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SECTION: SURVEY

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Reincarnation valley

BODY:

The city of Jena provides a tantalising glimpse of the way **Germany** could be going

IF YOU seek Paradise, go to Jena. The bosses of this city in the eastern German state of Thuringia, two-and-a-half hours south of Berlin, may have been a little ambitious when they named the main railway station after an eponymous nearby park. Jena is clearly no Garden of Eden. Like any city, it has its problems, not least an unemployment rate of 12%. But it also offers a glimpse of **Germany's** future and shows that **Germany's** east is not all bad.

Historically, Jena embodies the famous dictum by Louis Pasteur, the French chemist, that "chance favours the prepared mind." It was a fluke of nature that the city, by the river Saale and surrounded by heavily forested uplands, found itself near large deposits of quartz sand, chalk and soda. Thus endowed, people began making glass in the region in the 16th century.

Yet what turned Jena into a 19th-century Silicon Valley was its renowned university, which attracted not only famous thinkers such as Goethe, Hegel and Fichte, but also more business-oriented folk such as Ernst Abbe. Having developed new ways of making microscopes, he found himself what today would be called a contract manufacturer, Carl Zeiss, and a component supplier, Otto Schott. By the beginning of the 20th century, the firm Carl Zeiss had more than 1,000 employees.

It continued to grow rapidly, helped by the two world wars, but also suffering from them. Many of its plants were destroyed at the end of the second world war, and what remained was taken away, first by the Americans, then by the Russians. Still, Jena soon became the base of a huge *Kombinat*, as the big state-owned businesses were called in communist East **Germany**. This one had 27,000 employees when the Berlin Wall came down in 1989, about half of them in Jena, of whom more than 90% lost their jobs after the economic shock of unification.

Now Jena's city centre has been completely modernised, thanks to tons of money from western **Germany**. The former Zeiss factory has made way for the university and a big, smart shopping centre. What makes Jena different from many other eastern cities is that there is plenty of life on the streets. In some ways, the city seems a double of Berkeley, California, complete with well-wooded hills dotted with professors' villas.

Alexander von Witzleben, the boss of Jenoptik, the successor firm to Carl Zeiss Jena, has a splendid view of the city from his top-floor office on campus. "Frankly, if we were in the textile business, we would no longer be here," he says. The optics industry is hot again, he explains, particularly photon-

icsthings like high-end lasers, optical sensors and specialised cameras, which Jenoptik is good at. To general surprise, the city was listed in a 2004 study as eastern **Germany's** most promising business location.

Jena could easily have gone the way of other eastern industrial centres, where firms were bought by western competitors and then gutted or even closed down. Carl Zeiss owes its survival to Lothar Späth, the former premier of Baden-Württemberg, who became its chief executive in 1991. Counterintuitively, he bought a firm in the west, a builder of clean rooms and other industrial facilities, to give Jenoptik a western face and the cash flow to develop its photonics business. The firm, M+W Zander, was only recently sold off to allow Jenoptik to concentrate on its core business.

Moreover, explains Mr von Witzleben, as a former politician Mr Späth knew how to keep this species at bay. And he had the foresight to protect what is perhaps Jena's most important asset: its network of highly skilled people. Former Carl Zeiss employees were allowed to use the firm's facilities to create their own companies, spawning many start-ups. This has given Jena an entrepreneurial ecosystem that is rare elsewhere in **Germany**.

There are start-ups all over the city and several research centres on a campus up the hill. There is also the Technology and Innovation Park Jena, with about 60 firms, which demonstrates that Jena no longer relies mainly on optics. Near the entrance is an incubator for biotechnology firms called Biocentiv. Stefan Russwurm, founder of SIRS-Lab, a diagnostics firm, says the experience of radical change when the Wall came down played a big part in his decision to start his company: "Otherwise I would not have had the flexibility. Back then, the world fell apart once a week." Mr Russwurm chose Jena because he found conditions there particularly favourable. Almost a third of the city's working population have an academic degree, the highest share in **Germany**. They take pride in being Jenenser and don't go home early.

Jena also has a tradition of liberalism. It was here that the first *Burschenschaft*, or fraternity, was founded in 1815, starting the free-speech movement of its time. In the 1980s, the city was the centre of the eastern German peace movement, and became one of the first to mount Monday rallies, the regular demonstrations that helped to bring down the communist regime in 1989.

All of this goes a long way towards explaining the unusual political landscape in Jena today. The city council is controlled by a very grand coalition that includes all of **Germany's** bigger parties except for the extreme right. The (directly elected) mayor, Peter Röhlinger, is a Free Democrat who was a vet before winning his first vote in 1990. "Citizens here are quite demanding," he says. "They want us to make the most of our opportunities."

This has often meant doing things differently. For example, Jena did not shut down its nursery schools when money was tight, but persuaded their staff to work part-time. It also chose to build its shopping centre right in the middle of town rather than on the outskirts, which has kept the city centre alive.

Most importantly, Jena is trying new ways of dealing with long-term unemployment and education. Some of the results can be seen on the Tatzendpromenade, one of the city's main streets. On one side there is Jenarbeit, the agency run by the city to find jobs for those who are unemployed for more than a year. When labour-market reforms were brought in last year, the city decided against an *Arbeitsgemeinschaft* with the Federal Employment Agency, which it felt would not have taken enough account of local conditions. Instead, it set up an independent local organisation to look after its long-term unemployed, the only eastern city to do so.

The comprehensive school across the street, called Jenaplan, aims to ensure that its pupils will not become unemployed in the first place. Visit the school, and you may see a couple dressed in black doing the tango as part of a project about the dance. Such projects are an important component of the school's life and often involve a mixture of age groups. "This allows for much more individualised learning," says Gisela John, the principal.

The Jenaplan school exists because a group of teachers took the initiative to revive this particular form of learning, originally developed in the 1920s, and the city of Jena as well as the Land of Thuringia let them get on with it. Jena's education system is exceptionally diverse for a city of 100,000 people: it includes several all-day schools, a Montessori school, a bilingual high school and another one specialising in sport. Given so much variety, the usual distinctions between the *Gymnasium* and other forms of secondary education fade into the background.

In some ways Jena has had an easier time of it than other German cities: foreigners make up only around 5% of its population. This is not because it is especially xenophobic (though there have been cases of racially motivated violence that have prompted citizens' protests), but because the former eastern German government let in only small numbers of immigrants, mainly from Vietnam.

However, the numbers are bound to rise, if only to fill the gaps created by the low birth rate (which is even more pronounced in eastern than in western **Germany**) and the continuing migration of younger people to the west. "By 2009 at the latest, we won't have enough good candidates for all our apprenticeships," worries Jenoptik's Mr von Witzleben. For Jena's economic dynamism to continue, he says, it may have to try to attract highly qualified foreigners.

Jena has other weaknesses too, not least that its two other large firms, Jenapharm and Schott, are being downgraded to mere manufacturing sites by their parent companies in west **Germany**; and that there is a marked absence of the Silicon Valley kind of venture capitalist. But the city is still the best preview available of what **Germany** might be capable of if the state let go.

GRAPHIC: Alive and kicking

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HEADLINE: Letting go

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Letting go

BODY:

Germany needs to loosen up or face decline

ANGELA MERKEL has a mission: putting **Germany** back among the "first three" of Europe's top nations within ten years. The German chancellor has yet to explain what exactly that would mean. But if things went well, a repeat of this survey in 2015 should be able to report that in the past decade the country had thoroughly modernised its education system; that unemployment had fallen to a bearable 3m; that recent years had seen a boom in basic service jobs; and that **Germany** had become a top destination for the world's creative crowd.

