THE EUROPEAN LABOUR MARKET
SUCCESS THROUGH FLEXIBILITY
AND MOBILITY

SUCCESS VIA REFORM:
THE GERMAN JOBS MIRACLE
UNEMPLOYMENT RATES IN EUROPE
ANNUAL AVERAGE (IN PERCENTAGE TERMS)

OVER 10 %
UP TO 10 %
UP TO 5 %

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Preface

The European labour market is facing great challenges. Unemployment has been on the rise in Europe virtually continuously since 2008 and has been on a historic high since 2011. There are currently over 25 million unemployed in Europe and numbers are still going up. These figures are alarming as they affect citizens directly in their daily lives.

The national labour markets, however, have developed very differently during the course of the crisis. While particularly the countries in crisis (Spain, Greece, Portugal and Italy) have very high unemployment rates of up to 21 per cent, countries such as Germany, Austria, Luxembourg and the Netherlands have historically low rates, below five per cent in some cases. Europe is thus facing two great challenges.

On the one hand, there is a need to reduce unemployment and get more people into work overall. Persistent unemployment has a very detrimental effect both on society as a whole and on individuals. Qualifications and acquired knowhow that are not used for extended periods become increasingly eroded. Unemployment robs people of prospects and makes it difficult for them to participate in society. At the same time, increasing expenditure on social benefits is a burden on the national purse and puts the brakes on the national economy. What this means for the European economy is worsening growth prospects and ultimately also declining living standards.

Increases in employment in Europe can only be achieved through structural reforms of the national economies – and particularly the labour markets. The overall aim must be to open up the labour market to as many people as possible and to distribute opportunities and security fairly. Each country will have to decide for itself which reforms are required in concrete terms to pursue this aim. The functioning of a regulated labour market depends on numerous factors, such as the model of the welfare state, the roles played by the social partners, the structure of the economy and the culture of a society – and these differ greatly from one country to the next. There can therefore never be a single right way or a single right model. However, the successful reform routes taken by individual countries can serve as examples to other member states – both positive and negative ones.

Experiences made by other countries can help to shape the debate ahead of large-scale reforms, making sure to involve all actors and bring them on board. They can suggest ideas on how the various problems can be solved creatively. And not least they can, of course, prevent “mistakes”, i.e. ineffective reform measures, being repeated.
But focusing exclusively on the structuring of the national labour markets will not be enough. Particularly in view of the euro crisis, the second central challenge will be to reduce the existing disparity between the different national labour markets. One of the key factors here is an increased willingness of the European population to extend the search for jobs beyond national borders.

Increased employee mobility could actually help to ameliorate the problems of the countries in crisis in the short term. Because each unemployed person who finds a suitable job abroad will lower the domestic unemployment rate and lessen the burden on the state. At the same time, this will provide support to the economies in the thriving regions and ease the skills shortage there, which has been making itself felt increasingly of late, particularly in certain sectors. But higher employee mobility does not only bear great potential for economic stability within society. It particularly also enables individuals to come out of unemployment earlier, gain professional experience abroad and thus add to their own formal qualifications through cultural insights and new language skills.

Flexibility and mobility – these are decisive factors for success in the European labour market and thus the foundation for an economically strong, wealthy and stable Europe. What can be done to strengthen the national labour markets? Which reforms result in some labour markets being more successful than others? How can job searching across national borders be facilitated? The Konrad-Adenauer-Stiftung and the Centre for European Studies consider these to be central questions and want to drive the cross-country discussions between the worlds of politics, the economy, the sciences and social partners forward. We are providing a platform for this purpose in the form of a series of booklets entitled “The European Labour Market – Success through Mobility and Flexibility”.

The first volume of this series examines the reform options for national markets by the example of Germany. Over the last decade, Germany has found a way of its own to equip its labour market for the challenges posed by globalisation. Dr Werner Eichhorst analyses the German jobs miracle, describes the most important reforms and illustrates the tasks that German economic policy has to contend with today.

We hope that you will find it interesting reading.

Dr. Michael Borchard
Tomi Huhtanen
Summary

- Over recent years, the German labour market has undergone an astounding transformation. What was once a problem child has now become an international role model. For decades, Germany suffered from endemic structural unemployment and high numbers of long-term unemployed. It was particularly difficult for unskilled workers to find employment due to significant barriers that prevented them from entering the labour market. In the mid-2000s, a raft of reforms was introduced that resulted in the unemployment rate being halved, despite the difficult economic climate.

- The German reform process was modelled on the successful reforms carried out in other countries, but at the same time it found its own path. It mainly followed the Anglo-Saxon model that involved less generous benefit systems and lower levels of protection against dismissal. It also pursued the model of “flexicurity” that combined a fully developed social security system with labour market policies aimed at activating the unemployed. Germany’s reform package consisted of the “Hartz reforms” passed between 2002 and 2005 and the more recent “Agenda 2010”. The main focus has been on activating job seekers and making the labour market more flexible.

- The strategy of “activating” the unemployed was based on the carrot and stick principle. The stick involved shortening the period during which unemployment benefits could be claimed, combining unemployment benefits and social welfare payments and tightening up of the demands placed on benefits claimants. On the other side, the carrot involved providing more support to job seekers and employment agencies and overhauling many areas of labour policy.

- At the same time, there was greater liberalisation of flexible working arrangements in order to increase the capacity of the labour market. Today, the increase in the number of temporary workers is causing some controversy. Temporary work has certainly allowed many long-term unemployed to gain a first foothold in the jobs market and the German economy has become much more competitive. But only a limited number of temporary staff then go on to get permanent jobs. The creation of mini jobs provided flexible and cheap part-time labour and these jobs were particularly popular within cost-sensitive areas of the service sector. However, people doing mini jobs generally have little chance of promotion and are usually paid low hourly rates. Regulations were also eased and incentives created to encourage people to become self-employed. However, there were very few changes in the area of fixed-term contracts and dismissal protection.
An important factor in the recovery of the labour market was the way standard employment contracts were made more flexible. Modernising collective bargaining agreements and making them more flexible, combined with a long phase of pay restraint, were crucial factors in improving the competitiveness of the German economy and making it more adaptable both during and after the crisis. Germany’s successes in the area of employment policy are therefore not just down to reforms but are also the result of long-term developments within the private sector.

However, despite the German labour market’s new-found strength, today it finds itself facing new challenges. Structural unemployment has been reduced and the employment threshold lowered. The more flexible labour market means that lower levels of economic growth are now needed to maintain or increase employment levels. In what has been a specifically German adaptation strategy, flexible working arrangements and wage restraint have given a major boost to the competitiveness of the German economy. At the same time, this increased flexibility in the labour market has led to a greater diversity of employment contracts and conditions. The wage gap has widened and there are wider variations in the degree of employment stability.

Germany has become the poster boy of crisis management. During the crisis it largely managed to maintain steady employment growth and in 2011 it even achieved a record high since reunification. Companies have made use of flexible working hours and the reformed instrument of short-time working to hold on to the majority of their staff during the crisis.

Demographic change is bringing new challenges for labour market policy. The shrinking working population makes it all the more essential to make the best possible use of the skills of the whole population. This can be achieved by ensuring that young people are given the best possible opportunities to gain skills and qualifications – no one should be left behind. It is also important to increase the number of working women and mothers by improving childcare provision and making working hours more flexible. There has already been success in the area of employment for older workers, but this should be increased still further by offering more training for older people and making efforts to create jobs that are suitable for older workers. There must also be a continuing focus on integrating the long-term unemployed and unskilled workers into the labour market by means of activation and skills-improvement programmes.

Germany has found its own, very individual and very successful labour market model to face the challenges of globalisation. But its success in Germany does not mean it can simply be transferred to other countries without modification. However, Germany’s experiences can certainly help its European partners to find their own ways of reforming their national labour markets.
From Problem Child to Poster Boy

The 2012 statistics for the labour market in Germany will show that there has been a record level of employment this year and a fall in unemployment compared to the previous year. While the global economic crisis has led to a decline in economic activity and a huge increase in unemployment in most other industrialised nations, the German labour market has remained robust and has not suffered from massive redundancies. Other European countries in particular have been following these developments with interest and Germany is seen as a prime example of how to successfully adapt labour market institutions to changing economic circumstances. Following decades of criticism both at home and abroad and wide-ranging efforts to introduce reforms, the German labour market is now internationally considered to be an excellent model in many respects. This represents a remarkable change in the way Germany’s development is viewed.

The German Labour Market in the 1990s: Antiquated Structures and Large Numbers of Long-term Unemployed

Since the mid-1970s, unemployment in Germany has soared over the course of various economic cycles and has never managed to return to those earlier levels, even during times of economic boom. This endemic structural unemployment was characterised by growing numbers of long-term unemployed and significant barriers to people entering the job market, especially if they were not particularly well qualified. Because of the poor state of the labour market, especially in the mid-to-late 1990s, consistently high unemployment and a relatively modest rate of full employment in comparison to other industrialised nations were perceived as a sign of some fundamental weakness in the German economy. Antiquated labour market institutions and a too expensive social security system were seen as a threat to the competitiveness of those doing business in Germany and were blamed by some on “reform bottlenecks” (Manow/Seils 2000). Following reunification, Germany was seen by many both at home and abroad as the “sick man of the Euro” (The Economist, 3 June 1999).

However, since the mid-2000s there have been clear signs of change in the German labour market. The overall employment rate for those of working age (15 to 64 years old) has risen from 65 percent to around 73 percent (Figure 1). At the same time, unemployment levels have nearly halved, despite generally difficult economic circumstances (Figure 2). This amazing change in the German labour market is the result of a number of reforms and developments over the last ten to fifteen years.
The German Reform Process: Learning From Role Models

In searching for ways of overcoming a protracted labour market crisis that involved large numbers of unemployed, a high proportion of long-term unemployed and levels of employment that were generally too low, Germany turned its attention to the experiences of other countries.

