branch in Regensburg is marked by a distinguished pioneer spirit, for instance in developing and applying innovative models of working time, which have paved the way for the future of the automobile industry at large, but also for the establishment of the best environment-oriented body painter shop in the world."

High praise also comes from Gabriele Anderlik, the head of the regional branch of Germany's Federal Employment Agency. "Regensburg is a high-tech region with a strong position in diversified export industries—automobiles, machine manufacturing, electronics, microelectronics, and building trades. It has a balanced structure of large, mid-sized, and smaller companies. In addition, public and private services at a high professional and scientific level are expanding considerably."

The ancient old town—a UNESCO World Heritage site since 2006—not only impresses with its historical buildings and its huge cathedral, but also with its many shops and restaurants. Young people from the three universities located in this city form a sizeable part of the population.

In sum, Regensburg represents the favored structure in Germany of decentralized regions with diversified economic clusters. And one can find many areas like Regensburg in today's Germany. The European Cluster Observatory has picked one hundred clusters in the European Union as "innovative regions" in respect to size, level of specialization, and location; thirty of them are located in Germany. In such clusters one can find "hidden champions," that is, middle-size companies with highly specialized products and services on world markets.

This dynamic region also represents what some call the "second employment miracle" of Germany after World War II, happening in the middle of Europe's escalating financial, economic, and employment crisis. As many European countries fight rising unemployment, employers in Germany complain about shortages of labor, largely caused by demographic changes in the labor force. Between 2010 and 2025, the German labor force will be reduced from 44.6 to 38.1 million due to low birth rates, says the Federal Employment Agency in its recent employment forecast.

What is happening to the "Old Continent" as a consequence of the crisis and in the wake of more than a decade of failure to remedy growing economic and financial imbalances was bluntly addressed by the president of the European Central Bank, Mario Draghi, in several interviews on both sides of the Atlantic: "The European social model does not have any future."

*—U. Engelen-Kefer*

Could Chancellor Angela Merkel's strict austerity policies lead the high-unemployment economies of Europe out of their present misery, or would her agenda for radical structural reform and fiscal retrenchment make a bad European economic crisis even worse?

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**Angela Merkel**

The German government is now putting heavy emphasis on strategies for better using the employment potential of women, older workers, and immigrants, who are disadvantaged in the labor market with poor employment chances. This requires a considerable change in company culture and the application of diversity management, especially in small- and medium-sized companies, including lifelong learning, adjustment of working conditions and schedules, worker safety, child care, and coaches for immigrant workers. In addition, the free movement of labor in the European Union needs to be utilized through more efficient placement services across borders, with priority given to the crisis countries with high and rising unemployment. Legal changes are also needed to reduce the restrictions on hiring workers from outside the European Union. But on that issue there is still serious concern that promoting labor mobility from abroad would lead to the lowering of wages and working conditions and hurt the improving employment chances of the disadvantaged groups in the German labor market.

*Employers in Germany complain about shortages of labor, largely caused by demographic changes in the labor force.*

So how did Germany manage to change from the "sick man of Europe" and "sclerotic Old Europe" only a few years ago into what some consider an island of economic and employment stability in a European Union that has been stricken by socially explosive high unemployment—especially in the younger generation—and stagnating or even falling economic growth?

To put the question more provocatively, could Chancellor Merkel's strict austerity policies lead the high-unemployment economies of Europe out of their present misery, or would her agenda for radical structural reform and fiscal retrenchment make a bad European economic crisis even worse? How can an effective and comprehensive push for economic growth and employment be installed—as promoted by the newly elected French President Hollande—without being undermined by the fiscal strains of ever-higher unlimited financial bailout costs and sovereign liabilities for euro rescue operations? For a large segment of Europe's population, what can be done to stop the progressive erosion of the European social model while at the same time carrying through with needed economic adjustments to get the countries more competitive?

## BETWEEN AUSTERITY AND GROWTH STRATEGIES

The International Labour Organization sounded the alarm loudly in its recent study, "World of Work Report 2012: Better Jobs for a Better Economy." In the next four years, another 4.5 million might be added to the 17.4 million already unemployed in the eurozone. More than one-fifth of all young people are out of work. Youth unemployment is skyrocketing in the crisis-stricken "GIPS" countries of Greece, Ireland, Portugal, and Spain. ILO Director General Juan Somavia warned of the high risk of infection not only for the still strong economies of the European Union, but also for other parts of the world.