Alas, not everybody believes that this will come to pass. Wolfgang Streeck at the Max Planck Institute for the Study of Societies, one of **Germany's** foremost social thinkers, reckons that things are getting worse rather than better. Back in 2003, he wrote: "There is little hope that the German political system will overcome its present immobility, making continued social and economic decline the most likely scenario for the future." Today he goes further: he argues that even a grand coalition will have to face the fact that the German state, "has, perhaps irreversibly, exhausted its means".

To make a real difference, the government would have to do a whole host of things at once: cut payroll and corporate taxes, balance the budget, reduce debt, invest more in education and infrastructure and integrate immigrants. Yet given that the state's coffers are empty and growth is likely to remain moderate, that is an impossible task.

So what is an "exhausted state" to do? To find an answer, think about **Germany's** post-war history. Perhaps the main reason for the country's success has been its rebirth as a "semi-sovereign state", a term coined by Peter Katzenstein, a political scientist at Cornell University. The state was weak and fragmented and had to rely on non-governmental bodies, such as trade unions and employers' associations, to get things done.

Yet over time, this system, which originally was quite flexible, has become ossified. Changes in one part of the system have become extremely difficult because they often have undesirable consequences in another. According to a well-worn German political adage, "everything is linked with everything."

Germany needs to loosen up, and in some ways it is already doing so. For example, trade unions have quietly abandoned rigid industry-wide collective bargaining. But the state itself still needs to learn how to let go. Thorough reform of the federal system, one that includes an overhaul of the "financial constitution", would give the *Länder* more freedom to do their own thing. But the

Länder, too, must let go, not least by giving schools and universities much more autonomy.

Liberalisation is already making inroads anyway, although sometimes to the detriment of society's outsiders. Education? More and more private schools are being opened for those who can pay for them. The labour market? Illicit work is rampant, with estimates putting it at 15% of GDP. Immigration? According to some experts, **Germany** is now home to around 1m illegal immigrants.

All this suggests that **Germany's** future lies in greater diversity. It would help the country's outsiders to share in and contribute to its success and not just the economically underprivileged ones, but also those who simply see and do things differently, perhaps because they have lived abroad for a while. They, too, are all too often shut out or not taken seriously.

With the World Cup approaching, football may offer a lesson for **Germany**. The nation's favourite sport is currently facing problems similar to those of the country as a whole: not only have other countries' teams got much better, but foreign players have crowded out native ones in the German premier league. In the ranking of the International Federation of Football Associations, the national team has dropped from second place in 1998 to 16th now.

It was only after the country's humbling in the European Cup in 2004 that the German Football Association, a clunky, over-confident organisation, accepted the need for action. It hired Jürgen Klinsmann, a former German soccer star, as national coach. Mr Klinsmann, who lives in California and is seen as a "West Coast German", has refused to move to **Germany** and still runs his own company. He exudes optimism and is willing to fight to get his way.

German football, it seems, is more willing to embrace change than the country as a whole. "A monopoly that isn't capable of innovating from within will be swept away at some point," says Theo Zwanziger, the Football Association's new vice-president. **Germany** would be well advised to heed his words.

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Waiting for a Wunder

BODY:

Germany's economy is picking up, and its football fans hope for a World Cup victory this summer. But a lot more will have to come right before the country gets back on track, says Ludwig Siegele

IF YOU are visiting **Germany** this spring, watch out for footballs. They are everywhere, on posters, buses or entire buildings, even though the World Cup which the country is due to host this summer is still four months off. A German firm is even wrapping the giant globe atop east Berlin's landmark television tower to make it look like a football. If marketing departments had the technology, a German daily recently joked, they would project a football on to the moon.

Nor is it just marketing people who are getting excited. For the duration of the tournament most German states will liberalise shopping hours, and the government is even thinking of deploying the army around stadiums for the first time in the *Bundeswehr's* history. Germans, it seems, are taking the World Cup extremely seriously and not just because most of them are passionate football fans. "The last time the world paid so much attention to **Germany** was 16 years ago when the [Berlin] Wall came down," says Angela Merkel, the country's new chancellor.

Germany aims to use the attention generated by this world-class event to repair its battered image. "Made in **Germany**" has long since lost its ring; now government and big business have teamed up in a campaign to sell the country as the "Land of Ideas". In Berlin, where the World Cup final will be played, visitors will be treated to a "Walk of Ideas" through the capital, complete with oversized sculptures of German inventions.

The hope is that a victory, or at least a respectable result, will help cure the collective depression that descended on **Germany** when the economy started to sag at the beginning of this decade just as winning the 1954 World Cup, held in Switzerland, helped to heal the national psyche after the war and kicked off the *Wirtschaftswunder* (the post-war economic miracle). The *Wunder von Bern*, as the unexpected victory came to be known, helped to restore Germans' battered pride in their country.

What are the chances that a *Wunder von Berlin* might kick off a similar cultural and economic rebirth? The answer depends on your perspective. **Germany** today is like one of those pictures where, depending on how you tilt it, you see two different images. In exports, it is already world-class. Many of its global companies have never been more competitive. With exports of nearly \$1 trillion in 2005, this medium-sized country (smaller than the American state of Montana,

but with 82m people) already sells more goods in the world market than any other.

Investment and domestic demand are also picking up at last, so **Germany's** economic outlook at home, too, has brightened. "In case you missed it, **Germany** is no longer the sick man of Europe," says Elga Bartsch, an economist at Morgan Stanley, an investment bank. In 2006, she predicts, the country's economy will grow by 1.8%, the highest rate since 2000 and in line with the European average. But the labour market does not seem to have turned the corner yet: in January, unemployment before seasonal adjustment again hit 5m, or 12.1% of the workforce.

Perhaps most importantly, after years of chronic depression, the mood is much improved. According to the Allensbach Institute, a polling organisation, 45% of Germans now say that they are hopeful for 2006 (see chart 1). Business sentiment has not been so good since the new-economy bubble. Politicians, too, have changed their tune since last autumn's election that ushered in a grand coalition. The new-year address by Angela Merkel struck an upbeat note. "I want to encourage us to find out what we are capable of," she told her fellow Germans. "I am convinced we will be surprised."

Look at the country from a different angle, however, as this survey will do, and it becomes clear that even if it won the World Cup for the first time since 1990, it would have plenty left to do. **Germany** may be in better shape than France or Italy, and many other countries would love to have its problems, but that does not mean it is in robust health. Most importantly, if it does not start tackling its structural problems in earnest soon, it may find itself stuck with something its people dread: *amerikanische Verhältnisse*, or "American conditions", code for a socially polarised society in which workers are hired and fired at an employer's whim.

The risk is that **Germany's** labour market, in particular, will end up "Americanised", but without the good points of the American one, such as its openness and inclusiveness, argues Wolfgang Streeck, head of the Cologne-based Max Planck Institute for the Study of Societies. In many areas, he says, the German story has been one of "a high average and a low standard deviation": a rich society with wealth and opportunity fairly spread, with few outliers at either end of the scale. But increasingly, he says, the story is turning into one of "a low average and an exploding standard deviation".

If think-tanks have their numbers right, **Germany** has already ceased to be the "equitable middle-class society" that other social scientists have described, offering a "social elevator" for everybody. When it comes to social justice, **Germany** is already doing less well than many other European countries, according to a recent study by BerlinPolis. For instance, the risk of poverty has greatly increased in recent years, especially for the young. About a fifth of Germans under 16 now live in households with incomes below the poverty-risk threshold.