The OECD’s employment strategy, which, as a result of comprehensive empirical analysis, favoured deregulation of labour markets as a way of increasing overall employment levels, was an important part of this process (OECD 1994). Implicit in this strategy was the suggestion that the Anglo-Saxon approach in the USA and Great Britain was an ideal model to follow. At the time, these countries viewed less generous benefit systems and lower levels of protection against dismissal as going hand-in-hand with a more dynamic labour market. The OECD Council believed that higher labour market flexibility could also lead to the creation of more jobs and lower unemployment rates elsewhere.

Nevertheless, no such Anglo-Saxon inspired deregulation policies were implemented in Germany or the majority of other continental European countries in the years that followed. One of the main reasons for this was that this type of reform strategy was considered to be politically unacceptable, as it was perceived by the public as a system that fostered social inequality. Another reason was that the “employment miracles” taking place in the Netherlands, Denmark and Austria were attracting much more attention precisely because they were happening without massive deregulation. They were seen as proof that a high level of employment could not only be achieved but could also be compatible with a well-constructed welfare state and strict regulation. It was felt that a more generous benefits system was clearly compatible with a high level of employment as long as appropriate steps were taken to ensure that job seekers were actively looking for work with the help of targeted labour market policies. A fully developed social security system aimed at supporting active job seekers was also seen as a socially acceptable form of labour market flexibility that where necessary could also be combined with a watered-down form of dismissal protection along Anglo-Saxon lines. This concept, known as “flexicurity”, attracted a great deal of interest throughout continental Europe.
The intensive labour market and welfare state reforms that Germany carried out in the following years, i.e. from the beginning to the middle of the 2000s, owed a lot to these international models. However, the German version was neither a full-blown liberal Anglo-Saxon model, nor a comprehensive flexicurity strategy. It was more a case of following a path that best suited the country’s own institutional conditions and political constellations.

The German reforms were therefore not pursued on the basis of some form of consensus with social partners, but as part of a clear initiative by the then red-green Federal Government. The labour market reforms, which were typified by the “Hartz reforms” between 2002 and 2005 and the “Agenda 2010”, were largely a collection of more-or-less compatible individual measures that addressed specific problem areas within the country. The impact of these measures was to be clearly felt over the coming years, sometimes surprisingly so. The package of reforms covered two key areas:

1. A restructuring of unemployment benefits and the introduction of active labour market policies aimed at avoiding or shortening periods of unemployment and benefit claiming, and

2. The liberalisation of flexible forms of work in order to improve the capacity of the German labour market.
An “Activating” Welfare State: A Carrot and Stick Approach

The importance of putting specific limitations on benefit payments cannot be overestimated in terms of the activation policy applied to unemployment benefits. This is especially true of the following:

1. Shortening the period during which unemployment benefits can be claimed by older workers,
2. Combining means-tested and earnings-related unemployment benefits and social welfare payments as a means of providing basic security to job seekers of working age, but still at social welfare levels,
3. A stricter formulation and implementation of the demands placed on those receiving benefits, such as a duty to accept job offers and active labour market policy initiatives.

The German strategy of trying to “activate” the unemployed therefore has a combination of carrot and stick elements aimed at shortening periods of unemployment where possible (Eichhorst/Grienberger-Zingerle/Konle-Seidl 2008). A package of more comprehensive but also more flexible measures was put together for the long-term unemployed that could be adapted to the needs of the individual. Support for job seekers was also intensified and the employment services given a thorough overhaul. As part of the Hartz reforms, many labour market policy instruments were amended to make them more effective in helping people to assimilate more quickly into the labour market. For example, long-established re-training programmes were replaced by shorter training courses. In this, Germany was following the example of other countries. The basic principles of labour market and welfare policies designed to “activate” the unemployed, included stricter monitoring of their attempts to find work and imposition of stronger sanctions; the creation of a common point of contact for all (long-term) unemployed; the increased mobilisation of those responsible for implementing labour market policies; the agreement of targets and financial incentives; and the modernisation of the Federal Employment Agency. All these measures owe a great deal to the positive results achieved in the UK, Denmark, Switzerland and the Netherlands.
Making the Labour Market More Flexible

In order at the same time to improve the capacity of the labour market, the Hartz reforms also included greater liberalisation of flexible working arrangements: the so-called ‘atypical’ jobs. This predominantly had an impact on temporary employment, “mini jobs” and self-employment, without significant changes being made to temporary employment or to existing protection against dismissal for those in permanent employment.

TEMPORARY EMPLOYMENT

Temporary employment was significantly liberalised as part of the Hartz reforms, leading to a massive growth in employment in this area. Restrictions were lifted such as the ban on synchronising and setting fixed terms for employment contracts and allocation to temporary staff agencies and the upper time limit for hiring staff. At the same time the principle of equal treatment for temporary and permanent staff was established – although exceptions could be made when recruiting unemployed people or in the case of collective bargaining agreements. The consequence of this was that for the first time ever the temporary employment sector was covered by collective bargaining agreements between employer associations and unions. However, pay scales could be significantly lower than those set out in the collective bargaining agreements already in place in those sectors that tended to employ the most temporary staff. This created an incentive for the industrial sector to shift some of its activities over to flexible and less well-paid workers.

The role of temporary employment in helping to better assimilate the unemployed into the labour market – one of the original goals of the Hartz reforms – also changed. The encouragement of temporary employment was justified by pointing to the example of the Netherlands, where it had been shown that placing temporary workers could help job seekers who might otherwise have little prospect of finding jobs to gain a foothold in the labour market and then potentially find a regular job due to the so-called “glue effect”.

While the expectation that the long-term unemployed in particular would get an opportunity to enter the labour market has been largely fulfilled, there has been limited success in turning these opportunities into regular jobs. One obstacle is the fact that, in contrast to the Netherlands, there is no effective equality of treatment principle in Germany. The new collective bargaining agreements and the possibility of employing temporary staff indefinitely prompted the creation of pay structures that were lower than for those groups on standard pay scales. Temporary staff are therefore being used by many sectors as a way of creating long-term flexibility and reducing overall staff costs rather than as a way of recruiting permanent staff. Based on what we know today, there is little evidence that temporary work is providing a “wide bridge” to other more permanent working arrangements.
However, temporary staff have proven to be a key factor for the German economy in improving competitiveness, especially for those companies in the export business. The additional flexibility and benefits in terms of overall staff costs has meant that many jobs have been retained in Germany that might otherwise have been lost abroad (Baumgarten et al. 2012, Eichhorst/Marx/Thode 2010, Lehmer/Ziegler 2010).

**PART-TIME WORK AND MINI JOBS**

Mini jobs existed in Germany long before the advent of the Hartz reforms. However, they became more widespread from 2003 onwards due to certain crucial changes being made. The earnings limit for a job that was exempt from contributions and taxes, now known as a mini job, was raised to €400 per month. At the same time, the restrictions on taking such a job to supplement one’s income – put in place at the end of the 1990s – were lifted. The upper time limit for these jobs was also removed, so that longer working hours and lower pay became a possibility for this segment. Since then, mini jobs have become increasingly popular in specific sectors, such as retail and hospitality, as they represent a job model that is both flexible and relatively cheap for the employer. The exemption from tax means that people taking these jobs generally earn low wages and often face significant obstacles when it comes to getting more hours.

Mobilising the work potential of women became easier in the 2000s with the expansion of childcare provision. However, part-time work continued as before to dominate the work done by women, mostly because, in West Germany at least, full-time childcare is not readily available, and also because the laws relating to tax splitting for married couples as well as the option of mini jobs clearly favour part-time work. This applies equally to qualified women returning to work after raising children as mini jobs offer a good way of supplementing the family income, especially when faced with limited childcare opportunities. However, these jobs preclude the opportunity to further develop professional qualifications.

A fourth large group of mini jobbers are those who receive unemployment benefit II. The possibilities for people to supplement their income have been expanded as part of a social security system aimed much more at “activating” the unemployed. Since the new rules were put in place in 2005, it has become much easier than in the past to work without losing benefits. Basically, a form of combined income was introduced. This provided an incentive for people to supplement the benefits they were claiming with part-time work, and in particular with mini jobs. Prior to that there had been no real incentive for these people to do work that took them over the supplementary income threshold, as almost all of the additional money was taken into consideration in calculating their benefits.

The expansion of mini jobs has had a significant impact on the job structures of many cost-sensitive areas of the service sector such as the retail trade, commercial cleaning and the hospitality business. Mini jobs were designed as an instrument to create flexible and low-cost part-time working arrangements. However, the price paid for this move was the expansion of the low-pay sector and a lack of promotion prospects within the segment. The initiative also failed to really move jobs out of the informal economy into the official economy (Eichhorst et al. 2012).
SELF-EMPLOYMENT

Another area of reform was aimed at promoting self-employment in Germany. Liberalisation and the introduction of various measures were intended to make it easier for both the unemployed and those already in jobs to become self-employed. Existing obstacles to self-employment, for example, were lifted. In many trades it became possible to run a business without a master craftsman’s diploma, while in other areas there was a relaxation of the strict definition of self-employment to distinguish it from paid employment. The opportunities for fixed-term employment contracts were also expanded for newly-formed companies.

Huge incentives were given to the unemployed to take up self-employed work in the shape of new business founder support as part of the Ich-Ag initiative, which was later assessed as being particularly effective and relatively cheap (Caliendo/Künn/Wießner 2010).

FIXED-TERM CONTRACTS AND PROTECTION AGAINST DISMISSAL

The same applied to the employment of older workers on fixed-term contracts, something which has become much easier since the mid-2000s. However, there have been no further changes to the protection provided under employment law. Since 2000 the legality of fixed-term contracts has not changed and these types of contracts have actually grown in importance. The reforms introduced in 2000 limited repeated fixed-term contracts with the same employer without specific reason to a maximum of two years. There were also no significant changes made to the protection against dismissal laws. The last reform, which came into effect in early 2004, simply raised the threshold for applying the protection against dismissal laws from five employees to ten, simplified the social criteria for redundancy and introduced the option of a severance payment.

