

**>> Opinion**

## Employment through Innovation

High and persistent unemployment is the key problem of Germany's economy and society. Contributing to the weakness of economic growth, it has become a millstone around the neck of our social security systems. As a result of the structural change triggered by globalization, it is particularly the low-skilled workers who are falling through the cracks of the labor market. This is why we must place a high priority on providing under-achieving youths with vocational training as a ticket to the working world. Of course, trainability is limited and the globalized environment will further aggravate the international competition for skills. Does this mean our society will be split into job owners and job losers - with growing numbers forever on the losing end?



Klaus F. Zimmermann

Germany's opportunity lies in the strong innovative capabilities of our economy. Much will depend on our ability to produce lasting innovations even under changing production and market conditions. Innovation leads to economic growth, which in turn creates employment - for all skill levels. High performers profit directly from an innovative economy while low performers profit indirectly from overall economic prosperity by taking up support jobs.

Germany has never experienced a lack of inventions, which are the natural prerequisite for innovation. The German problem is much rather rooted in the marketability of inventions. Product innovations must be tailored to the needs of the consumer, and process innovations must quickly lead to cost-efficient changes in the production structure. In Germany this is often viewed as a purely technocratic issue. But curiosity and risk-taking are factors as important as the technical aspects of innovativeness. Are we really eager enough to capture new trends in consumption and production?

On behalf of the Deutsche Telekom Foundation and the Federation of German Industries (BDI), the German Institute for Economic Research (DIW Berlin) has recently developed a

new innovation indicator, according to which Germany achieves only a middle rank among other competing industrial countries. The indicator is based on the following most important factors: education, research and development, financing and innovation, integration of the innovating agents, implementability, regulation and competition, and the "innovation-friendliness" of demand. The findings show that many nations with strongly differing models of society, such as the United States and the Scandinavian countries, have a much higher level of innovativeness than Germany. But the indicator also shows that German businesses are indeed successful, largely due to a close integration of customers, suppliers, and research, as well as a still powerful infrastructure in the areas of transportation, energy, information technology, and communications.

The weaknesses of the German system of innovation are mainly found in the educational system, which needs more funding, quality improvements, and competition. Germans are also too risk-averse and lack an entrepreneurial spirit. Risk capital for start-ups is not easily available, and the general interest in science and technology is underdeveloped. Moreover, women in Germany are excluded from the innovation process to a much larger extent than in other countries.

Therefore, issues in labor economics play a key role in improving Germany's innovativeness. Strengthening education and training remains the core task in the fight against unemployment. But the goal should not simply be to teach specific knowledge that helps understand and foster technological advances. What we need is a culture of accepting changes and risks. We need people who are open to new things and able to deal with temporary failure. This is another goal to be achieved by the educational system. After all, the human being is the most important factor in our knowledge society. It is the ultimate resource able to cope with the challenges our society is facing.



**Institute for the Study of Labor**


Editor: **Prof. Dr. Klaus F. Zimmermann**  
 Managing Editors: **Holger Hinte, Mark Fallak**  
 Address: IZA, P.O. Box 7240, 53072 Bonn, Germany  
 Tel.: **+49 (0) 228 - 38 94 222**  
 Fax: **+49 (0) 228 - 38 94 180**  
 E-mail: **compact@iza.org**  
 Web: **www.iza.org**  
 Graphics/Photographs: IZA  
 Printing: Verlag Andrea Dynowski, Cologne, Germany  
 Layout: IZA