According to the ILO report, consolidating excessive public debt as well as promoting economic and employment growth are equally important. The present focus on austerity politics—especially in crisis countries with unsustainable debt levels—will lead to economic recession with ever-higher job losses. A "lost generation" of young people may lead to social unrest and a disruption not only of the economic, social, and political foundation of the common currency, the euro, but also will reverse the process of European integration. Real dangers loom for European democracies.

Deciding on the right way for Europe to move out of this crisis—and how to mobilize the political will to achieve this high-stakes goal—is at the heart of the controversies in politics, academic circles, the media, various interest groups, and the broader Euroland public.

According to the report, the ILO is putting heavy emphasis on economic policy models that apply comprehensive demand-oriented employment and labor market policies. But amid the reality of Europe struggling to cope with high sovereign and private debt burdens and economic slumps, policymakers and institutions such as the International Monetary Fund are broadly pursuing the "credo" proposed by the supply-oriented neo-liberal forces to reduce labor costs and trim social programs.

*Real dangers loom for European democracies.*

What is happening to the "Old Continent" as a consequence of the crisis and in the wake of more than a decade of failure to remedy growing economic and financial imbalances was bluntly addressed by the president of the European Central Bank, Mario Draghi, in several interviews on both sides of the Atlantic: "The European social model does not have any future."

This death knell coming from Europe's leading general in the battle to save the area's banks and bankers with near-zero interest rates sends shivers down the spines of all those who have been struggling to build Europe's "welfare state" in the decades since the ruin of World War II.

Such crisis-stricken countries as Greece, Ireland, and Portugal that are financed by the temporary European rescue fund, the European Financial Stability Facility, have already been forced into harsh austerity programs under the "Troika"—the International Monetary Fund, the European Central Bank, and the European Commission. So far this political path has proven detrimental to millions in these countries. As the crisis reaches the core of the euro area, Spain and Italy also find themselves under austerity programs with severe reductions in wages, pensions, social insurance, welfare transfers, and benefits. In Spain, where a decade-long building boom came to an abrupt end leaving large segments of the banking sector undercapitalized, the population is paying a high prize for the banking rescue. Personal and consumer-oriented taxes were introduced and public infrastructure and services were reduced.

It's a bitter experience for the million losers of the crisis to see how taxpayer money is benefiting creditors and managers of banks and other financial institutions and a few very wealthy, taking hundreds of billions of euros out of their countries. Of course, part of the reforms that the "Troika" has been imposing on the problem countries include improving inefficient tax systems and closing tax evasion loopholes. But not much is changing.

In the last "EU Employment and Social Situation Quarterly Review," the European Commission put the EU unemployment rate at 10.3 percent in April 2012. The number of unemployed at the EU level increased by more than two million over the last year to reach a new high of 24.7 million, with 10.3 million long-term unemployed (more than twelve months), accounting for 4.3 percent of the active population. Rising unemployment reflects the stagnation in the European economy, with half of the member states contracting or stagnating and the other half expanding. Still disturbing is the youth unemployment rate of 22.4 percent.

How Europe will overcome its worst crisis since embarking on the historical experiment of a common currency and whether the monetary union will survive is not clear. But when the leaders of the EU member states at the recent summit in June 2012 decided on a "Compact for Growth and Jobs" to "relaunch growth, investment, and employment, and make Europe more competitive," after having signed in March a fiscal stability treaty (with the Czech Republic and United Kingdom excluded), there was some talk of the "German Model"—that is, seeking fiscal stability and structural reforms to improve and maintain international competitiveness—as the guiding light at the end of the debt-laden eurozone tunnel. The financial and economic forces pushing austerity and improvement in competitiveness are praising the German reform agenda under Chancellor Gerhard Schröder, who led a coalition of Social Democrats and Greens from 1998 to 2005.