MODERN COLLECTIVE BARGAINING POLICIES AND INTERNAL FLEXIBILITY

However, labour market reforms are only one of the factors that go towards explaining the reduction in unemployment and the increase in the number of people employed in Germany. Apart from the changes in legislation, an important factor was the increased flexibility of standard employment terms and conditions. This longer-term adaptation of standard employment contracts has contributed significantly to the stabilisation of the number of people working in permanent employment after a period of contraction. This figure has actually shown some modest growth since 2006 compared to other forms of employment (Eichhorst/Marx 2011).

The modernisation and increased flexibility of collective bargaining agreements in Germany has been key to this success. There has been a significant change to the collective bargaining landscape since the mid-1990s for a number of reasons, including the declining competitiveness of German businesses, the relocation of businesses and jobs abroad and an ever-increasing unwillingness on the part of companies to become members of employers’ associations. When it comes to
collective bargaining agreements, changes have been made in sectors such as the metal and electrical industries to allow for adaptations and deviations from agreed standards via special clauses [Öffnungsklausel]. This created more flexibility for businesses at company level when it came to pay and working hours. The unions and workers’ councils within companies were prepared to make concessions in order to safeguard jobs in the predominantly unionised core workforces. This heralded the beginning of a long period of wage restraint from the mid-1990s onwards that in the medium term led to an increase in the competitiveness of export-oriented industries in Germany thanks to lower unit labour costs.

There was a growing acceptance of more flexibility on wages and working hours within those sectors covered by collective bargaining agreements and this was further enhanced by companies undertaking internal restructuring. This helped to stabilise employment numbers in the industrial sector and even allowed them to increase slightly thanks to the positive trend in German export activities.

However, it should be pointed out that the number of workers covered by collective bargaining agreements has actually declined (Figure 3). More and more sectors of the German labour market are not covered by these agreements, especially smaller, newly-established businesses in the private sector, where there is a great deal more flexibility when it comes to conditions of employment. And in general such companies tend to have management and remuneration policies that are much more oriented towards performance and results.

Germany’s successes with regard to employment policy are therefore not just down to government labour market reforms but are also the result of changes in the relationship between the parties to collective bargaining agreements and broader, more long-term developments within the private sector.

3 | Collective bargaining agreements on downward trend

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Source: WSI-Tarifarchiv 2011 Statistisches Taschenbuch Tarifpolitik
The German Model: New Strengths, New Challenges

A LOWER EMPLOYMENT THRESHOLD

The intensive reforms introduced between 2002 and 2005 made the German labour market much more dynamic. After 2005, a great many more jobs were created than in previous years, in parallel with the economic upswing. This was accompanied by a drop in the unemployment rate. These are remarkable structural improvements. Germany has succeeded in halting its structural unemployment problems while at the same time lowering the employment threshold. With a much more flexible labour market, the amount of economic growth needed to keep employment levels stable or to allow them to grow is now lower than before the reforms were introduced.

It is this lower employment threshold that accounts for the significant expansion in the number of people in employment since 2005 and the generally favourable progress made during the crisis years. The so-called Beveridge curve, which shows the relationship between unemployment and the number of unfilled vacancies, serves to highlight this development. A shift to the left demonstrates an improvement in the efficiency of the labour market. This has been the case in Germany in recent years, whereas previously the progress was in the opposite direction and suggested there were significant underlying structural problems. (Figure 4)

WIDER RANGE OF EMPLOYMENT CONTRACTS AND A BROADER REMUNERATION STRUCTURE

Up until the end of the 1990s, political and academic debate was focused on the country’s high unemployment and the low numbers of people in gainful employment, i.e. the divide between the working population and the unemployed. This situation has now fundamentally changed. Germany has succeeded in integrating significantly more people into the labour market, and as a result it is now the differences within the labour market itself that are the subject of debate. A critical eye is particularly being cast over the growth in low-paid work and the growing number of new employment contract types that offer less stability than standard permanent employment contracts.

In principle, these atypical types of job have made a significant contribution to the fact that many more people have been able to gain a foothold in the German labour market than in the past. There have also been changes in Germany that have been slow to take effect compared to other countries and that have only started to have

4 | A better functioning labor market

Source: Federal Employment Agency

Relationship between vacancies (y-axis) and unemployment (x-axis)
an impact in the last ten years or so. Figure 5 shows the growth in various forms of employment since the mid-1990s, with those in permanent full-time employment remaining stable as a group since 2000.

Atypical forms of work are often associated with lower pay and more insecurity for those involved. However, not all atypical jobs can be considered “precarious”. Part-time jobs, for example, are normally long-term and fully covered by collective bargaining agreements and social security provisions. Fixed-term contracts are often used as extended “probation periods” and very often lead to a permanent position. However, it is in the area of temporary work, mini jobs and self-employment where there is a relatively higher risk of low pay and a lack of stable work.

At the same time, the wage gap has been widening in Germany, even for full-time jobs, and the situation is now similar to that of the UK. This trend towards a growing income gap between those at the top and those at the bottom is closely linked to the fact that fewer workers are now covered by collective bargaining agreements and many more jobs are now in the private sector, where collective bargaining agreements are less common and where the kind of atypical jobs described above are much more widespread. Wage differentiation is much more pronounced in those sectors where there are fewer collective bargaining agreements, and atypical jobs are generally associated with lower pay than is the case with standard employment contracts (see Figure 6 and 7).

### 5 | Different forms of employment in Germany

Rate of change, base year 1995

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<td>– Employed</td>
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<tr>
<td>in fixed-term jobs</td>
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<td>in part-time jobs</td>
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<tr>
<td>– Employed</td>
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<td>0.0</td>
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<tr>
<td>in mini jobs</td>
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<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Temporary workers</td>
<td>1.3</td>
<td>1.2</td>
<td>1.1</td>
<td>1.0</td>
<td>1.0</td>
<td>0.9</td>
<td>0.8</td>
<td>0.7</td>
<td>0.6</td>
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</tbody>
</table>

Source: Federal Statistical Office

### 6 | Proliferation of low-paid jobs

Percentage of low paid workers by job and contract type, 2010

<table>
<thead>
<tr>
<th></th>
<th>Overall</th>
<th>Normal employees (full time and part time over 20 hours)</th>
<th>Atypical jobs</th>
<th>davon Part-time</th>
<th>Fixed-contract</th>
<th>Mini jobs</th>
<th>Temporary</th>
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</thead>
<tbody>
<tr>
<td>Overall</td>
<td>20.6</td>
<td>10.8</td>
<td>49.8</td>
<td>20.9</td>
<td>33.5</td>
<td>84.9</td>
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<td>Academic jobs</td>
<td>3.0</td>
<td>1.0</td>
<td>10.5</td>
<td>3.5</td>
<td>5.7</td>
<td>64.9</td>
<td>n.a.</td>
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<td>Technical and similar non-technical jobs</td>
<td>7.6</td>
<td>4.0</td>
<td>24.9</td>
<td>4.7</td>
<td>17.3</td>
<td>68.1</td>
<td>29.2</td>
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<td>Office jobs</td>
<td>23.4</td>
<td>10.9</td>
<td>48.1</td>
<td>13.2</td>
<td>39.4</td>
<td>80.3</td>
<td>62.5</td>
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<td>Service and sales jobs</td>
<td>42.3</td>
<td>28.4</td>
<td>65.4</td>
<td>30.0</td>
<td>58.3</td>
<td>88.6</td>
<td>72.1</td>
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<tr>
<td>Trades</td>
<td>16.1</td>
<td>11.1</td>
<td>48.7</td>
<td>32.6</td>
<td>31.3</td>
<td>81.0</td>
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<td>Machine operators</td>
<td>23.7</td>
<td>17.1</td>
<td>60.6</td>
<td>33.2</td>
<td>39.7</td>
<td>89.3</td>
<td>63.0</td>
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<tr>
<td>Unskilled labour</td>
<td>61.5</td>
<td>39.7</td>
<td>79.2</td>
<td>56.3</td>
<td>70.7</td>
<td>90.3</td>
<td>89.2</td>
</tr>
</tbody>
</table>

Source: Federal Statistical Office. Low pay threshold of two thirds of the average pay
COMPETITIVENESS THROUGH JOB FLEXIBILITY AND WAGE RESTRAINT

The German economy has become significantly more competitive in recent years. It has been able to keep unit labour costs stable or even reduce them (Figure 8). One reason for this has been sustained productivity gains combined with ongoing wage restraint. Increased flexibility of working hours using short and long-term flexitime systems have helped companies to return to being internationally competitive. This increase in competitiveness through moderate wage demands and more flexible working hours is much higher than that seen in other countries over recent years and reflects a specific German strategy.

7 | Low-wage workers

People in full-time employment on less than two-thirds of average pay in %

Source: OECD

8 | Constant unit labor costs

Comparison of international unit labour costs, base year 2005

Source: OECD
Germany has performed remarkably well since the global financial crisis of 2008. It is practically the only country that did not experience a massive rise in unemployment. In fact the country was able to keep the growth in the number of people in work relatively stable and in 2011 actually reached the highest level of employment since reunification.

This successful management of the economic crisis with only minor negative consequences for the labour market is mostly down to increased flexibility in terms of working hours and pay, along the long-established principle of short-time working. Germany can be considered a pioneer in the use of flexible working hours and short-time working as these instruments were developed earlier and used more extensively than in other countries. By making a few small adjustments and promoting short-time working when the crisis was at its most acute, the country was able to safeguard its experienced workforce during the difficult year of 2009, especially in the export-oriented industries.

**The Use of Flexitime**

The years leading up to the crisis taught companies that finding new skilled staff would become ever more difficult because of demographic change. At the same time, businesses were only expecting a short-term slump in orders. It was therefore in the best interests of companies to hold on to as many of their staff as possible in order to be able to return to former production levels once the upturn began. Added to this was the fact that there were now limited opportunities for early retirement following

![Short-time working](image-url)
reforms to the labour market. As a result, reducing employee numbers would have actually been much more expensive than in the past.

