

Before and after the Hartz Reforms: The performance of Active Labor Market Policy in Germany

Jochen Kluve
(RWI Essen, Germany)

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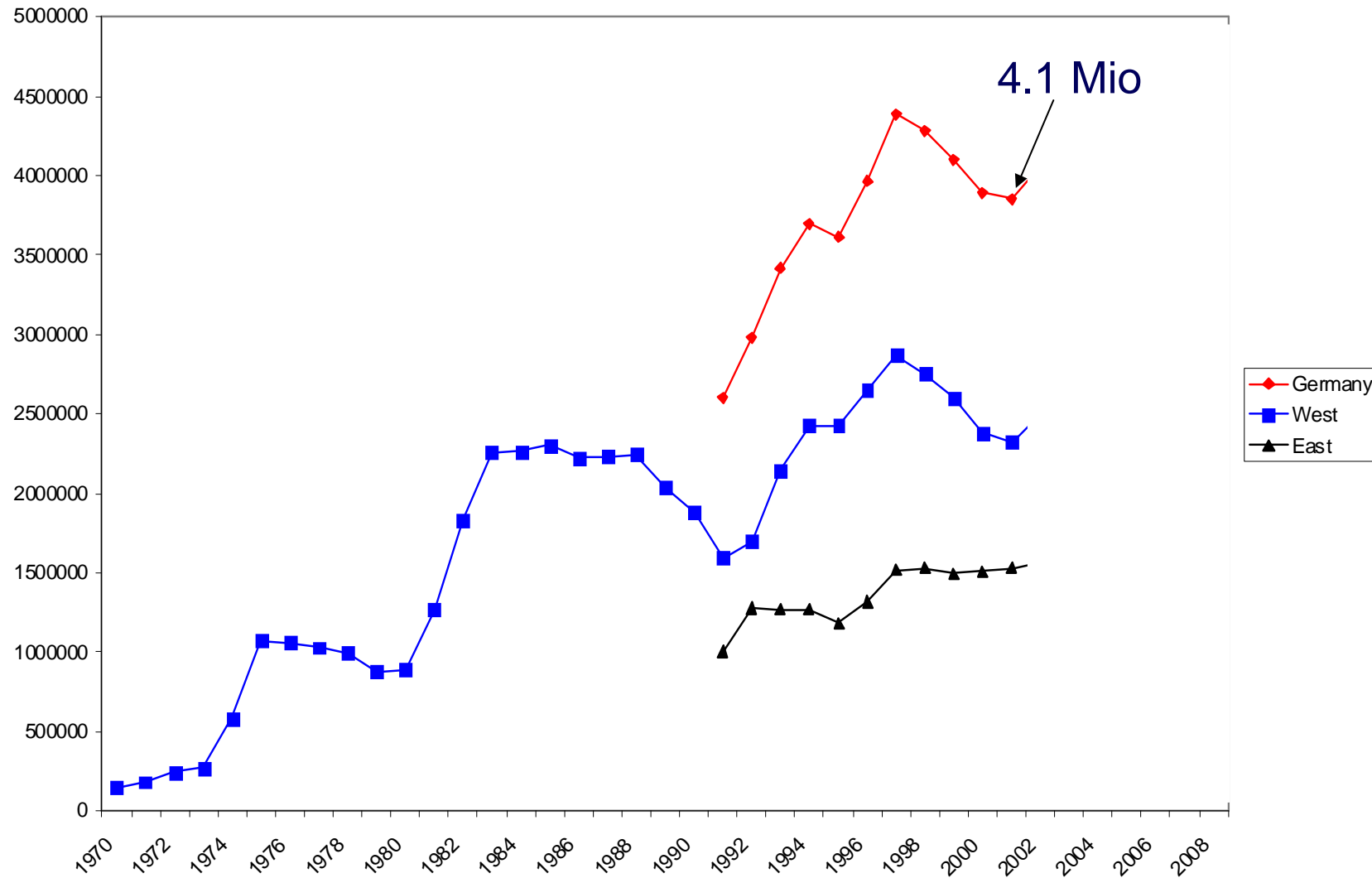
Introduction

- November 2008: 2.9 Mio. unemployed in Germany (8.0% unemployment rate)
- Down from 5.3 Mio. unemployed in February 2005
- Lowest number since November 1992
- [Current financial crisis / imminent recession has not affected German labor market yet → fears that unemployment might rise substantially in 2009]
- What role has (active) labor market policy played in bringing down unemployment?
- Recent German labor market policy → “Hartz reforms”

Today's presentation

- “Fördern und Fordern”: Creating the activating welfare state
- Hartz I, II, III, IV
 - Hartz I-III → ALMP
 - Hartz IV → Social Assistance System
- The public view
- Reform effects / Evaluation results

The rationale for reform



Creating the activating welfare state

February 2002: Persistently high unemployment + perceived ineffectiveness of the PES (Public Employment Service) due to the “job placement scandal”

→ “Commission for Modern Services on the Labor Market”: politics, academia, PES, unions, business.

