

Germany's Second Chance

By **KLAUS F. ZIMMERMANN**

The German government seems to have a hard time coming to terms with the future needs of the country's labor market. Germany not only has to contend with a shrinking population, as most of its Western peers do; it faces a skills shortage as well. That is unwelcome news for an economy that to no small degree owes its success to its highly skilled manufacturing workforce.

Germany had an opportunity to get things right when the European Union began to expand eastward in 2004, welcoming eight new member states from Central and Eastern Europe. But instead, Germany, along with Austria, opted to limit immigration from those countries. The pre-accession system of work permits was maintained, as were arrangements regarding seasonal employment and quotas for temporary workers in construction and agriculture.

Those restrictions are at last set to expire on May 1, offering the German government a second chance to make good on the country's potential in an integrated European labor market. Germany's location and underlying economic strength should have allowed it to benefit hugely from the EU's 2004 enlargement. Instead, policy makers' passivity meant that the benefits of a more open job market have since accrued to more foresighted neighbors like the U.K., Ireland and Sweden.

Merely opening the doors to the East will not do much to improve the skills deficit Germany now faces, however. High-skilled workers will likely continue to opt for countries with a more welcoming recent history than ours. Germany also lacks the established networks

of Eastern immigrants that would be critical in enticing new migrants to cross the border.

The German government also remains skittish about the prospect of rolling out the welcome mat too quickly. In association with trade unions and employers' associations, lawmakers decided in March to put in place new minimum-wage rules for temporary work agencies, giving those firms additional reasons not to hire migrants whose primary competitive advantage is

Welcoming skilled foreign workers will help relieve urgent demographic and economic problems.

their willingness to work for less than their German counterparts.

For its part, the German private sector has shown itself to be unwilling to wait for more favorable hiring conditions before taking advantage of looser borders. Bavaria's metal and electrical industry is planning extensive recruitment efforts within Central and Eastern European countries, to commence after May 1. With domestic labor pools failing to keep

up with businesses' demand for trainees, local chambers of commerce in areas along the Polish border plan to extend apprenticeship opportunities to young Poles.

But more fundamental change from the center is necessary, too. Germany needs an actively managed, business-oriented immigration policy, not the current wait-and-see stance. A skills-based set of selection criteria for potential

immigrants would be a start. Flexible quotas would allow the government to control the influx of migrants while retaining some scope to react to changing conditions.

Germans should not be under any illusions about how soon to expect results. Given our past failings, we cannot realistically expect to be able to win over our Eastern neighbors in large numbers right away. What matters most at this juncture is to establish Germany as an attractive destination for professionals over the long term. This will only succeed if policy makers shed their default policy stance of being forever defensive rather than open-minded.

After all, lawmakers' worries about a massive influx of immigrants after 2004 proved mostly unfounded. In Western Europe, the proportion of immigrants from EU accession countries is still smaller than that of immigrants from developing countries.

An open circulation of skilled workers will play a critical role in addressing the Continent's demographic and economic problems. Germany only stands to benefit from becoming an active participant in this process of internal balancing.

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