In order to hold on to their staff, companies turned to more flexible working hours. Cutting overtime that had been accumulated before the crisis and balancing flexitime accounts were important factors in helping to overcome the crisis. (Möller 2009, Rinne/Zimmermann 2012).

**SHORT-TIME WORKING**

Short-time working has existed in Germany for many years, and it became even more attractive to companies at the beginning of the economic crisis due to several reforms that were introduced. For employers in the export industries in particular, short-time working offered an ideal way for companies to hold on to their skilled staff.

In Germany, short-time working is financed by unemployment insurance contributions and makes up around two-thirds of the loss of earnings due to reduced hours, roughly the equivalent of receiving unemployment benefits. In order to help overcome the crisis, the maximum allowed time for short-time working was extended and employers who resorted to short-term working were also exempted from social security contributions for the hours that were not worked.

According to OECD estimates (OECD 2010), around 350,000 jobs were saved in industry thanks to short-time working, but a similar number of temporary workers lost their jobs. So as a flexible form of employment, temporary work made a significant contribution to overcoming the crisis (Figures 9 and 10).
A New Challenge for Labour Market Policy: A Shortage of Skilled Staff

After the traditionally very high levels of unemployment had been significantly reduced and the number of people in work had increased, there was then a need to shift the political focus. Education and training policies have become more important in helping to revitalise the economy, in conjunction with labour market reforms.

Demographic changes will lead to the labour market potential shrinking by around 18 million by 2050. This combined with the shortage of skilled labour that is already being felt in some professions, especially in science, engineering technology, medicine and nursing, means it is essential to focus on training and mobilising all available skilled workers. The key to this will be training younger people and encouraging the increased participation of women and older people in the labour market. The main thing is that the majority of positions continue to be successfully filled, even if the hiring process may in some cases take longer than in the past.

GETTING YOUNG PEOPLE INTO WORK

In order to successfully enter the labour market, it is absolutely essential for young people to gain general academic and professional qualifications. This minimum level of qualifications is indispensable for gaining a permanent foothold in the job market.

Therefore the challenge for education and training policy lies in finding ways to maximise young people’s professional potential and produce as many well-qualified job starters as possible. This approach of investing in potential can help to avoid problems later on in young people’s working lives and their integration into society. In light of Germany’s somewhat poor or average position in OECD comparative education rankings there is a growing recognition of the importance of education and training, something that has been heavily influenced by the successes seen in Scandinavia. Since the “PISA shock” of 2011, there has been discussion in Germany about following the example of Finland and other countries by focusing on more intensive education for young children and placing greater emphasis on skills training in schools.

The comparative education studies suggested that there were several major steps that needed to be taken in Germany in order to improve the skill levels of its schoolchildren, including promoting pre-school education for children from more problematic family backgrounds and particularly for children from migrant families; the expansion of all-day schools; systematic setting of targets and educational standards and a longer period of general education. The conclusions drawn from the studies were also to some extent based on Germany’s own interpretation of the data. However, in the area of early learning and skills training in schools, it is more difficult to implement structural changes because federal jurisdiction and funding makes it harder to introduce coordinated reforms. Reforming the early learning system will only succeed if the necessary reforms are introduced at national level.
WOMEN IN THE LABOUR MARKET

Even though progress has been made in the number of women and mothers in work, there is still room for improvement. In terms of full-time equivalents in particular, Germany still lags behind many other countries (Figure 11). There is plenty of potential in the area of shorter career breaks after starting a family and in increasing working hours through mini jobs and part-time work. The provision of family allowances, based on the Swedish and Danish models, has already provided incentives to shorten career breaks to around twelve months and has encouraged fathers to share the parental leave. As a result, there has been a growth in demand for reliable, affordable and high-quality childcare – with elements of early learning included – from the age of one onwards. For children of kindergarten age, the focus has been on extending opening hours, not only to make it easier for parents to work, but also from an educational point of view. All-day schooling, as is already the norm in many European countries, and which is currently being expanded in Germany, can help parents to fill childcare shortages and ensure that schoolchildren receive more intensive teaching. Education policy and childcare are therefore complementary approaches, as can be seen by the example of the Scandinavian countries and France.

There is also a need to play catch-up in terms of making working hours more flexible – not just based solely or primarily on operational requirements but also in order to fit in with the needs of families, something that has so far not been a major focus in Germany. In order to bring more women and mothers into the labour market, it is also important to remove incentives not to work or to only work part-time. The German model of joint income tax assessment with a choice of tax classes and the possibility of taking a tax and contributions-free mini job does not provide a great incentive. In most other European countries, spouses are assessed individually for income tax and there is no special treatment of mini jobs. By removing incentives to work part-time, particularly in mini jobs, many very low-paid jobs would become less attractive.

WORKING LONGER IN GOOD HEALTH

In recent years Germany has significantly increased the number of older people in work (Figure 12). This is primarily down to a reduction in early retirement opportunities under unemployment insurance provisions and the country’s pension system. This is an area where Germany has reacted earlier and more decisively than many other countries. In contrast to other countries, incapacity to work or long-term illness are not taken into account when it comes to early retirement. Germany was also the first EU member state to raise the official retirement age from 65 to 67. This could eventually lead to the introduction of a generally more flexible retirement age along the lines of the Finnish model. A longer working life
will make it necessary to create a workplace that is adapted to different age groups and will require providing the workforce with systematic training opportunities. Many companies in Germany have already adopted this approach, though the practice is more widespread in Scandinavia and Austria.

Training for older employees has been somewhat neglected in Germany. Employers tend to focus their training efforts on younger, highly-skilled staff (Figure 13). As time goes by, employees can end up with a lack of appropriate skills, especially those who were not so highly qualified to begin with, and this can make their working lives more difficult in the medium term. Although demographic changes mean that employers are likely to pay more attention to this particular group of employees, it would also make sense to provide public funding to train employees who are left out of employer training programmes.

Employment opportunities for the low-skilled and the long-term unemployed

There is still a significant problem when it comes to the long-term unemployed and people with few qualifications or skills. At the bottom end of the labour market it is not so much about increasing the numbers of people employed as about maintaining employment stability while improving upward mobility. Unfortunately, comparisons with other countries do not provide any ideal models when it comes to measures designed to ensure that every group has an opportunity to advance. The general approach continues to be programmes designed to activate the unemployed and improve their qualifications based on their individual circumstances and needs. Generally speaking, full-time jobs continue to carry less risk of poverty and offer more opportunities to advance than part-time jobs, which tend to require “topping up” with benefits.

Careful regulation around the edges of the labour market can help to improve the situation of those in work without unduly affecting the dynamics of these areas or limiting the possibilities for advancement during a person’s working life. While a minimum wage is no patent solution to low-paid work, it can be highly effective in setting a minimum level for pay without burdening the labour market too severely. A moderate minimum wage would therefore be preferable to a minimum threshold under collective bargaining agreements, because minimum wages have been introduced into a growing number of economic sectors in recent years. One solution could be that adopted by the UK, where a minimum wage was introduced at a

---

**Figure 13** | Lack of further trainings later in life

Participation in training by age (2011) in %

- 35 to 44 years old
- 45 to 54 years old
- 55 to 64 years old

Source: Eurostat
modest level and is regularly reviewed by an independent body. Such independent fixing of minimum wage levels could help prevent ever higher minimum wages being agreed in individual sectors through collective bargaining and would also cover those sectors in which there are no collective bargaining agreements. Another challenge that has to be faced is the difference in pay levels between temporary work and direct employment. It would be expedient to systematically narrow the pay gap between these two groups in line with the length of time employed, as is already the case in many EU countries and in the metal and electrical industries, where the practice has been introduced as part of collective bargaining agreements.

| 14 | Overview: The German labour market, 2007 to 2012 |
|-----------------|-------|-------|-------|-------|-------|
|                | 2007  | 2008  | 2009  | 2010  | 2011  | 2012 forecast |
| Real GDP, %     | 3,3   | 1,1   | -5,1  | 4,2   | 3,0   | 0,6          |
| Change in productivity per hour worked, % | 1,7   | -0,1  | -2,5  | 1,8   | 1,6   | 0,2          |
| Hours worked, % | 1,6   | 1,2   | -2,7  | 2,3   | 1,4   | 0,3          |
| Employment rate, % | 1,7   | 1,2   | 0,1   | 0,6   | 1,4   | 1,2          |
| Number of people in employment, 1,000s | 39,857 | 40,348 | 40,370 | 40,603 | 41,164 | 41,644 |
| Number of people in employment liable for social security contributions, 1,000s | 26,943 | 27,510 | 27,493 | 27,756 | 28,440 | 29,002 |
| Number of people unemployed, 1,000s | 3,760 | 3,258 | 3,415 | 3,238 | 2,976 | 2,897 |
| Unemployment rate, % | 9,0   | 7,8   | 8,2   | 7,7   | 7,1   | 6,8          |
| People in temporary employment, 1,000s | 715   | 761   | 626   | 793   | 882   | n.a.         |
| People on short-time working, 1,000s | 68    | 101   | 1,144 | 503   | 148   | 118          |

Source: Federal Employment Agency; Fuchs et al. 2012
In recent years Germany has found its own unique, remarkably pragmatic and sustainable, if not perfect, way to adapt to the demands of technological and structural change in a globalised economy.

This model is clearly sustainable and successful, at least as far as Germany is concerned, but would not be easy to transfer to other countries without modification as it relies on a specific combination of labour market and social policies on the one hand; and on wage and working hour flexibility on the other, while according a central role to those involved in individual business sectors and companies.

The driving forces behind the governmental reforms to the labour market were the problems associated with the funding the welfare state and the expectation that high unemployment would be overcome. The driving force for companies was above all gaining greater competitiveness by exchanging long-term, stable employment levels for more flexible pay conditions and working hours.