The fault does not lie primarily with globalisation and the "locusts", as many Germans have taken to calling foreign investors. Rather, it is the very systems meant to guarantee a well-balanced society, along with the attempts to preserve them, that are increasingly dividing German society. Those systems now serve vested interests, driving a wedge between well-provided-for insiders and marginalised outsiders.

This survey will describe the ways in which **Germany's** institutions have slid from virtue to vice: in politics, in the labour market, in education, in competition policy and elsewhere. It is not that the country has not tried to change. But most of these changes have been designed to optimise existing systems rather than change them fundamentally.

This survey will journey through a country struggling with change, passing through Berlin, Stuttgart, Nuremberg, Cologne and Frankfurt. It will note that in some ways the future has already arrived: it is simply distributed unevenly. Much of it can be found in places where you might least expect it such as in the eastern city of Jena, where the journey ends.

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In a bind

BODY:

The grand coalition will need quite a lot of luck to make **Germany** work better

LAST summer Sir Peter Torry, Britain's ambassador to Berlin, asked a group of journalists which new German films he should watch. They came up with a list of titles that pretty much summed up what had been on **Germany's** mind in recent years: "Ways to Improve the World", "The Fat Years Are Over" and "The Great Depression".

Germans have never been wildly cheery (see chart 2, next page); explanations for the national malaise include the weather, Protestantism, philosophy and the Nazi era. But in recent years self-criticism had been veering towards self-flagellation. German self-esteem had been badly hurt by the slide from the top of the economic and social league. The feeling was fed by the media and by professional doomsayers.

Yet in the months before last September's election, people started to get fed up with despondency and started buying books that made them feel better about themselves. One of the more interesting was "Foreigners See It Differently" by Susan Neiman, an American philosopher and director of the Einstein Forum in Potsdam. She pointed to **Germany's** low crime rate, its admirable cultural infrastructure and its good public transport system and argued that in their self-pity, Germans tend to forget that their country is in better shape than most. What they badly need is some American can-do optimism.

Since the new government was installed in November, the mood has much improved. Polls show that people are more willing to accept change. The political constellation also appears much more favourable for reforms: the grand coalition has a two-thirds majority in the Bundestag, **Germany's** lower house, and also controls the Bundesrat, the upper house, albeit by a much smaller margin. Perhaps for the first time since unification, there seems to be a real opportunity for politicians to prove that they can move fast and far enough.

In the early 1980s, when America and Britain were in crisis, **Germany** was praised as a clockwork mechanism whose cogs meshed perfectly rather like those well-engineered German machines that never seem to break down. The "German model", although to a large extent the result of historical accident, performed brilliantly at a time when high-quality industrial products were much in demand and the pace of economic change was still relatively slow.

The political system, in particular, had proved highly effective at delivering smooth, incremental change. It was a machine with two big wheels in the middle, the Christian Democrats (CDU) and the Social Democrats (SPD), and a small one running in coalition with either one of the larger two, the Free Democrats

(FDP). Faster-turning wheels to the right and to the left never really got anywhere, partly because of **Germany's** experience with fascism and partly because of communist East **Germany** next door. Even the Greens did not disturb this arrangement much, because they quickly became simply a left-leaning alternative to the FDP.

The machine had powerful safeguards built in to keep it on track, particularly the *Länder*, **Germany's** constituent states. Via the Bundesrat, their representative body in Berlin, the *Länder* have a say in many key areas. The "financial constitution", a cobweb of tax-revenue equalisation and joint public spending by the different levels of government, has allowed wealth to be spread pretty evenly across the nation.

Yet it is **Germany's** federal structure that has increasingly jammed up the country's political machine. Through legal changes and judgments by the Federal Constitutional Court, the *Länder* have accumulated too many veto rights, offering many points of leverage for interest groups and making most reform exceedingly difficult. The financial constitution, for its part, has come to discourage the states from trying new solutions.

German unification in 1990, welcome though it was, probably made reform even harder. To speed up eastern **Germany's** integration, vast amounts of money were pumped in (a total of euro1.3 trillion to date), and any plans for change were put on hold. Even now, the eastern *Länder* receive transfers from the western ones of euro80 billion a year, or 4% of **Germany's** GDP.

Unification gave Helmut Kohl, the chancellor of the day, a new lease of political life, and from the mid-1990s he did try to introduce some structural reforms. But tripartite talks with trade unions and employers proved fruitless, and reforms were blocked by the SPD, which at the time controlled the Bundesrat.

Mr Kohl's successor, Gerhard Schröder, found himself in a similar bind after only one term of office. Like Mr Kohl, he tried tripartite talks. When those failed, he set up commissions to draw up reform proposals, and pushed them through as his "Agenda 2010". To the dismay of his internal opposition, the SPD's left, he operated a de facto grand coalition with the external opposition, the CDU, which had taken control of the upper house.

Predictably, the result of all this manoeuvring was a bit of a mess. Agenda 2010 tried to move in the right direction, but much of it consisted of short-term fiscal repairs mixed with political compromise. Even so, it cost the SPD one regional election after another. When the party lost power in its traditional fief of North Rhine-Westphalia in May last year, Mr Schröder realised that his method had run its course and sought new federal elections hoping, some say, that the result would be an official grand coalition.

Now that it has come to pass, will this new left-right alliance, led by Angela Merkel, make a better fist of resolving **Germany's** problems? It has certainly brought a change in style. Mr Schröder trusted his instincts and was a master at taking people by surprise. Ms Merkel, by contrast, is utterly methodical. A doctor of physics, she seems to view political challenges as a scientific experiment in which she allows the different forces to slug it out before intervening. This may be a useful qualification for heading a grand coalition, a configuration last tried, with limited success, in the late 1960s. In theory at least, she should manage to keep the two big parties together: both of them now need to be on their best behaviour, or run the risk of being punished at the next election.

Already, the thrust of German politics has changed perceptibly since the coalition was formed in November. Ms Merkel, who during the election campaign advocated rapid reforms, now talks about the need for "small steps". At times she sounds almost like a Social Democrat. Journalists have started to complain that there are not enough leaks or backstabbing, and lobbyists are finding it harder to get traction.

Yet for the new government to make a difference, it needs to win three gambles. The first is to reduce the budget deficit without killing the incipient

recovery. This year it intends to spend a bit more, even if that will cause **Germany** once again to exceed the limit of 3% of GDP set by the EU's stability pact. Next year, however, it plans to cut subsidies and other spending and, above all, increase the value-added tax rate from 16% to 19%.

The weaker the recovery, the more difficult it will be for Ms Merkel to win the second bet: getting the coalition partners to agree to sustainable solutions to at least some of the country's structural problems. The test case will be the financing of health care, which the government intends to tackle later this year. With medical spending expected to rise steeply because of demographic factors as well as technological progress, the big question is how to keep health-care contributions from becoming a prohibitive tax on labour.

The third wager is that the *Länder* will do their bit to improve the way **Germany** is run. They have already agreed to a reform of the federal structure, which will reduce their veto rights over federal affairs, in return for gaining more local powers, notably over education. But it is quite another question whether the states will go along with a reform of **Germany's** "financial constitution". And Ms Merkel's rivals within the CDU, most of them state premiers, may want to keep her from becoming too successful.

Much, therefore, can still go wrong on the way to further reform. And even if Ms Merkel's "small steps" lead somewhere, they may not solve some of the biggest problems such as education, the subject of the next article.