In 2003, in a speech before the German parliament, then-Chancellor Schröder presented his "Agenda 2010," a far-reaching reform program to be implemented by his coalition government of Social Democrats and Greens in subsequent stages. The

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agenda aimed to promote flexibility in labor markets through substantial reductions in labor costs in order to improve the economy's overall international competitiveness. To improve the overall fiscal position, radical cuts in unemployment payments and social security benefits were introduced, changing the livelihoods of millions of working men and women who had brought the Social Democrats to power. On the other hand, corporations received large tax cuts with windfall profits when selling equity stakes by not having to pay taxes for their hidden reserves.

Most controversial was the introduction of Schröder's radical welfare reform. To promote his agenda, Schröder was able to get the support of Peter Hartz, personnel chief of Volkswagen AG, who lent his name to the different reform stages, with the most contested being "Hartz IV"—the radical welfare reform. Schröder paid a high price for Agenda 2010. He was voted out of office after alienating a large portion of tradition SPD voters and losing the support of the German trade unions. Indirectly, the Schröder reforms boosted the rise of the left-wing party "Die Linke," mobilized by the former SPD party chairman Oskar Lafontaine.

### IS GERMANY AN ISLAND OF EMPLOYMENT STABILITY?

Even after almost a decade of the Schröder-Hartz reforms working through the economic and social system and after thousands of pages of research, German society remains deeply split on their value. For some observers, the reforms seemed to have performed a miracle, as Germany, with stagnating economic growth and high unemployment for decades, managed to reduce unemployment—especially for younger people—to record low levels.

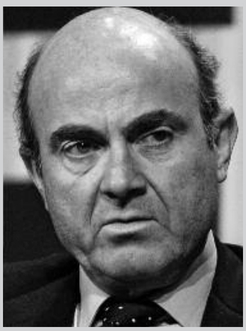
These favorable employment trends did not change when the bankruptcy of the U.S. investment bank Lehman Brothers in the fall of 2008 shocked the global financial system and sent the world economy into a downturn, with German GDP contracting by 5 percent. Part of the explanation is that accompanying the Schröder-Hartz reforms have been the reduction of corporate taxes as well as company contributions for health, retirement, and unemployment insurance. Together with the deregulation of labor laws in case of dismissals, short-term contracts, part-time labor without social security, and temporary work, the cost base of German companies had been reduced and international competitiveness increased.

Thus, Germany could benefit in the economic upturn after 2006, especially by expanding exports not only to European markets but also to fast-growing emerging economies such as China. In addition, Merkel's coalition government led by the Christian Democratic Union with the Social Democrats in tow

## Schröderizing Europe?

Gerhard Schröder

According to Raymond Zhong of the *Wall Street Journal Europe,* former German Chancellor Gerhard Schröder could be the strong politician that the debt-laden and economically stagnating Europe needs to get out of its crisis. For Zhong, Schröder was "The Man Who Rescued the German Economy," with a key message for Europe's debt-laden, economically weak countries and their policymakers: "Reform yourselves, and you will grow out of your debt" (*WSJE,* July 7, 2012).



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Luis de Guindos

The message is expressed even more harshly by Luis de Guindos, Economic Minister of Spain, in an interview with the *Frankfurter Allgemeine Zeitung* (July 13, 2012). "The German reforms in its labor market and social security system as well as its moderation in wages are examples. Spain will achieve this in a shorter time and at greater intensity. We will liberalize the labor market, making it fundamentally more flexible."

While Schröder was voted out of office leaving his SPD party in ruins, the Spanish government must prove that its reform policies will be accepted by voters. Considering the virulent nationwide protests and strikes against the injustices of the austerity program, the fate of the Spanish government is also uncertain.