Labour market reforms in particular were in part inspired by examples from abroad, which were then creatively adapted to suit the situation in Germany. The same applies to its education and training policies, which are recognised as being key components of any necessary reforms but which are yet to be implemented in full.
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Werner Eichhorst, born in 1969, studied sociology, political science, psychology and public policy and administration at the universities of Tübingen and Konstanz. From 1996 to 1999 he was a doctoral and post-doctoral fellow at the Max Planck Institute for the Study of Societies in Cologne. In the autumn of 1998, he received his doctoral degree from the University of Konstanz. His thesis was on the subject of "Employment Policies and Performance in Four Small Open European Economies". Between leaving university and 2004 he worked as a project director at the Bertelsmann Foundation, where he was responsible for the project "Benchmarking Germany: Labour Market and Employment". From 2004, he worked at the Institute for Employment Research (IAB). Since 2005, Werner Eichhorst has been working at the labour research institute IZA, taking up the post of Deputy Director of Labor Policy in April 2007. His main research areas include labour market development and the comparative analysis of labour policy strategies and reform processes.

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THE EUROPEAN LABOUR MARKET
SUCCESS THROUGH FLEXIBILITY
AND MOBILITY

JOBS WITHOUT FRONTIERS:
THE POTENTIAL OF THE SINGLE EUROPEAN LABOUR MARKET
UNEMPLOYMENT RATES IN EUROPE
ANNUAL AVERAGE (IN PERCENTAGE TERMS)

OVER 10 %
UP TO 10 %
UP TO 5 %

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The European labour market is facing great challenges. Unemployment has been on the rise in Europe virtually continuously since 2008 and has been on a historic high since 2011. There are currently over 25 million unemployed in Europe and numbers are still going up. These figures are alarming as they affect citizens directly in their daily lives.

The national labour markets, however, have developed very differently during the course of the crisis. While particularly the countries in crisis (Spain, Greece, Portugal and Italy) have very high unemployment rates of up to 21 per cent, countries such as Germany, Austria, Luxembourg and the Netherlands have historically low rates, below five per cent in some cases. Europe is thus facing two great challenges.

On the one hand, there is a need to reduce unemployment and get more people into work overall. Persistent unemployment has a very detrimental effect both on society as a whole and on individuals. Qualifications and acquired knowhow that are not used for extended periods become increasingly eroded. Unemployment robs people of prospects and makes it difficult for them to participate in society. At the same time, increasing expenditure on social benefits is a burden on the national purse and puts the brakes on the national economy. What this means for the European economy is worsening growth prospects and ultimately also declining living standards.

Increases in employment in Europe can only be achieved through structural reforms of the national economies – and particularly the labour markets. The overall aim must be to open up the labour market to as many people as possible and to distribute opportunities and security fairly. Each country will have to decide for itself which reforms are required in concrete terms to pursue this aim. The functioning of a regulated labour market depends on numerous factors, such as the model of the welfare state, the roles played by the social partners, the structure of the economy and the culture of a society – and these differ greatly from one country to the next. There can therefore never be a single right way or a single right model. However, the successful reform routes taken by individual countries can serve as examples to other member states – both positive and negative ones.

Experiences made by other countries can help to shape the debate ahead of large-scale reforms, making sure to involve all actors and bring them on board. They can suggest ideas on how the various problems can be solved creatively. And not least they can, of course, prevent “mistakes”, i.e. ineffective reform measures, being repeated.
But focusing exclusively on the structuring of the national labour markets will not be enough. Particularly in view of the euro crisis, the second central challenge will be to reduce the existing disparity between the different national labour markets. One of the key factors here is an increased willingness of the European population to extend the search for jobs beyond national borders.

Increased employee mobility could actually help to ameliorate the problems of the countries in crisis in the short term. Because each unemployed person who finds a suitable job abroad will lower the domestic unemployment rate and lessen the burden on the state. At the same time, this will provide support to the economies in the thriving regions and ease the skills shortage there, which has been making itself felt increasingly of late, particularly in certain sectors. But higher employee mobility does not only bear great potential for economic stability within society. It particularly also enables individuals to come out of unemployment earlier, gain professional experience abroad and thus add to their own formal qualifications through cultural insights and new language skills.

Flexibility and mobility – these are decisive factors for success in the European labour market and thus the foundation for an economically strong, wealthy and stable Europe. What can be done to strengthen the national labour markets? Which reforms result in some labour markets being more successful than others? How can job searching across national borders be facilitated? The Konrad-Adenauer-Stiftung and the Centre for European Studies consider these to be central questions and want to drive the cross-country discussions between the worlds of politics, the economy, the sciences and social partners forward. We are providing a platform for this purpose in the form of a series of booklets entitled “The European Labour Market – Success through Mobility and Flexibility”.

The second volume of the series deals with employee mobility in Europe and with the question of how it has developed over the last few crisis-wrought years. Dr Wido Geis analyses the factors that can support or hinder the decision to move to another country to take up a job. He illustrates reform measures to increase mobility and explains the impact that they can be expected to have.

We hope that you will find it interesting reading.

Dr. Michael Borchard

Tomi Huhtanen
The labour market varies very widely across the EU’s member states. While unemployment rates in Greece and Spain have soared above 20 percent in the wake of the financial, economic and sovereign debt crises, other countries such as Sweden, Germany, Luxembourg and Belgium are struggling to find skilled labour. In theory, this should make it very attractive for job-seekers from the particularly badly-hit regions to migrate to countries where their skills are needed.

But despite this, there is little mobility between EU countries. This is illustrated by the fact that there are more Mexicans living in the USA than EU citizens living in another EU country. There is no doubt that the crisis has triggered an increase in the numbers of people migrating between the various EU countries, but if we ignore the movement of citizens from the new EU member states of Bulgaria, Poland and Romania, the number of people migrating as a result of Europe’s economic imbalances remains very low. The proportion of workers in the EU who are citizens of another EU country has significantly increased, but the increase in those countries that are particularly suffering from a shortage of skilled labour is less than the average. So it seems clear that the imbalances between the European labour markets have only had a limited effect on this increase.

In addition, migration flows have not simply followed the demand for labour. In 2010, Spain experienced a massive inflow of Romanians, despite the fact that unemployment in Spain was actually much higher than in Romania. The reason for this was probably the fact that wage levels and working conditions are also an important factor for people deciding to migrate and there is still a prosperity gap between the Western and Eastern countries of the EU. However, any statements about migration patterns in Europe have to be treated with some caution. Reliable statistics on migration between EU member states have only been available since 2009, and there are some major gaps in the data. At present there is no data at all about migrant numbers from Bulgaria, Poland and Romania, the home countries of the majority of migrants.

Along with economic factors, expectations about quality of life also play a major part in people’s decisions to migrate. For many EU citizens, the main reason for not moving is that they do not want to leave behind their home and friends and want to avoid placing excessive strain on their families. And cultural factors can be as important as economic considerations when deciding on a destination country.

Despite the freedom of movement that exists for workers, there are still some concrete barriers to migration between EU countries. One of the main obstacles is the language barriers between the member states. Differences in nationally-recognised qualifications also make it difficult for EU citizens to find a job in another EU country.
Although English is increasingly becoming the lingua franca of the EU, migrants generally still have to learn the language of their new country. As a result of this, many potential migrants decide against moving because they feel it would take too much time and effort to learn the language. If they do decide to migrate, they need time to learn at least the basics of the language before they leave home, so there is a substantial delay before migration flows can react to imbalances in the EU’s labour markets. Moreover, migration flows do not necessarily reflect actual imbalances, because migrants generally prefer to move to countries where they already speak the language or have a chance of learning it fairly easily.

Mobility within Europe could be increased by improving the language training infrastructure. In particular, the migrants’ home countries need to expand their offer of training in the everyday language of potential destination countries. The destination countries should increase their focus on communicating specialist knowledge in the national language.

Additionally, there should be greater harmonisation of educational and professional qualifications across the different EU countries and EU citizens should be encouraged to feel a greater sense of European identity. In countries such as Greece, many people still feel no sense of European identity, so there are both emotional and practical hurdles that deter them from moving to another country within the EU. Migrants from other EU countries also need to be made more welcome so that it is easier for them to integrate into the society of their new home. These measures will help to break down emotional barriers in the medium-term and encourage more people to move to another EU country. But it all takes time.

We should not expect to see a significant increase in labour migration between EU member states over the next few years. To date, there is little sign of any fundamental expansion of the flow of migrants from the crisis-hit countries of the EU towards countries with major skills shortages.

But in the medium-term the single European labour market can make a major contribution to economic development in Europe. This is not simply limited to balancing out regional fluctuations in labour supply and demand. The single labour market can also help to create large expertise and manufacturing clusters. In the long term it is likely that the single European labour market will be unable to meet the demand for labour because of the effects of demographic change in the EU member states. If Europe’s economies are to prosper, there will also be a need to attract skilled workers from non-EU countries.
Europe between record unemployment and skills shortages

The economies of the various EU member states have reacted very differently to the effects of the recent financial, economic and sovereign debt crises. The economies of Greece, Ireland, Portugal and Spain have suffered serious and lasting damage, whereas Germany, the Netherlands and Austria have remained largely unaffected. This has in turn had an impact on the labour market, with unemployment rates in the second quarter of 2012 in Germany, Luxembourg, the Netherlands and Austria remaining below 6 percent while Greece, Ireland, Latvia, Portugal and Spain have seen unemployment rates soar over the 15 percent mark. And a large proportion of this wasted potential labour force is made up of highly-skilled workers. The unemployment rate amongst college graduates stands at 13.6 percent in Spain and is as high as 16.5 percent in Greece (Figure 1).