→ aka “Hartz Commission”

Objectives: How to make LMP more effective and how to reform the PES

[Populist talk that such measures would halve the number of four million unemployed within four years]

Creating the activating welfare state

August 2002: Report by the Hartz Commission

→ New principle of the new labor market policy: “Personal initiative warrants job security”

→ implies reshaping employment policy “into an activating labor market policy with particular emphasis on a personal contribution towards economic integration on the part of the unemployed”

On the basis of the report, four “laws for modern services on the labor market” were enacted in the years 2003-2005 → “Hartz I-IV”

Creating the activating welfare state

Acting on principal idea of the commission's report, Hartz laws develop + explicate concept of the activating welfare state (Aktivierender Sozialstaat)

→ “Changed understanding of task-sharing between the state and its citizens.”

While the social state acknowledges its responsibility for providing support to job seekers (“Fördern”), it also requires the job seeker to acknowledge responsibility for own success on labor market and act accordingly (“Fordern”)

→ Important to emphasize this main theme of the reforms: remarkable change in the way the German welfare state defines itself

Creating the activating welfare state

Traditional German labor market policy:

- determined by hierarchic and inflexible structure of PES
- “classic social democratic ideas”: secure individual’s economic status + standard of living, protect from substandard working conditions, enhancement of human capital

New labor market policy:

- shift towards increasing market forces, setting and reinforcing work incentives, granting rights only along with demanding duties, and make work pay
- “liberal” concepts

Hartz I, II, III, IV

1 Jan 2003: Hartz I, II

1 Jan 2004: Hartz III

1 Jan 2005: Hartz IV

Hartz I, II → active labor market programs:

- Reform of training programs
- New type of start-up subsidy (“Ich-AG”)
- liberalization of temporary work sector
- deregulation of marginal employment (<400 Euro/month)
- sanctions

Hartz I, II, III, IV

Hartz III → Reform of the PES:

- Results-based accountability +controlling of local employment offices
- Customer-oriented one-stop centres
- placement services may be outsourced to private agencies
- “Federal Employment Office” (“Bundesanstalt für Arbeit”) → “Federal Employment Agency” (“Bundesagentur für Arbeit”)

Hartz I, II, III, IV

Hartz IV → Fundamental reform of unemployment benefit system:

- Unemployment benefit type I: First 12 months of unemployment (6-18 months depending on age and previous contributions to unemployment insurance system)
- Thereafter, unemployment benefit type II: flat-rate means-tested (current average: 825 Euro/month)
- Substantial cutback from previously generous system
- avoidance of “early retirement” practices

Hartz I, II, III, IV

- Benefit type II combines two parallel systems of welfare payments to the unemployed /disadvantaged: “Unemployment assistance” (PES) and “Social Assistance” (municipalities)
- Not earnings-based (unlike UA) and less generous than SA
- “Basic security benefit for jobseekers” → fallback system
- Type I administered by local PES, type II by either PES jointly with municipality, or municipality alone
- Type I financed by unemployment insurance system, type II by taxes
- access to benefits and ALMP participation conditional on a person’s ability to work (min. 15h/week) → “rights and duties”
- Both type I and type II recipients targeted by ALMP to increase employment / employability

Cornerstones of the Hartz reforms

a) Increasing effectiveness and efficiency of labour market services and policy measures

- Re-organisation of local employment offices
- Introduction of quasi markets
- Improved targeting
- Evaluation mandate