*—U. Engelen-Kefer*

## Putting the BA in Historical Perspective

Here's some historical perspective on today's German Federal Employment Agency (BA). Its predecessor, the Imperial Institute for Labour Exchange and Unemployment Insurance (Reichsanstalt für Arbeitsvermittlung und Arbeitslosenversicherung) was founded in 1927 to help the mass of more than six million unemployed who were seeking jobs. Established as an independent corporation, it was self-governing by employers, communities, and employees, with trade unions playing a key role. Re-established in 1952 and strengthened by new legislation (Arbeitsförderungsgesetz, AFG), the Federal Employment Office, or Bundesanstalt für Arbeit, had patrons in high places. Konrad Adenauer, the first chancellor of the Republic of Germany, and Hans Böckler, the first chairman of the Confederation of German Trade Unions or DGB, were members of the board of the old "Reichsanstalt" before the Nazis ended the Weimar Republic. Both had firsthand experience of how important tri-partite cooperation was in battling the horrors of unemployment—and how the Nazis used mass unemployment to come to power and destroy democracy. To emphasize its "client orientation" in labor services, the institution's name was changed in 2004 to "Bundesagentur für Arbeit" (BA).

*—U. Engelen-Kefer*

responded quickly to the economic downturn by introducing two comprehensive economic growth programs. First, the "Scrapping Premium" (Verschrottungsprämie) helped keep Germany's auto market functioning. The German government doled out €2,500 for scrapping an old car when buying a new one. More than a million Germans took advantage of the government offer thereby helping the economy on the way to recovery. But there is a broad consensus that overcoming the recession without a major employment breakdown was mainly due to redistribution and shortening of working time. In this effort to avoid the large-scale dismissal of workers, the major German trade unions—working together with companies in key sectors—played an important and constructive role.

### MODERNIZING GERMANY'S "BA" WAS A SUCCESS

Part of Schröder's reform agenda was the modernization of the federal employment administration—reorganized from the "Bundesanstalt für Arbeit" into the "Bundesagentur für Arbeit." As a nationwide public institution with employers, trade unions, and government taking part in decision-making, with more than 600 offices throughout the country and about 110,000 employees, the BA plays a vital role in labor market matters. This includes unemployment insurance, welfare payments for long-term unemployed and their dependents, family allowances, and placement and counseling services, as well as complex labor market politics.

Under the Hartz legislation, this backbone institution of the German labor market considerably improved its services for job seekers and employers. The public employment offices changed from an old-fashioned administration to active partners in national, regional, and local development.

This has been achieved by complex programs for steady and high-level staff training. In the fourth agenda stage, Hartz IV, the amalgamation of unemployment assistance and welfare payments to the seven million long-term unemployed and dependent persons was put into operation in 2005. Special local offices were established as "job centers." These offices are mainly run jointly with regional offices of the BA and local communities that were previously providing welfare services. Around one hundred job centers were organized as stand-alone offices by communities. But structural discrepancies on the provider side and changing operation directives in the job centers have undermined the service efficiency for job-seeking clients. This has contributed to the poor record of integrating the long-term unemployed into work. Two-thirds of the unemployed have already been out of work for more than a year and many have disadvantages such as age, health problems, severe handicaps, family responsibilities, and migration background. The high and persistent long-term unemployment is still a "bleeding wound" in the otherwise successful employment record of the German Federal Employment Agency.

### TRIPARTITE ADJUSTMENT OF THE "TOOL KIT"

When representatives of the public, unions, and employers work together to adjust the employment agency's "tool kit," this can help cut the unemployment lines. The labor market instrument of "short work money" provides workers with unemployment insurance for reduced working hours during the period of economic slowdown. The normal costs for employers for social security contributions on the full work schedule had been subsidized by unemployment insurance. At the peak of the crisis in 2009, there were almost 1.5 million German workers in these schemes with an average reduction of working time of one-third. The social costs of about €11 billion during the crisis years could be taken from the €18 billion reserve funds of Germany's unemployment insurance system. The unemployment insurance is a vital part of the comprehensive social insurance system in Germany, instituted by Chancellor Otto von Bismarck in the nineteenth century.

In the meantime, there have been many changes and continuous adjustments, but the basic principle is still valid. The social security system covers the majority of risks for most people in work and life, especially retirement pensions, health and sickness, unemployment, and nursing care. The system is financed mainly by equal contributions from employers and workers as part of gross income up to a limited amount. Today, such contributions average over 40 percent in total, divided among retirement (19.6 percent), health insurance (15.5 percent), unemployment insurance (3.0 percent), and insurance for nursing care (1.95 percent).