Some other EU countries, particularly those in Central and Northern Europe, are suffering from skills shortages. A study by Erdmann and Demary (2012) showed that companies in Sweden, Germany, Luxembourg and Belgium are particularly affected by this and are struggling to achieve their full production capacity due to a lack of skilled labour. In theory, young, skilled workers should be keen to move from the crisis-hit countries to Southern Europe to those EU countries where their skills are in demand. But in reality labour migration within the European Union has not been sufficient to rectify the regional imbalances in labour supply and demand, as is borne out by the labour market statistics.

The aim of this article is to explain why the current economic imbalances are not leading to larger flows of migrants between the various EU countries and how labour mobility in Europe can be increased. Firstly, we will look at what conclusions can be drawn from the available data relating to changes in labour migration within the EU over recent years. We will then examine the factors that are responsible for the European workforce’s low levels of mobility, and finally consider how labour mobility can be encouraged in Europe and the potential of the single labour market for Europe’s economic development.
How mobile is the European labour force?

It is necessary to look at migration statistics in order to assess the current mobility of the European labour force. Ideally, these should show how many people each year move to another EU country in order to find work. However, European migration statistics are not broken down to show reasons for moving, so we also have to study employment figures in order to gain an overview of labour migration. Therefore, we will first of all look at what we know about migration flows in Europe and then examine the trends relating to the employment of people from other EU states in countries where there is a strong demand for labour.

MIGRATION FLOWS WITHIN THE EU

Reliable figures on migration patterns in Europe have only been available for the last few years. EC Regulation No. 862/2007 (European Union, 2007) laid down the guidelines for the systematic compilation of migration statistics. Before this, EU countries simply worked according to a gentleman’s agreement whereby they reported their migration figures to the European statistics authority, Eurostat. But these figures were difficult to compare because they were based on different definitions. In Germany, for example, a period of two months was all that was needed to record a person as an immigrant, whereas in the United Kingdom this process took a year. EU Regulation No. 862/2007 introduced uniform definitions of immigrants and emigrants as people who intended to stay for at least one year. Transitional regulations applied in 2008, so it was 2009 before the migration statistics supplied consistent and interpretable data on migration patterns within Europe.

Figure 2 shows the numbers of migrants leaving for other EU countries and the numbers arriving from other EU countries in 2009 and 2010. The most significant changes between the two years were seen in Lithuania, where the number of people migrating to other EU countries increased five-fold; in Spain, where it quadrupled; and in Portugal, where it doubled. Immigration increased most strongly in Germany, with a rise of around 25 percent. Lithuania, Spain and Portugal were particularly hard-hit by the crisis and had particularly high unemployment rates, whereas in 2010 Germany was already finding it had shortages in the labour market. So the figures show that migration within the EU over recent years has been linked to the labour supply, even if the absolute figures seem very low in light of the reigning economic imbalances.

However, the number of people migrating to Spain between 2009 and 2010 did not sink, as might be expected, but in fact increased. The main reason for this is that the number of migrants from Romania – for which no figures are available – soared from around 42,000 to 60,000. In 2007, the year before the crisis took
hold, 174,000 Romanians migrated to Spain (Eurostat, 2012b). This Romanian migration was certainly not justified by a need for labour in Spain. Unemployment in Romania in 2010 was a mere 7.6 percent compared to a rate of 20.2 percent in Spain (Eurostat, 2012a). And in Bulgaria and Poland, the countries that the statistics suggest have experienced the highest net emigration along with Romania, unemployment rates in 2010 were around the EU average of 9.7, at 9.7 and 10.3 percent respectively (Eurostat, 2012a).

However, it seems reasonable to assume that emigration from Bulgaria, Poland and Romania was largely fuelled by the economic situation. In 2010, per-capita GDP in Bulgaria was only 4,800 euros, in Romania 5,800 and in Poland 9,300 (purchasing power parity) compared to an EU average of 24,500 and 22,800 euros in Spain (Eurostat, 2012c). So despite the crisis and high unemployment
rates, the standard of living in Spain is still much higher than in Romania. On top of this, Germany and other EU countries with a strong demand for labour are still imposing transitional regulations that limit access to the labour market for people from Bulgaria and Romania. So many prospective migrants are forced to turn their attention to countries like Spain that opened up their labour markets before the crisis struck.

When considering the single European labour market, it is important to realise that workers do not necessarily migrate to places where there is the highest demand for labour, but rather to places where they think they will have the best chance of finding work. Therefore wage levels and working conditions also play an important role alongside the demand for labour. For as long as there remain large prosperity gaps in Europe, it may be that labour migration will to some extent run counter to labour demand and aggravate still further the imbalances in the labour market, as was the case with Romania and Spain in 2010. More generally, Europe’s prosperity gaps could actually smother the balancing effect of the single European labour market.

Unfortunately, European migration statistics still only offer an incomplete picture of migration flows in the European Union, so it is not possible to draw any well-founded conclusions on the levelling effect of the single European labour market. We only have reliable statistics for 2009 and 2010, and even for these two years there is no available data on three of the countries with the most emigrants: Bulgaria, Poland and Romania. Differentiation between the destination country and the country of origin within the EU is also not possible for most countries. EU Regulation No. 862/2007 laid down standards for classification but not for the methods the various countries should use to gather the data. In Germany, migration statistics are forecast according to entries in the register of residents, whereas in the UK it is based on a representative survey of people travelling into airports and ferry terminals. As a result, the data is not particularly precise and it is very difficult to make a quantitative comparison.

**Inward Migration of Highly Skilled**

The inward migration of highly qualified workers from non-EU countries has been simplified at EU level, and the new provisions were enshrined in national law in Germany with effect of 1 August 2012.

- **EU Blue Card**
  A work permit for citizens of non-EU countries limited to a maximum of four years. The target group consists of highly-skilled people with a university qualification, who can demonstrate that they have an employment contract for work that is compatible with their qualification and commands a salary above a specific threshold. There is a simplified accelerated checking procedure in place for this. If their employment continues, Blue Card holders can apply for permission to settle after two years.

- **Additional preferential treatment for job search**
  Skilled people with qualifications are granted a 6-month residence permit for the purpose of finding suitable employment. For people who have a degree from a German university the period is extended to 18 months from when they gained their qualification.

**The Labour Force in Other EU Countries**

Unlike the migration statistics, European employment and labour force statistics are collected according to a uniform method and can therefore be considered reliable. However, they only show the citizenship of the immigrants in the various EU countries but not their previous domicile, so it is only possible to make indirect assumptions about labour migration flows in the EU.

Figure 3 shows a breakdown by EU country of the numbers of people in work who are citizens of other EU states and non-EU countries for the second quarter of 2012. As an average across all EU countries, 3.1 percent of the workforce was made up of citizens of another EU country and 4.0 percent were citizens of a non-EU country. So the role played by citizens of non-EU countries is as important as that of workers from other EU states in the European labour markets. But there are huge differences between the various EU countries. In Luxembourg, almost half of the workforce is made up of citizens of another EU country, whereas the figure in Poland is only one in a thousand. The number of non-EU citizens working in the new EU member states is in fact particularly low. Overall, the number of
workers from non-EU countries is particularly high in Southern Europe, with the exception of Portugal, probably because these countries form the EU’s external borders.

The situation in the labour market is not really reflected in the number of non-EU nationals in the general workforce. With a figure of 10.2 percent, Ireland, a country badly affected by the crisis, has the highest proportion of non-EU nationals after Luxembourg and Cyprus. Even in struggling Spain, the number of non-EU nationals (4.5 percent) is still higher than that of Germany (4.2 percent). It should, however, be noted that most non-EU nationals took up employment in the crisis-hit countries before the crisis broke out, and so their decision was based on other factors.

However, the number of people working in other EU countries has grown significantly over the last few years, as is shown in Figure 4. From 2.0 percent in 2005, by 2011 it had grown to 3.0 percent. It is remarkable that the figure has grown more slowly than the average in those countries that currently have a particular shortage of labour. The number of non-EU nationals as a proportion of the workforce in those countries that on average had an unemployment rate of under...
7.5 percent in 2011 (Belgium, Germany, Luxembourg, Malta, the Netherlands, Austria and the Czech Republic) only increased from 3.3 to 3.8 percent. This means that the imbalances in the European labour markets that came about as a result of the crisis are not solely responsible for the recent growth in the number of non-EU nationals working in Europe.

The number of people who live in another EU country is still relatively low, as can be seen in the comparison below. Of the 502.5 million people who lived in the European Union in 2011, 16.4 million or 3.3 percent were born in a different EU country (Eurostat, 2012d). In 2010, the USA had a population of 309.4 million, of whom 11.7 million or 3.8 percent were born in Mexico (US Census Bureau, 2012). The free movement of workers is one of the fundamental freedoms of the European Union and, as far back as the 1960s and 1970s migration in Europe was speeded along by encouraging guest workers from Southern Europe to come to Central and Northern European countries. In contrast, the USA had a very restrictive policy on Mexican immigration, with the result that most Mexicans who wanted to work in the US generally had to achieve this by illegal routes.

Despite this freedom, mobility within the European Union has so far been relatively low. And if we ignore immigration to other EU countries by citizens of the new EU member states Bulgaria, Poland and Romania, there seems little likelihood that there will be any significant increase in mobility over the coming years. Although net immigration is continuing, the number of people leaving Spain between 2010 and 2011 quadrupled. But if we set the total figure of 123,000 emigrants in 2011 (Eurostat, 2012b) against a population of around 46.1 million (Eurostat, 2012e), it is clear that very few people have actually left the country despite the fall-out from the crisis. Therefore, the single European labour market has so far only made a relatively modest contribution to levelling out Europe’s economic imbalances.