GRAPHIC: Merkel advocates small steps

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Wasting brains

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Germany's school system fails to make the most of the country's human capital

WHAT is the best way of measuring improvements in a school system? Grades, perhaps; or the proportion of students getting a high-school diploma. In **Germany**, though, it may be the number of cafeterias in schools. Hundreds are being built in a nationwide effort to create the infrastructure that will allow schools to operate all day so that children can spend more time learning, instead of being sent home in time for a hot lunch.

Yet this construction activity also shows how far **Germany** still has to go to modernise its school system, and to turn it into an efficient engine for promoting talent and brains. German schools are superb at separating insiders from outsiders. But in so doing, they squander the human capital that the country needs to prosper.

"In **Germany**, there is nothing more controversial than education," says Helmut Rau, minister of education and cultural affairs in the state of Baden-Württemberg. He has just been grilled in the state parliament in Stuttgart over his government's school reforms. Parents have complained that even younger pupils are now required to stay in school for several afternoons a week and are given lots of homework on top. This is because Baden-Württemberg has just become the first western state to cut the period of secondary schooling from nine to eight years (in the east, eight years has always been the norm). "It's just getting too much," exclaims one MP who is also a mother.

To understand such complaints, you need to know a bit about the history of German education. Like other European countries, **Germany** from the Middle Ages developed a school system based on class. But whereas most other European countries have since moved on to more inclusive systems, **Germany** has essentially stuck to a three-tier structure: the *Hauptschule* (for students who hope to go on to an apprenticeship), the *Realschule* (whose graduates typically take middling white-collar jobs) and the *Gymnasium* (awarding the *Abitur* that admits the holder to university). Only at the *Grundschule* (elementary school) are pupils from all ability groups taught together.

After the second world war the Allies tried to impose a unified school system on the country, but the *Länder* refused to play. They have always seen education as a question of local power, which explains why state governments ended up with such wide-ranging responsibilities for it. Yet in practice this has meant that German education combines the worst of both centralisation and devolution. To comply with the constitutional requirement for "equality in living conditions", the *Länder* must agree on some common rules, which has proved a barrier to re-

form: the body created for that purpose, the Standing Conference of the Ministers of Education and Cultural Affairs, has to agree unanimously on any change.

Another barrier to reform is ideology. Education has always been a battleground of ideas, particularly since the first *Gesamtschulen* (comprehensive schools) opened in the mid-1960s. Many on the left saw this type of school as a silver bullet to ensure equal opportunities for all. The right, for its part, made "Save the *Gymnasium*" its rallying cry. It seems to have won: only about 700 out of over 19,000 secondary schools are now *Gesamtschulen*.

Crucially, the main beneficiaries of the present system are determined to resist change. "This is about keeping many away from society's feeding troughs," says Wilfried Bos, head of the Institute for School Development Research in Dortmund. And indeed **Germany's** school system is brilliant at what it was built for: selection. In most *Länder*, following four years at elementary school, pupils are streamed into one of the three kinds of secondary school. A pupil who happens to be a slow learner or whose family does not particularly value education will find it very hard to move up from a less demanding school to a *Gymnasium*. By contrast, those who cannot keep up with the pace at the *Gymnasium* soon find themselves demoted.

Add the facts that teachers' unions wield lots of power and that schools are overregulated and underfunded, and it is easy to understand why German schools are inefficient and often ineffective. There are hundreds of curricula that describe what teachers should teach, but few mechanisms to ensure that the children have actually taken it in. Nor is much official attention given to individual support, whether for weaker or for exceptionally bright students. Instead, parents spend vast sums on supplementary private tutoring, often provided by teachers in their spare time.

Despite all this, Germans long considered their country's school system among the best in the world. What persuaded them otherwise was PISA, the OECD's Programme for International Student Assessment, which compares educational achievement in different countries. The first results in 2001 came as a nasty surprise: **Germany** ranked only 21st in reading skills and 20th in maths and science among 31 countries assessed. "The loss of reputation became a powerful force for change," says Dieter Lenzen, president of Berlin's Free University.

The "PISA shock", as it came to be known, did indeed trigger much reform activity, but all within the existing system. Western *Länder* began shortening the *Gymnasium* course, clearing out their curricula and controlling their schools' output through state-wide exams. Their standing conference is now working on drawing up nationwide educational standards. And the federal government has started a euro4 billion programme to create *Ganztagschulen*, or full-time schools.

The state of Baden-Württemberg is generally seen as a model in education, partly because its school system provides for some upward mobility and partly because it started out on reforms even before PISA. It was the first west German state to shorten the *Gymnasium* course by a year. But the core of the reforms, says Mr Rau, the education minister, are the new curricula, which give each school a fair amount of autonomy. "It has always been an illusion to think that we are able to tell schools exactly what to do," says Mr Rau.

Since the reform, the schools themselves can decide how to fill a third of the lessons. The character of the curricula has changed as well. In the past, for instance, English teachers in 10th grade were told how many words and which grammatical rules they had to teach their students and exactly what they should tell them about America. Now the curricula are all about "competencies", general skills that students are expected to master. To make sure they do, they have to take state-wide tests every other year.

Some schools are already learning to make use of their new-found autonomy. At the Geschwister-Scholl-Gymnasium in Sillenbuch, a suburb of Stuttgart, the new curriculum has led to a series of internal reforms, says Irmgard Brendgen, the school's principal. Subject teachers, for instance, have had to start co-operating with each other and draw up guidelines for their area of expertise.

Because school days are now much longer, the school decided to do away with the 45-minute lessons that are customary in **Germany** and replace them with periods of 90 minutes. This, in turn, set off new thinking about the best teaching methods for such a period. "It has been a demanding, but also a very positive process," says Ms Brendgen.

Yet elsewhere things have not gone so smoothly. Many *Gymnasien* in Baden-Württemberg seem to be stuck in their old ways: they do what they have always done, and just cram the same syllabus into a shorter period of time hence the protests from parents. Yet critics also blame the plethora of new tests: schools will now teach to the tests instead of taking advantage of their greater independence.

At any rate, such reforms will not resolve the other big problem of **Germany's** education system: social segregation. Again, it has been PISA that has forced the country to face reality. When another round of results made headlines in November last year, German students' performance turned out somewhat better than the first time, but a different measure attracted more attention: a 15-year-old's school record depended more heavily on socio-economic background than in any other big industrial country (see chart 3). In **Germany**, the child of a professor is four times more likely to go to a *Gymnasium* than the equally bright child of a manual worker. The chances of an immigrant's child will be even more skewed.

Look at almost any *Hauptschule*, and you will soon discover that schools are not created equal either. The Pestalozzischule in Rohr, another suburb of Stuttgart, is certainly one of the better-run, and Maria Pfadt, the principal, goes to great lengths to give her students a good start. She works closely with local businesses, which regularly give presentations at the school (and one recently donated euro250,000 for a building to house such events). She even gives classes in manners, and takes students to the opera to reduce social barriers.

Yet if the Geschwister-Scholl-Gymnasium comes across as a secondhand Mercedes in good repair, the Pestalozzischule is more like a beat-up Volkswagen. Its teachers give more lessons to larger classes but are paid less. More than a third of its students are immigrants' children, compared with 7% at the *Gymnasium* on the other side of Stuttgart (although, to be fair, fewer of them live in its catchment area). In the centres of big cities, the children of immigrants often make up the majority of a class, and sometimes all of it.

Even more disappointing for the students who attend a *Hauptschule*, **Germany's** famed "dual model" for apprentices (who spend half their time on the shop-floor and the other half in a vocational school) is no longer the social elevator it once was. Many would-be apprentices are crowded out by graduates of grander schools. And the maths demanded in some apprenticeships can be far too hard for somebody with only basic schooling. Besides, many German firms simply no longer take in apprentices. All this explains why more than half of vocational-school students no longer do a classic apprenticeship but enrol in some other professional programme.