In addition, other features of redistribution of working time—especially long-term working time accounts, which are often used in larger companies—have helped reduce working time during the crisis without loss of pay.

Experienced workers therefore were immediately available for the economic upturn and companies could avoid the heavy costs of hiring and training the necessary personnel. This by far compensated for the reduction of productivity and other additional costs of keeping workers employed during the period of reduced economic activity. The consensus and cooperation of employers and trade unions made these measures possible due to the traditionally well-developed systems of collective bargaining between branch employer federations and trade unions.

No wonder recent research comparing short-work money disbursements during the crisis in Germany and Italy in similar economic downturns showed that Italy had been less successful due to its lack of adequate economic policies and networks for cooperation among social partners.

*The gap between low-income and high-income groups is steadily widening, with more people moving down the social ladder.*

### SPLIT IN GERMAN SOCIETY

But there is a much less favorable outcome to the Schröder-Hartz reforms and the accompanying cuts in labor costs. As the Organisation for Economic Cooperation and Development and the European Commission confirm, Germany holds the sad record for increasingly precarious jobs with low wages, poverty among workers, and long-term unemployment. The promised bridge into regular employment does not function at all. At the same time, the gap between low-income and high-income groups is steadily widening, with more people moving down the social ladder. Germany, which in the past could be proud of providing a more balanced structure of income and standard of living compared to other industrial countries, is now moving to the forefront of inequality in distribution of work, income, and property.

The split in German society is widening, which includes for the disadvantaged less chance for education and prospects in work and life. The low-qualified workers are not the only ones hit by the negative consequences of the labor market reforms. Precarious jobs are also widely found in many areas of the service industry, especially the growing health care sector and even in education and research. The expanding low-wage sectors which now embrace nearly one-quarter of dependent workers contribute to the decreasing wage rate.

In Germany, wages did almost stagnate during the last decade while they were expanding up to 30 percent in other eurozone members and the European Union as a whole. In particular, wages grew in those debt-laden eurozone economies that are now in deep financial and economic distress, having lost access to international capital markets and needing to be bailed out by the euro rescue funds.

Another important factor is the "moderate" wage policies by German trade unions in the strong export sectors for the metal and chemical industries in order to provide more employment safety for the workers in times of financial and economic crisis. During 2009 and 2010, wage increases in Germany did not cover price increases. Together with the reductions in unemployment assistance and old age pensions, and higher personal contributions for health and nursing care, there also has been a continuous squeeze on internal demand in important markets.

These export-oriented strategies are coming under heavy attack by such important international policymakers as Christine Lagarde, the former French finance minister and now managing director of the International Monetary Fund. She blames Germany's persistent low-wage policies for contributing to ever-higher current account deficits and the unsustainable debt expansion of peripheral eurozone member states. Lagarde has requested policy changes. Such demands are seconded by Jean-Claude Juncker, prime minister of Luxembourg and chairman of the Euro Group of finance ministers. Arguing along similar lines are Heike Joebges and Camille Logesy, economists at the Berlin University for Applied Sciences: "Part of the export-oriented German economic model with high surpluses in international trade would not have been possible without the deficits of the weaker partners in the currency union."

Politically, the Schröder-Hartz reforms had severe repercussions. The traditional cooperation between the politically independent trade unions and the Social Democratic Party was severely eroded. This led to the exodus of key activists for traditional SPD labor and welfare policies. Die Linke—an amalgamation of the former PDS in the East with disappointed trade unionists and former SPD members in the West under the leadership of the former SPD Chairman Oskar Lafontaine—became the political platform to fight the Hartz IV welfare laws on the ballot in federal, state, and municipal elections. The state elections for SPD-dominated North Rhine-Westphalia turned into a Waterloo, since part of the traditional voters in Germany's industrial heartland were lost—some forever—for the oldest German party, dating back to the 1870s.

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## SUMMING UP THE LESSONS FOR EUROLAND

The Schröder-Hartz reforms and the accompanying deregulation, privatization, and the generous corporate tax giveaways cannot serve as a credible recipe to overcome Europe's crisis. What is called the "German employment miracle" is based on a comprehensive set of economic, social, and labor market policies with long-standing achievements in infrastructure, building regional clusters, functioning collective bargaining, codetermination, and other forms of cooperation between employers and trade unions.