We should also not expect to see a significant increase in mobility within Europe in the near future. In the Europe-wide Survey No. 337 carried out by Eurobarometer in 2009 on “Geographical and Labour Market Mobility”, (Eurobaro-

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4 | Rising numbers of EU citizens working in another EU country

Gainfully employed persons from other EU country in %

![Graph showing the percentage of gainfully employed persons from other EU countries over time.](Source: Eurostat, 2012a)
One in five European citizens can imagine working abroad

<table>
<thead>
<tr>
<th>Country</th>
<th>Proportion Expecting to Work Abroad</th>
</tr>
</thead>
<tbody>
<tr>
<td>Denmark</td>
<td>51%</td>
</tr>
<tr>
<td>Estonia</td>
<td>38%</td>
</tr>
<tr>
<td>Sweden</td>
<td>37%</td>
</tr>
<tr>
<td>Latvia</td>
<td>36%</td>
</tr>
<tr>
<td>Lithuania</td>
<td>35%</td>
</tr>
<tr>
<td>Finland</td>
<td>35%</td>
</tr>
<tr>
<td>Slovenia</td>
<td>30%</td>
</tr>
<tr>
<td>Hungary</td>
<td>29%</td>
</tr>
<tr>
<td>UK</td>
<td>26%</td>
</tr>
<tr>
<td>France</td>
<td>25%</td>
</tr>
<tr>
<td>Slovakia</td>
<td>23%</td>
</tr>
<tr>
<td>Poland</td>
<td>23%</td>
</tr>
<tr>
<td>Ireland</td>
<td>22%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>22%</td>
</tr>
<tr>
<td>Portugal</td>
<td>21%</td>
</tr>
<tr>
<td>Malta</td>
<td>20%</td>
</tr>
<tr>
<td>Belgium</td>
<td>18%</td>
</tr>
<tr>
<td>EU average</td>
<td>17%</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>16%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>16%</td>
</tr>
<tr>
<td>Romania</td>
<td>16%</td>
</tr>
<tr>
<td>Spain</td>
<td>12%</td>
</tr>
<tr>
<td>Germany</td>
<td>11%</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>11%</td>
</tr>
<tr>
<td>Cyprus</td>
<td>10%</td>
</tr>
<tr>
<td>Greece</td>
<td>8%</td>
</tr>
<tr>
<td>Austria</td>
<td>8%</td>
</tr>
<tr>
<td>Italy</td>
<td>4%</td>
</tr>
</tbody>
</table>

Source: Eurobarometer, 2010

In 2010, 17 percent of people over 15 years of age who were not retired said that they envisaged working abroad at some stage in the future. This does not mean that they definitely intended to migrate, and only 25 percent of them said they wanted to migrate in the next two years. When it comes to willingness to move to another country, there are stark differences between the various EU countries. In Scandinavia and the Baltic states more than one-third of those surveyed envisaged working abroad once in their lifetime, whereas in Greece, Italy and Austria this proportion represented less than one-tenth of the population, as can be seen in Figure 5 below. To date, people in countries whose labour markets have been particularly badly affected by the crisis seem to be the least willing to migrate.
Why isn’t there more mobility within the EU?

Why isn’t there more mobility within the EU, despite the fact we would expect it to be a very attractive proposition for job-seekers in crisis-affected countries to move to another EU country in light of the current major economic imbalances? This question has to be answered in two stages. Firstly, we need to consider what factors other than labour demand and wage levels are particularly important in the decision to migrate. Secondly, we need to review the concrete obstacles that stand in the way of labour migrants within the EU.

VARIABLES AFFECTING THE DECISION TO MIGRATE

When studies are carried out on the determinants of migration flows, they generally differentiate between push and pull factors. The variables that are generally in favour of a person leaving their homeland are known as push factors, while the variables that determine the choice of destination country are known as pull factors. This differentiation is also useful when considering willingness to migrate in Europe, as will be seen below.

In the aforementioned Eurobarometer Survey No. 337, Europeans over 15 years of age were questioned about potential push and pull factors for migration. When asked which (push) factors might encourage them to migrate, the most frequent

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**6 | Better quality of life: main reason for seeking a job abroad**

<table>
<thead>
<tr>
<th>Reason for Seeking a Job Abroad</th>
<th>Number of Respondents</th>
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</thead>
<tbody>
<tr>
<td>Better standard of living abroad</td>
<td>29</td>
</tr>
<tr>
<td>Better working conditions</td>
<td>27</td>
</tr>
<tr>
<td>Better career or business prospects</td>
<td>23</td>
</tr>
<tr>
<td>Better opportunities for finding employment</td>
<td>21</td>
</tr>
<tr>
<td>Improving skills (e.g. learning a new language)</td>
<td>17</td>
</tr>
<tr>
<td>Better economic climate abroad</td>
<td>11</td>
</tr>
<tr>
<td>Being closer to family or friends living abroad</td>
<td>10</td>
</tr>
<tr>
<td>Better social security and health system</td>
<td>10</td>
</tr>
<tr>
<td>Better political situation abroad</td>
<td>4</td>
</tr>
<tr>
<td>Other</td>
<td>2</td>
</tr>
<tr>
<td>None</td>
<td>18</td>
</tr>
<tr>
<td>Don’t know</td>
<td>5</td>
</tr>
</tbody>
</table>

Source: Eurobarometer, 2010


"There is a great potential for a genuine European labour market."
László Andor, Conference by the European Commission on 6.9.2012 in Brussels
answer, with 29 percent, was to achieve a better of standard of living abroad (Figure 6). The second most popular factor, with 27 percent, was better working conditions, followed by better career or business prospects, with 23 percent. In fourth place, with 21 percent, was better opportunities for finding employment (multiple answers were possible to this question). This shows that the situation in the labour market is an important factor in whether or not Europeans decide to leave their homeland, but it is not the key issue. For Europeans, the most important push factor is quality of life: something that is influenced by many factors, including the economic situation, climate, leisure opportunities and social cohesion.

When looking at the decision to migrate, it is not enough to simply examine the push factors but it is also necessary to take into account the factors that act as obstacles to migration. When asked which factors might prevent them from migrating, only 16 percent of respondents in the Eurobarometer survey replied that they already had a good job, and 8 percent that the quality of life abroad was worse. On the other hand, 39 percent said that this was their home, 27 percent did not want to subject their family to a great deal of change and 21 percent were reluctant to leave their friends behind. So the main factors that discouraged people from migrating were ties to home, family and friends rather than a good economic situation or high standard of living. (Figure 7)

People who said they could envisage working abroad were also asked where would be their preferred destination and the reasons for this: the pull factors. The most popular destination countries were the USA (21 percent), UK (16 percent), Australia (15 percent), Spain (13 percent) and Germany (12 percent). The most frequent reason given (with 35 percent) was “to earn more money”, with 21 percent naming good employment opportunities. So employment and earnings opportunities clearly play a central role as pull factors. However, culture and mentality (32 percent) and lifestyle (27 percent) are also very significant. And more than a quarter of respondents (27 percent) said that their knowledge of the destination country’s language was also an important factor in their decision. (Figure 8)
These results help us to understand why in the past the single European labour market has not been more of a factor in levelling out the imbalances that exist between the labour markets of the individual EU member states. The economic situation is certainly of central significance as both a push and a pull factor, but income levels and working conditions tend to be more important than the job itself. From this we can deduce that when deciding whether or not to migrate, EU citizens are more concerned about standard of living than about the (current) unemployment rate, as has been illustrated by the wave of Romanian migrants to Spain in 2010. The economic situation is just one factor among many. The lifestyle, culture and mentality of the destination country are critical factors in the decision to migrate. The social environment has to be right if mobility in Europe is to be increased.

OBSTACLES TO MIGRATION BETWEEN EU COUNTRIES

Along with push and pull factors, the Eurobarometer survey also examined what concrete obstacles prevent EU citizens from migrating. When asked “What difficulties did you encounter or would you expect to encounter when going to work abroad?” more than half (52 percent) replied “Poor knowledge of the language” (see Figure 9). The second response (but at 24 percent only half as frequent) was “The difficulty of finding a job”. All the other answers came much lower down the scale.

It is hardly surprising that language is an obstacle to European mobility, as the European Union alone has over 23 official languages and even in its administration it uses three different languages: German, English and French. In many areas, particularly in the business and scientific sphere, English has increasingly become the lingua franca, though (to date) there has been no attempt to create a common language for Europe. But there are still very many EU citizens who cannot speak English. This is particularly true of the countries of the former Warsaw Pact. Here, Russian was for many years the lingua franca and the proportion of English-speakers is still relatively low. According to an EU survey, in 2007 only 15 percent of Hungarians and 19 percent of Romanians spoke English (Figure 10). And in all the countries of Southern Europe, apart from Cyprus and Malta, less than half the population can speak English, while in Spain the figure is less than a third. And even
if people have some knowledge of English, this does not mean their language skills are good enough to cope with living and working in an English-speaking country.

This means that Europeans who are prepared to migrate have to learn the official language of their destination country. This is usually always necessary, even if the migrant is working in an international environment where English is the common language. They need to speak the local language for coping with everyday life, such as dealing with tradesmen. This has the following effect on mobility within Europe:

1. Many workers are unwilling to migrate to another EU country because the challenge of learning the language is too great. This leads to lower mobility.
2. When workers decide to move to another country, they often choose countries where they already speak the language or where they can learn the language easily. As a result, migration flows fail to level out the economic imbalances.
3. Before people can start working in another EU country they need time to learn the language or improve their language skills. Therefore migration flows tend to react very slowly to changes.
The many different languages are a major, but not the only, obstacle to greater mobility within the European Union. The education systems and qualifications in the various countries are also very different. This means that different jobs are classified according to different qualification levels, for example (head) kindergarten teachers in Germany generally gain their qualifications at a vocational school, whereas in Scandinavia the same qualification forms part of tertiary education.

Although there is a basic guarantee that qualifications gained in other EU countries in certain ‘sectoral’ professions will be recognised, differences in qualifications still often present a major hurdle for job-seekers. This is particularly the case when there is not a totally clear link between qualification and occupation or when people want to work outside of their professions. When applying for a job, it is not enough to simply translate the names of the relevant occupations into the language of the destination country. For example, most EU countries have no real counterpart to the Bürokäuffrau/Bürokäufmann qualification that is so prevalent in Germany. Instead, job-seekers need to think about the requirements and responsibilities of the various occupations in their professional area of interest in the destination country. This can require a great deal of time and effort, particularly if several potential destination countries are involved, so it is hardly surprising that the difficulty of finding a job was the second most frequent response in the Euro-barometer survey.