At stake are not just equal opportunities, but the future prospects of the German economy. "The German education system is wasting valuable potential," says Andreas Schleicher, a co-ordinator of PISA research at the OECD. He has become something of a *persona non grata* among **Germany's** education establishment, perhaps because he dares to criticise his own country. Mr Schleicher thinks that in its education policy **Germany** needs to become more like Finland, which twice topped the PISA charts for literacy. For instance, it could start teaching children in nursery school rather than simply letting them play, stop selecting students for different types of schools so young, and create a culture of individual support.

In the long run, **Germany** may have no choice but to do away with its three-tier school system. Such attempts have failed before, but two new forces are now at work. One is demography: as the number of pupils drops rapidly, having just one, comprehensive, kind of school may be more efficient than maintaining three.

The other force is business, which cannot thrive without well-educated employees. It was a lobbying organisation for Bavarian business, the Vereinigung der Bayerischen Wirtschaft, that in 2003 published the most comprehensive study so far on how to reform **Germany's** education system. According to the PISA study, Bavaria has the best students in the country but the smallest proportion of those awarded the *Abitur*, which means that it has to import them from other *Länder*. In fact, in **Germany** as a whole the share of students who qualify for admission to university is low by international standards: the current number is only 35%, compared with an OECD average of 56%.

Moreover, for Mr Lenzen, the Free University's president who co-ordinated the Bavarian study, reforming **Germany's** schools will not be sufficient. He reckons that its nursery schools, universities and professional training also lag behind, and that the country needs to rethink its entire educational system to produce enough brains for its economy to prosper.

Yet the creation of outsiders is not the sole prerogative of **Germany's** school system. Social divisions are widened and deepened further by the labour market, the subject of the next article.

GRAPHIC: Wait till you see the homework

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Despite a raft of reforms, **Germany's** labour market still excludes far too many people

HEADQUARTERS can reveal much about an organisation. The Bundesagentur für Arbeit (BA), **Germany's** federal employment agency, based in Nuremberg, is a case in point: if the star-shaped formation of 1960s high-rise buildings were a housing estate, it would have been demolished long ago. Inside, the building is pure Kafka: long grey corridors that meet at strange angles, causing visitors to get lost.

Yet open a door on the 8th floor, and you suddenly arrive in the 21st century. The brightly lit room is filled with bulletin boards covered with hundreds of charts, most of them coloured in some combination of red, yellow and green. "We are using traffic-light logic to spot problems quickly", says Dieter Vollkommer, the former head of the BA's reform team.

This office is the war room for what may be the most ambitious reorganisation ever attempted in **Germany**: turning the BA, the country's largest bureaucracy with more than 90,000 employees, into a "customer-oriented service provider", as Mr Vollkommer puts it. The BA has put much effort into turning the dreaded Arbeitsämterits local offices where jobseekers used to take a number and often wait for hours into "customer centres", complete with crowd control and consultation cubicles.

The BA is a sure sign of **Germany's** will to reform: it is the most visible of a plethora of labour-market reforms that the government has introduced in the past two years. But there are doubts that it can really help **Germany's** new outsiders, the growing army of the long-term unemployed, who now account for more than half of **Germany's** jobless (see chart 4).

If **Germany's** education system was built specifically to protect insiders, its labour-market was meant to be all-inclusive. It managed well until the early 1970s, when the first oil crisis caused unemployment to rise. So the government sent hundreds of thousands of workers into early retirement, and trade unions pressurised employers into cutting working hours to 35 per week, mostly at the same pay as before, in return for relative industrial peace.

Wages were often set by "national peak-level bargaining": the IG Metall union, the biggest and strongest of them all, would negotiate a pay rise in one of its strongholds, which would then be adopted by unions and employers in other sectors. At the same time, wages at the lower end of the scale tended to rise disproportionately fast, making unskilled labour increasingly unattractive to employ.

The effect on labour costs was magnified by the way the country finances its welfare state: through a payroll tax with matching contributions from individuals and employers. Unemployment and early-retirement programmes pushed up these contributions, and the cost of labour with them. No wonder that the country keeps losing full-time jobs and their attendant social-security contributions. Contributions now add up to over 40% of gross income, compared with 27.6% in 1970.

Unification aggravated this vicious circle. Much of the cost of integrating the former East **Germany** was piled on to the social-security systems because it was politically easier than raising taxes. Worse, German unions and employers' associations, both dominated by westerners, quickly agreed to raise wages in the east close to western levels. The idea was to dissuade skilled easterners from moving to the west, but in effect it priced many low-skilled easterners out of the market.

Add the de facto minimum wage set by welfare benefits, along with strong protection against dismissal, and it is easy to see why Denis Snower, president of the Kiel Institute for World Economics, views **Germany** as a perfect example of his "insider-outsider theory". It turns on the concept of labour-turnover cost—in essence, all the costs associated with firing an employee and hiring a new one. The higher these rise, the lower the probability that they will actually be incurred—which is why the people in jobs, the insiders, have an interest in keeping them high.

There are cultural reasons, too, why low-paid services in particular, the main job-creation machine in other countries, are underdeveloped. Many Germans dislike the idea of working in services, thinking them demeaning. Women, who are still underrepresented in the workforce, tend to do their own housework rather than outsource it, and many men are do-it-yourself enthusiasts.

There is little doubt that long-term unemployment would have caused considerably more political uproar had the Federal Employment Agency not been there to smooth things over. Originally a combination of an insurance company and an employment agency, the BA has evolved into the organisation that looks after **Germany's** growing army of outsiders. In 2001, at its peak, it spent over two-fifths of its budget of euro52 billion on so-called "active labour-market policies", code for all kinds of training schemes and job-creation programmes.

The shocking fact is not that so much money was spent, but that most of it was wasted. The measures rarely helped the unemployed to find real jobs. Instead, it was unions and employers' associations that reaped most of the benefits. Billions flowed into huge training firms operated by both these groups. Critics point out that representatives of unions and employers in effect controlled the BA's federal and regional boards.

It was not without irony, then, that a scandal at the BA became the "PISA shock" that rattled **Germany's** labour market. In early 2002, it emerged that some agency departments had routinely faked job-placement figures. As it happened, the chancellor, Gerhard Schröder, badly needed a theme for the forthcoming election campaign. He asked Peter Hartz, then the personnel chief at Volkswagen, to head a commission to propose reforms.

Most of those proposals became part of Mr Schröder's reform package, Agenda 2010, and were implemented through a series of "Hartz" laws. Their purpose was threefold: to make the labour market more flexible by reducing job protection and lowering social-security contributions for certain part-time jobs ("mini-jobs"); to reform the Federal Employment Agency and equip it with better tools (for instance, the "Ich-AG", or "Me-company"); and to encourage the long-term unemployed to look for work by introducing a new flat-rate benefit ("Hartz IV").

All these reforms called for some new faces. Traditionally, the BA had been run by elderly politicians with expertise in social-security issues, such as Bernhard Jagoda, who had to resign after the job-placement scandal. The current president, Frank-Jürgen Weise, comes from a very different background: a former soldier, he co-founded a logistics firm and is an experienced financial control-

ler. It may not be obvious, but this is exactly the right set of skills for the job.