In addition, the German export model depends on emerging economies maintaining their high economic growth rates and import demand. As the euro area crisis deepens with unsustainable sovereign and private debt, stagnating economic growth, and high unemployment, the German export bonanza is reaching its limits within the European Union. Germany's beggar-thy-neighbor policies have contributed to economic and social imbalances not only on the national level but also within a monetary union that is fighting for its survival.

Even ex-Chancellor Gerhard Schröder is realistic enough when he concedes that the reforms which he initiated for Germany "cannot be a cure for southern Europe without effective measures to promote domestic spending and forestall an immediate collapse." Adjustments, badly needed in the crisis countries of the eurozone, should be balanced between financial consolidation and economic development as well as reducing the extreme social imbalances.

Changes are also needed in Germany. The strengthening of its internal demand by shifting emphasis from austerity to economic development—especially promotion of private and public investments, support of economically and socially balanced wage policies by collective agreements, introduction of a sufficient legal minimum wage, and improvement of labor market policies and social security benefits.

## Germany's Apprenticeship System

"German companies set gold standard for apprenticeships," reads the headline of a recent *Financial Times* piece. The decades-old commitment to training by companies and teenagers is indeed considered a major factor behind the relatively low youth unemployment in Germany compared to other countries. At 7.9 percent in May of this year, youth unemployment was two-thirds less than the European Union's average of 22.7 percent, according to Eurostat.

Germany's "dual training system," or *Duales Ausbildungssystem*—a mix of school and practical learning in companies—covers more than 1.5 million young apprentices. The overall number has dropped in the last decade due to several factors such as demographic developments and changes in the German educational system.

As the International Labour Organization acknowledges, Germany's apprentice system has important advantages in times of economic crisis: it is decentralized, highly flexible, and closer to markets and companies than programs in countries where vocational training is run through the education system. In Germany last year, 570,000 of the country's graduates signed up for vocational apprenticeships, leaving about 30,000 offered apprenticeships from companies unfilled. This compares with 520,000 university enrollments in 2011. The apprenticeship system with more than 300 training modules has its shortcomings—less than 25 percent of companies offer apprenticeship training, causing the mismatch of supply and demand, and female applicants and students with poor school records, migrant backgrounds, and other handicaps fare less well.

*—U. Engelen-Kefer*

The recent agreement of leaders at the EU summit at end of June this year to better use the structural funds and the additional loans of the European Investment Bank for the improvement of vocational training and European placement services across borders is not more than the parochial drop in the bucket. The main part of the proposed €130 billion channeled through the EU structural funds has been already distributed to member countries and their regions.

The still-lacking release of funds for projects in the crisis countries is mainly due to high bureaucratic and financial hurdles. Without the necessary adjustments, there can be no meaningful way to overcome the disastrous unemployment, especially among young people. To improve vocational training, which is key in the reduction in youth unemployment, additional financial resources and practical expertise are needed, along with a much deeper and broader involvement of employers and trade unions.

*Politically, the Schröder-Hartz reforms had severe repercussions.*

Time is needed to build the necessary infrastructure. The exchange of young people from Greece and Spain into German companies, which has been agreed to by both governments, should not be a one-way street, but has to be reversed for building up efficient apprenticeship training in the southern European countries.

As the IMF noted in its 2012 Article IV consultation on euro area policies, "Limited labor mobility in the euro area impedes adjustment to idiosyncratic shocks." Labor mobility, although increasing somewhat in response to the crisis, remains fairly limited. Only about 1 percent of the working-age population changes residences within their countries in a given year, and even less move between euro area countries. This compares to about 3 percent in the United States, 2 percent in Australia and slightly less than 2 percent in Canada. Obstacles include cultural and language barriers, distortions in housing markets, limits to the portability of pensions, and, more generally, the absence of a cross-country social safety net, according to the report.

The inaugural message of the newly elected president of Germany, Joachim Gauck, should to be kept in mind on the national and European level: We should not accept when "people get the impression that advancement is out of their reach despite their every endeavor." ◆