Language barriers and different types of qualifications not only have a negative impact on people’s willingness to migrate, but also reduces their chances of finding a job in other EU countries. HR managers often shy away from employing workers who only have limited command of the local language. It is also often very difficult to assess the skills and abilities of applicants due to the differences between foreign qualifications. As a result, local workers with familiar qualifications are often given preference. This is usually even more the case in companies that are less knowledge-based and globally-oriented.
How can labour mobility in the EU be increased?

In principle, labour mobility can be increased by removing existing obstacles and making the basic conditions for migration more attractive. In this respect, we are forced to ask whether the European Union needs a single language. This would hugely simplify communication within Europe and thus not only encourage labour mobility but also create a stronger European identity. In the current political climate it is somewhat utopian to expect there will be a single European language in the foreseeable future, but this does not mean that Europe shouldn’t take some steps in this direction. Almost all EU countries are placing greater emphasis on English teaching for children, meaning that more and more people in Europe will at least be able to handle everyday communication in this language. And as it is already the lingua franca of business and science, it is highly likely that in the long term English will increasingly become the everyday language of the European Union.

However, as stated above, over the coming years it will still be essential in most cases for migrants to learn the language of their destination country. As most of them will need language courses, improvements to the educational infrastructure are crucial to increasing labour migration. This affects both the countries of origin and the destination countries. The countries of origin need to provide opportunities for people to learn the everyday language of potential destination countries, while the destination countries need to offer more advanced language training with a particular focus on specific job-related language skills.

The situation regarding the second major obstacle, the comparability of educational and professional qualifications, is likely to improve in the next few years with the implementation of the European Qualifications Framework that was passed in 2008. The EQF means that all national qualifications will have to be categorised by one of eight reference levels (European Union, 2008). This makes it easier to compare different European qualifications so that employers and job applicants from different EU countries will in future find it easier to assess whether qualifications match job requirements. But it only applies to the level and not to the particular discipline of the qualification, something that is particularly important in professional qualifications. The functioning of the single European labour market could be greatly enhanced by extending the EQF to include a standardised categorisation of particular professional disciplines. Then it would not only be possible to better evaluate non-EU qualifications, but the introduction of a code could display the qualifications needed for a particular job in such a way that applicants in all EU countries would be able to understand it without need for further explanation.

In order to make lasting improvements to labour mobility in Europe, the removal of concrete obstacles needs to be accompanied by cultural change. Two factors are in play here: firstly, young people are generally more interested in moving to another EU country and learning its language if their feeling of national identity goes hand-in-hand with a sense of European identity. Secondly, willingness to migrate is increased by the likelihood of receiving a positive welcome in the destination country. To this end, the Federal Employment Agency’s Migration Check determines whether somebody looking for work in Germany will need a work permit, and, if so, how to apply for such a permit. Go to www.arbeitsagentur.de/migration-check-arbeitnehmer.

The initiative “the job of my life” supports young people from the EU or EEA countries and Switzerland in their search for traineeships or employment in Germany. The assistance continues throughout the training and includes language courses, extensive supervision and financial support, amongst other things. On the Internet at www.thejobofmylife.de.

The Portal www.bq-portal.de offers comprehensive information about the recognition of foreign vocational and professional qualifications. This will allow decision-makers and applicants to better evaluate qualifications from other countries and find out what they represent.

The portal www.anerkennung-in-deutschland.de offers information about the current legal situation and the procedures for having foreign vocational and professional qualifications recognised. In addition, the portal points the persons seeking recognition of their qualifications towards the advisory service that is most appropriate for them.

FROM PRACTICE
end, it is essential to create a culture that welcomes migrants from other EU lands and helps them to integrate into the society of their new country of residence.

In the 2012 Eurobarometer Survey No. 77 that looked at "European citizenship", people across Europe were asked how much they identified with the European Union (Eurobarometer 2012). When asked whether they felt they were citizens of the EU, on average 61 percent answered ‘yes’ and 38 percent ‘no’. Slightly more younger people felt they were EU citizens than older people, with 67 percent of 15-24-year-olds answering ‘yes’ compared to 56 percent of over-55s. There were greater differences between the various EU countries, as is shown in Figure 11.

In Luxembourg, the number of people who felt they were citizens of the EU stood at 85 percent, or more than four-fifths of the population, whereas in the United Kingdom (42 percent) and Italy (45 percent) the figure was less than half. Even in crisis-ridden Greece, 50 percent of the population feel they are Europeans, and in Spain the proportion is even higher, at 70 percent.

These figures clearly show that increasing European integration has certainly created a strong European identity, but that even young people still do not naturally identify with Europe. Going beyond language barriers and bureaucratic hurdles, it is still generally the case that it is emotionally a much greater step to move to another EU country than to move to another area of one’s home country, even if the geographical distance is the same.
There could also be greater openness towards migrants from other EU countries. An openness index was created based on questions about contacts with people and businesses in other EU countries and the use of foreign languages. This showed that 13 percent of Europeans have a high international openness index, 21 percent a moderate index and 66 percent a low index. Luxembourg had a particularly high openness index, with 84 percent of respondents having a high index and 15 percent a moderate index, while Portugal’s openness index was particularly low, with 5 percent high index and 15 percent moderate. Germany, currently perhaps the most attractive country for migrants, was slightly above the EU average with 15 percent high and 26 percent moderate openness (Figure 12).

A culture of welcoming migrants includes much more than just this measure of international openness. The important thing is not only whether contacts are made with citizens of other EU countries, but when and in what way. There is a big difference between whether a newly-arrived colleague is regularly invited to join in with free-time activities and whether contacts are restricted to a business context. These very concrete aspects of how migrants from other EU lands are welcomed are of course difficult to measure, but they are often critical to whether or not they feel accepted into the society of their new country.

European identity and a culture of welcoming people from other EU countries are linked: the more people feel they are Europeans, the more open they tend to be towards migrants from other EU countries. So if it is possible to strengthen people’s sense of European identity, this will also have a positive effect on acceptance levels of migrants from other EU countries and gradually increase people’s future willingness to migrate. Even though this kind of cultural change is no replacement for dismantling the concrete barriers to migration, it is still equally important for the lasting success of the single European labour market because, as we have seen, cultural factors and quality of life are important push and pull factors in the decision whether or not to migrate.
What is the potential of the single European labour market?

The imbalances between the labour markets in the various EU countries have intensified still further as a result of the euro crisis to the extent that today the employment rate in Germany, Luxembourg, the Netherlands and Austria is below 6 percent while in Greece and Spain it has soared above 20 percent (see Figure 1). Prosperity levels are also higher in these Central European countries than in the South. As is shown in Figure 13, Greece’s per-capita GDP in 2011 was around 20,000 euros, and in Spain around 25,000 euros (purchasing power parity), while in the four previously-mentioned Central European countries it stood at over 30,000 euros. So in theory it should be attractive for workers to move to Germany from these Southern European countries. But as we have already seen in section 2, it is unlikely that labour migration within the EU will increase to any great extent over the coming years, as people in the countries that have been particularly badly

![Gross domestic product in 1000 Euros (Purchasing Power Standards), 2011](source: Eurostat, 2012c)

“We must do everything in order to improve the labour mobility within the internal market of the European Union.”

Dr. Angela Merkel, Annual Meeting 2013 of the World Economic Forum in Davos
affected by the crisis are reluctant to migrate. So in the short term it seems that the potential of the single European labour market to increase economic development in Europe is modest.

In the medium term the situation is somewhat different. It may be possible to make significant progress in sweeping away the existing obstacles to migration within the European Union and in strengthening the feeling of European identity to such an extent that it makes little difference to workers whether they move to another region of their home country or to another EU country. It seems likely that increasing economic integration in Europe will result in the economic trends of EU countries gradually becoming more similar and in labour market imbalances levelling out. However, the single European labour market can make a major contribution to economic development in Europe. Along with evening out regional imbalances of labour supply and demand, it can make a particular contribution to ensuring the creation of large expertise and manufacturing clusters in the European Union that were not possible when countries could only draw on the specialist skills available within their borders.

However, in the long term the single European labour market will not be able to resolve the skills shortage, because demographic change is creating general labour shortages in the European Union as a whole. In 2010, not a single EU country achieved the birth rate of 2.1 children per woman of child-bearing age: the figure needed to maintain current population levels. Even Turkey, a major candidate country with a relatively young population came in slightly below this figure (Eurostat, 2012e). But demographic change will not affect all EU member states in exactly the same way. Birth rates in the UK, France and Scandinavia are close to that required to maintain the existing population levels, whereas Germany and the countries of Eastern and Southern Europe will find their populations shrinking. In the countries that are particularly affected by demographic change, in the long term a mixture of migration from within and outside the EU will be necessary to maintain their labour and skills base and safeguard their economic development.
Conclusion

The potential of the single European labour market has not yet been fully exploited. Labour mobility is currently much lower than would be expected in light of the major imbalances in the labour market.

One of the main reasons for this is the fact that the EU is home to a great many different languages and migration to another EU country without knowledge of the language is very difficult. Many potential migrants find the need to learn a new language a major obstacle.

It is also often challenging to find a job in another EU land because of the difficulty of comparing different countries’ educational and professional qualifications.

It is also necessary to continue strengthening people’s feeling that they are European citizens, something that has a strong impact on their willingness to move to another EU country.

If we are successful in minimising the existing obstacles and increasing people’s willingness to move to another EU country, then in the medium term the single European labour market will be in a position to make a strong contribution to Europe’s economic development. Along with evening out regional fluctuations in labour supply and demand, it can also help with the creation of major and highly-effective expertise and manufacturing clusters within the European Union.
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