When Mr Weise joined the BA as finance chief in 2002, he did not like what he found: in the absence of reliable data, the agency did not really know what it was doing. In particular, it had no idea whether the billions spent on retraining had any lasting effect. Just as with **Germany's** education system, it was the input that got the attention, not the output.

Mr Weise's most important task has been to create transparency. Training programmes are now evaluated and procured via central calls for tender, creating a real market. Local agencies operating in similar labour markets are competing with each other, and their performance indicators are compared every month. If an agency regularly falls short, heads may roll, but the main idea is to ensure that best practice spreads throughout the organisation.

The BA's new president already has some results to show for his efforts. Partly thanks to his cost-cutting, the government is now considering reducing the contribution to the unemployment-insurance scheme, currently 6.5% of gross income, by two percentage points next January. But Mr Weise knows that this will not be enough: unless he turns the BA into a highly efficient tool for policymakers, its enemies, who want to dismantle and privatise the bureaucratic behemoth, might yet have their way.

A visit to the local employment agency in Nuremberg's city centre reveals how much has changed, but also how much more needs to be done. The long queues have gone. The rule in the "entrance zone" is that it should take no more than 30 seconds to direct "customers". If they are newly unemployed, they have to fill in a lengthy questionnaire. If they have an appointment, they can go straight upstairs.

Yet the biggest changes are less visible. "We are now acting like a real company and are no longer engaging in much social policy," says Gisela Scherer, one of the agency's bosses. Costly long-term re-training schemes have been replaced by short internship-like programmes. And if an unemployed person is hard to place, the agency does not invest a lot of effort, explains Ms Scherer: he or she will get unemployment benefit for a year and "then be better taken care of downstairs".

"Downstairs" is where the local "Arge" has set up shop. This is short for *Arbeitsgemeinschaft*, or working group, but it is more than that. The Arge is a new type of organisation, set up in each German city or county to look after the long-term unemployed who receive the new flat-rate benefit under the Hartz IV law. In a way, **Germany** has outsourced all its outsiders to the Argen (it is unfortunate that "arg" also happens to mean "bad" in German).

The big question is whether these bodies will do a better job than the BA did. Their first task is to vet applicants for the new benefit, which is means-tested and paid only to those who are seriously seeking work. They are still sorting out their bureaucratic problems, so they have not had much time to spend on their second main job: to provide support for their clients.

What is already clear is that Hartz IV got its incentives entirely wrong. The state calculates the benefit on the basis of a *Bedarfsgemeinschaft*, an impossible-to-translate term which broadly speaking means the household in which the jobless person lives. A single person in west **Germany** gets euro345 a month (euro331 in the east) plus health insurance, rent and utilities paid for, which makes it attractive for jobless young people, for instance, to move out of their parents' home. Policymakers had expected 2.6m *Bedarfsgemeinschaften*, but are now faced with as many as 3.7m.

Yet for all the expense, reorganising an employment agency and introducing a new benefit does not create any extra jobs, says Stephan Doll, the boss of the Nuremberg section of the Deutsche Gewerkschaftsbund, the umbrella organisation for **Germany's** unions. He speaks from experience: unemployment in the city is about one percentage point above the national average.

"All the labour-market reforms were no more than empty promises", says Mr Doll, echoing the prevailing German mood. Many now argue that instead of introducing further reforms, the government should raise wages and start spending again on infrastructure and education, and on developing the local economy. As it happens, the new government has recently announced a programme under which euro25 billion will be spent on such measures over the next four years.

Yet the next round of labour-market reforms also seems to be under way. During the election campaign last year, the parties outbid each other with proposals. The Social Democrats wanted to introduce minimum wages to stop wage dumping by east Europeans. The Christian Democrats were keen to weaken union power and job protection. In their grand-coalition agreement, the two parties made hiring and firing a little easier: new employees will in future have to wait for two years rather than the current six months before their job tenure is secure. Now the coalition is toying with something called *Kombilohn*, a combination of a low market wage plus a government subsidy.

Ulrich Walwei, deputy director of the Institute for Employment Research, the BA's think-tank, is sceptical about this flood of new ideas. First, he says, the earlier reforms have to be properly evaluated. Mini-jobs, with a maximum pay of euro400 a month and social-security contributions of only 25%, have certainly shown that lowering the cost of low-skilled work can create jobs: there are now nearly 7m of them. But outsiders do not seem to have benefited, and it is unclear whether these jobs have simply replaced full-time ones.

Weakening or even doing away with job protection, from which most insiders still benefit despite many changes at the margins, is certainly no silver bullet, says Mr Walwei; nor is the *Kombilohn*. For such a model to work, the de facto minimum wage would have to come down significantly, which would be tricky in the current climate. A better solution, he says, might be to cut social-security contributions for all low-wage jobs.

Whatever **Germany** does, it must reduce its army of outsiders, argues Mr Walwei, or it will be in trouble as the country's population starts to shrink. Contrary to conventional wisdom, he thinks that a smaller workforce is unlikely to solve the unemployment problem if the job-seekers do not match the specifications of the jobs on offer. "If we don't get supply and demand to match at that point, our economic dynamism will go down the tubes."

But a sclerotic labour market is not the only reason why unemployment remains high. Over-regulated markets are just as much to blame, as the next article will demonstrate.

GRAPHIC: New, improved job shop

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Corporatism and lack of competition are the enemies of an efficient economy

CITY tours are one of Cologne's strong points. But if you want to get beyond the cathedral, the Romanesque churches and the old city, ask Werner Rügemer, a journalist. He will take you on a tour of the landmarks of the *Kölsche Klüngel*, or Cologne Clique, a particular form of wheeling and dealing for which the city is famous across the country.

Mr Rügemer may soon want to add some new attractions to his tour. A couple of big local property deals an event forum called Kölnarena and an addition to the city's exhibition centre have caused a stir recently. The exhibition centre, say critics, was approved without the usual official EU-wide call for bid though the city treasurer explains that this type of contract does not require a bidding process, and that Ernst & Young, a firm of accountants, was asked to check out the market.

Still, the general impression is that Cologne's politicians have not tried very hard to make their business transparent and nobody really seems to care. "It is considered folklore just like the carnival here," says Mr Rügemer.

Cologne provides a striking illustration of the way that in some parts of **Germany's** economy, rent-seeking seems to be more important than wealth-creation. In a forthcoming book about reform in rich countries, Adam Posen of the Institute for International Economics, a think-tank based in Washington, DC, argues that this keeps prices high and stops the country's economy from becoming more efficient.

"Nothing much has changed. If anything, it has got worse," says Ute Scheuch, a retired journalist. More than a decade ago, she and her husband, Erwin Scheuch, a sociology professor at Cologne University, published a report on the Kölscher Klüngel. It contained few new revelations, but for the first time it analysed the rules of the game. What the authors found was both amusing and alarming. Not only were the local organisations of both the Christian Democrats and the Social Democrats controlled by cliques that handed out offices, but in Cologne such deals were actually put in writing.

After such publicity, you would expect the participants in these power games to be more careful. But since then it has emerged that fat bribes were paid in the 1990s for the business of building an oversized refuse incineration plant near Cologne. The case is still going through the courts.

Now controversy has arisen over Esch, an investment fund run by Cologne-based Sal. Oppenheim, Europe's largest private bank, over some of the big local prop-

erty deals the fund has got involved in. Esch has been raising money from wealthy people, of which Cologne has a good number. That seems unsurprising enough. More surprisingly, the fund is run by a former city manager, who took the job after doing a deal with Esch. The fund also bagged, on favourable terms, two of the city's biggest deals, which were rushed through the city council without leaving time for thorough scrutiny by councillors.

One of them is now under investigation by the public prosecutor. It concerns a project that started in 2003 when Cologne decided to add some new halls to its exhibition centre so a big TV broadcaster could move into some of the older ones. The city argued that unless the project went ahead quickly, the TV station would move away from Cologne, causing tax and job losses. The Esch fund bought the land, put up the buildings and rented them out to the city. Neither the city nor the fund will say how much the project cost, arguing that to do so would be unusual business practice.

When a TV programme last summer claimed that the city could have got a much better deal, the public prosecutor's office in Cologne started to look into it; and the local Greens, who were in a coalition with the Christian Democrats when the deal was approved, are having second thoughts. "We didn't know that the Esch fund was involved," says Barbara Moritz, their leader. "We were told that the project was for the good of the city, but it seems it was more for the good of the fund."

The problem, in Cologne and elsewhere, is that local councillors are often unpaid and have no one to help them, so they depend on the information they get from the city administration. The local papers did not take much of an interest in the property deal until the TV programme drew attention to it. The publisher of Cologne's three big dailies is also an acknowledged investor in the Esch fund.

Yet in general, things have improved somewhat, says Hansjörg Elshorst, chairman of the German section of Transparency International, an anti-corruption group. He puts this down to recent legislation to keep civil servants and public officials honest. However, he says, in private firms corruption remains widespread.

At times of rapid growth, lack of accountability did not seem to do much harm; indeed it helped to speed up decision-making. Yet today each euro wasted means a euro less for social services, says Karl Lauterbach, an economist at Cologne University. The city is the most indebted in the state of North Rhine-Westphalia and has long failed to invest enough.

Last September Mr Lauterbach, a Social Democrat, won a seat in the federal parliament. Yet he is an example of a rare species called *Quereinsteiger*, somebody entering politics after a career in a different field: he originally studied medicine and economics at Harvard. And he has no intention of becoming part of the *Klüngel*.

In any case, Mr Lauterbach would not fit in. His academic speciality is **Germany's** health-care system, and to him the health-care industry is proof that German-style corporatism can be at least as costly as backroom deals. Just like education, he says, it is a system that protects privileges without adding any value: "It is not only inefficient, but also creates injustice."

Seen from outside, some elements of **Germany's** health-care system indeed appear counterproductive. For instance, there are the *Kassenärztliche Vereinigungen*, regional doctors' associations that negotiate fees with the public-health insurers and then distribute the money. They are also meant to ensure that there are enough doctors to go round everywhere, but they seem simply to provide an arena for in-fighting.

Nor does the split in the health-insurance market between public and private firms make obvious sense. Contributions to a public health-insurance scheme are compulsory for everybody below a certain income limit, currently about euro47,000 a year. Above that, people can take out private insurance. Predicta-

bly, the public sector is getting stuck with most of the bad risks, whereas private insurers can cherry-pick younger and richer customers.

These arrangements are increasingly creating a wasteful two-class health-care system. Because private insurers pay higher fees, for instance, their clients usually get seen more quickly and receive better treatment. To keep revenues flowing, highly trained hospital doctors often attend to the minor illnesses of these private patients rather than doing research.

To Mr Lauterbach, the solution is to slash bureaucracy and introduce more competition. But even then it would take time for the health-care system to become more efficient, if experience in other sectors is any guide.

For a demonstration, take a trip to Bonn, **Germany's** former capital, half an hour's drive south of Cologne. In a sense, it has now become the capital of competition, housing the country's most important regulatory agencies: the Federal Cartel Office and the Federal Network Agency, a body overseeing competition in telecoms, railways and energy. The city is also home to the Max Planck Institute for Research on Collective Goods, a research body, and the Monopolies Commission, a group that advises the government.

In 2004, the Monopolies Commission published a scathing report about the state of **Germany's** electricity industry. Martin Hellwig, then chairman of the commission (and now executive director of the Max Planck Institute), and his colleagues argued that the industry was a classic case of deregulation gone wrong.

When **Germany** decided to liberalise its electricity market in 1998, the electricity companies, which until then had been regional monopolies, had to open up their grids to other producers, so consumers and firms could pick their provider. However, constitutional problems made it impossible to separate power generation and distribution. Yielding to German corporatism and efficient lobbying, the government decided to let the industry regulate itself by negotiating the conditions for network access among the competitors.

In the early years, prices did indeed fall, though mainly because there was plenty of spare capacity. At the same time, the electricity industry consolidated, both horizontally and vertically. Now only four companies—E.ON, RWE, Vattenfall Europe and EnBW—control more than 80% of power generation and most of the grid. In recent years they have also bought stakes in local power companies, which makes these unlikely to switch to other providers.

As the Monopolies Commission argues in its report, this market structure, in combination with the regulatory environment, does not make for much competition. In particular, the fees for access to the grid are exceptionally high compared with other countries, discouraging firms from using alternative suppliers. No surprise, then, that electricity prices in **Germany** are among the highest in Europe.

Equally predictably, power companies argue that the connection is not clear and that their costs and taxes have gone up too. But the pressure on them is mounting. Last summer, the outgoing government passed a law putting the Federal Network Agency in charge of regulating the electricity market from next year. Until then, state governments are supposed to block unjustified rate hikes, which some of them have actually done recently. The tabloid papers have started campaigns against the "power rip-offs", and public prosecutors are looking at junkets for local politicians paid for by the energy giants' gas subsidiaries, which are also accused of overcharging.

It may be tempting to see the protests against high energy prices as a sign that **Germany**, once a prime example of a producer-driven economy, is turning into one driven by consumers. But so far, the protests seem to be more of a populist uprising against big business rather than a call for more competition. Perhaps Germans have not quite grasped the virtues of freer markets yet. That certainly goes for immigration, the subject of the next article.

GRAPHIC: Spot the wheeling-dealing

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On immigration, **Germany** is torn between its past and its future

ASK Heribert Bruchhagen about the ethnic composition of his football team, and he has to consult his secretary. It is not that the boss of Eintracht Frankfurt, once one of the more successful German clubs, does not care. But when he recruits players, passports and origins are not much on his mind. More important is their price tag. And even more critical, all must speak German, and at least a third must hail from the Frankfurt area. "In times of crisis, the coach needs to be able to talk directly to the players," Mr Bruchhagen explains in his office overlooking Frankfurt's stadium. "And the team must be rooted in the region."

The resulting Eintracht squad includes quite a few names that suggest origins further afield: Du-Ri Cha, Jermaine Jones, Mounir Chaftar. Nearly half of them are foreign-born or have at least one non-German parent, but most of the second group grew up around Frankfurt. The recruitment policy seems to be working: after a bad start to the season, the club worked its way up to tenth place in **Germany's** premier league.

Every city, goes the joke, gets the football club it deserves. Thanks to its huge airport, its financial district and at one time the presence of many American companies' German headquarters, Frankfurt has become the country's most diverse city: some 40% of its population of 655,000 hold a foreign passport or come from an immigrant background. This has made Frankfurt unusually tolerant. "We have always welcomed immigrants", explains Albrecht Magen, head of the city's integration department, "because we live and die by our internationalism."

The politicians in Berlin, alas, are being less positive. After a brief period in 1999 when **Germany** at last seemed to have accepted that it was an immigration country and even began to see foreigners as an asset things have again changed for the worse. "In **Germany**, immigration is still seen as hurting society," says Klaus Bade, a professor at Osnabrück University.

Germany is not the only country that has problems with immigration, but it faces a special dilemma. In a way, it is torn between its past and its future: it still yearns for cultural homogeneity, but will in fact need more immigrants, particularly highly skilled ones, to make up for its low birth rate and to keep its economy competitive.

It is the "legacy of romanticism", in the words of Dieter Oberndörfer, a political scientist at Freiburg University, that holds **Germany** back. Thinkers such as Friedrich Julius Stahl, a 19th-century lawyer, developed the idea that Ger-

mans are a people based on descent. "The older and purer the tribe," he wrote, "the more it will be a nation." This became mainstream thinking, at least among the ruling classes, and helps to explain why, some time after **Germany** had become a nation at last in the late 19th century, it decided to base citizenship on blood rather than soil.

The emphasis on ethnic origin also explains why **Germany** has seen a huge influx of foreigners with German roots since the second world war, mostly from eastern Europe. Individuals who could prove German ancestry were invariably welcomed. Immigrants without German roots were also admitted in large numbers, but on different terms: under **Germany's** "guest-worker model", they were expected to go home when they were no longer needed.

Predictably, though, many of the 14m guest workers whom **Germany** allowed in between 1955 and 1973 stayed on, particularly the Turks. They also brought their families over, which resulted in many German-born foreigners. Add other immigrants, refugees and EU citizens (who can come and go as they please), and it is easy to see why the number of foreigners grew rapidly, from 500,000 after the second world war to 6.7m (8% of the population) today. Another 7m or so Germans are naturalised immigrants. In record time, all this has turned **Germany** into nearly as much of a nation of immigrants as America.

Yet it took German politics until the late 1990s to accept this reality. Both big parties often felt they had to pander to anti-immigrant, if not xenophobic views. There were fears that immigrants would take unfair advantage of **Germany's** still-generous welfare state. And integration often did not go smoothly. Many Turks, in particular, found it hard to settle in, not least because a large contingent came from rural Anatolia and had to get used to living in an industrial society as well as a Christian one.

It was only when the coalition of Social Democrats and Greens came to power in 1998 that things began to change. The first government of Gerhard Schröder passed a law making naturalisation much easier (although some *Länder* have now put up various new barriers). Yet faced with the threat of terrorism and a deteriorating economic situation, the federal government abandoned plans to liberalise immigration rules and instead concentrated on tightening security and improving integration. For example, a new immigration law passed in 2004 requires new immigrants to take German lessons.

Learning German is doubtless important, notes Ismail Ersan, chairman of the *Türkisches Volkshaus*, a cultural organisation for Turkish immigrants in Frankfurt. But those who push hardest for it, he thinks, really want assimilation, not integration. Turning immigrants into Germans should not be the objective, he argues: "We need to find ways to live together, giving everybody equal opportunities."

As yet, that is a distant dream. The third generation of Turkish immigrants, in particular, is increasingly marginalised and not just because of the school system and the labour market. The exclusion starts when they become teenagers, explains Mr Ersan: they often switch to a Turkish football club at that point because their old German club makes it clear to them that they do not really belong there. When they have finished school, they are rarely offered even an unpaid internship, let alone an apprenticeship.

That is if they manage to finish school at all. According to a 2001 study by Bamberg University, 15.6% of young foreigners in Frankfurt failed to do so, compared with 6.5% of Germans. Far too many left school at 14. For **Germany** as a whole, the numbers are even worse. "The situation is certainly not as bad as in France," says Mr Ersan, "but if things don't improve, cars may also be burning here one day."

The Turkish community is also to blame. Many have retreated into ethnic ghettos: the availability of a complete Turkish infrastructure makes it possible for them to live in **Germany** without having much contact with Germans. The fact that Turkish men in **Germany** increasingly look for wives in Turkey does not help: their children are often raised the traditional way and do not learn enough German to integrate properly.

Immigration is not just about Turks, however, insists Helga Nagel, head of Frankfurt's office for multicultural affairs. Indeed, although they are certainly the most visible, they make up only about 20% of the city's foreign population (which more or less mirrors the national mix, see chart 6, next page). Another 22% come from former Yugoslavia and 9% from Italy. And most, says Ms Nagel, are better integrated than you might expect.

If so, then her department deserves some of the credit. Frankfurt was the first German city to create such an office, back in 1989, after the Greens formed a coalition with the Social Democrats to run the city. When the Christian Democrats and Free Democrats took over in 1995, they did not abolish the office, as some had feared, and even kept its name.

Today, the office co-ordinates an impressive array of programmes. Apart from the obvious language classes and translation service, the staff also helps immigrants to find their way through the complicated German education system, get health care and sort out problems. The office also tries to monitor the state of integration not an easy task because, perhaps unsurprisingly, **Germany** does not collect much information about its immigrants.

Other German cities have since copied Frankfurt's approach. But is that enough to integrate immigrants, particularly youths from a Turkish background? Unlike other countries, including France, **Germany** has never seriously discussed affirmative action for immigrants. Nor has it grasped that immigration policy today is no longer about keeping foreigners out or turning them into good Germans, but about competing actively in the global war for talent, says Thomas Straubhaar, president of the Hamburg Institute of International Economics, a think-tank. In a globalised knowledge economy, he argues, the wealth of a country will increasingly depend on highly skilled individuals. Yet such people are mobile and can choose where they want to live.

If Richard Florida, an economist at George Mason University, Virginia, has his numbers right, **Germany** still has more work to do to become a top choice for what he calls "high potentials". In his 2005 book, "The Flight of the Creative Class", he produces an index measuring the competitiveness of nations in terms of the "3 Ts" of economic growth: technology, talent and tolerance. **Germany** does not come out too badly on tolerance, but it lags in developing talent and implementing technology. Overall, it ranks only tenth in the "global creativity index".

Germany's 2004 immigration law will do nothing to improve that ranking. Foreigners who have graduated from German universities can still be sent packing even if they have found a job. And highly qualified workers still do not get permanent residence permits. As a result, the numbers of these "high potentials" moving to **Germany** is declining: in the 11 months to November 2005, only 900 arrived, compared with 2,300 in 2004.

Mr Bade of Osnabrück University thinks this is all the more serious because many highly qualified Germans are leaving. The numbers are hard to pin down, but between 1991 and 2003 an average of 115,500 people emigrated, many of them young and holding a university degree, according to the 2004 report of the Expert Council on Immigration and Integration, of which Mr Bade was deputy chairman (and which has since been disbanded).

A couple of hours' drive south from Frankfurt lies Stuttgart, **Germany's** second most international city, which has produced a raft of ideas for retaining and attracting highly skilled people. In 2001, the city launched an action plan to prepare itself for becoming even more international. To foster integration, Stuttgart offers much the same activities as Frankfurt. But in addition, it tries to make itself as attractive as possible to the global creative crowd. Foreign students, for instance, are offered help with things like finding their way through the thickets of German bureaucracy.

More recently, Stuttgart has started to combine its efforts to attract skilled individuals with policies to boost the low birth rate: it wants to become **Germany's** most family-friendly city. Over the next few years, it plans to introduce a range of measures to make life easier for parents and children, for

instance by providing more day care, playgrounds and bicycle routes. This is not ideology or public relations but sheer pragmatism, says Wolfgang Schuster, Stuttgart's (Christian Democrat) mayor. To prosper, the city needs both more immigrants and more children.

What is good for Stuttgart, the home of DaimlerChrysler, might well be worth considering for **Germany** as a whole. Yet immigration does not seem to rank high on **Germany's** political agenda. The grand-coalition agreement mentions it only in passing, under the heading "security". If that foreshadows neglect of the issue, it could turn out to be a serious mistake.

GRAPHIC: Almost like home

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