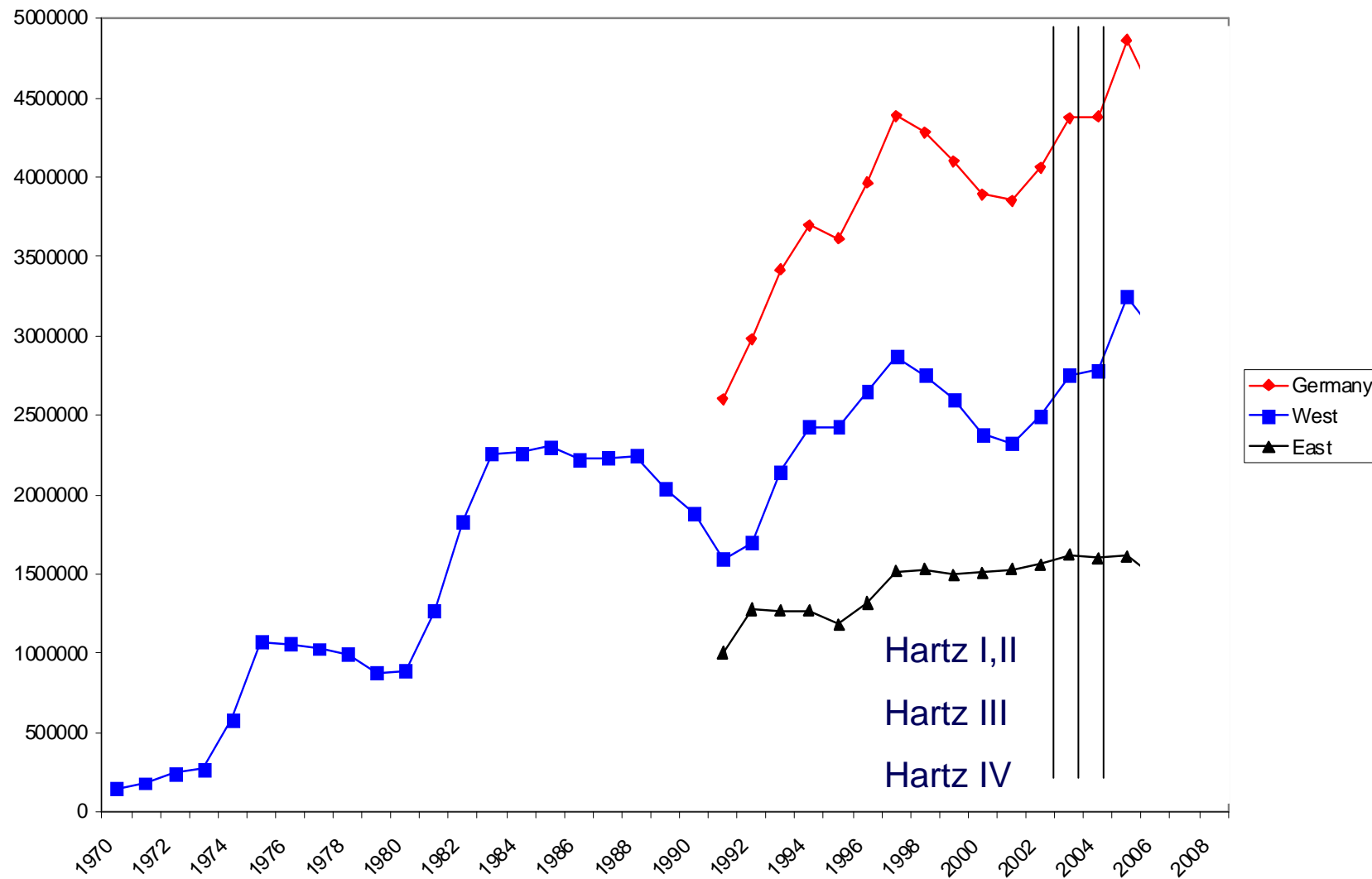
b) Activating the unemployed

- Re-organisation of the benefit system
- Sanctions
- New policy mix giving priority to measures requiring proactive behaviour of the unemployed
- Make work pay

c) Stimulating employment demand by labour market deregulation

- Deregulation of the temporary work sector
- Exemptions from restrictions on fix-term contracts
- Exemptions from restrictions on dismissal protection

Did the reforms reduce unemployment?



The public view



»Hartz IV«
das ist
Armut per
Gesetz **PDS**
Weg damit!



Reform effectiveness: the micro level

- Hartz laws contain evaluation mandate
- Hartz I-III: evaluated 2004-2006, results published early 2007
- Hartz IV: evaluated 2006-2008, results?

- All elements of Hartz I-III evaluated within several modules, involving more than 20 economics and sociology research institutes

Reform effectiveness: the micro level

Measure	Evidence before	Evidence after	Reform effect
a1. Placement services			
Customer service	(+)	(+)	(+) Introduction of customer service centres (<i>Kundenzentrum</i>) seems positive, but significance of effects unclear.
Placement voucher ^a (Vermittlungsgutschein)	n/a	0	0 No significant effect on re-employment probability.
Assignment to private placement providers ^a (Beauftragung Dritter)	n/a	0	0 No significant effect on re-employment probability.
Placement via temporary work (PSA)	n/a	-	- PSAs reduce the employment probability of participants.
a2. Training	0 older studies / (+) more recent studies	+	+ Exit rate into employment increased, locking-in effects reduced.
a3. Public job creation (ABM)	-	(-)	- Measure remains detrimental after the reform. (+) Magnitude of negative effect is decreasing. Impact on "employability" unclear.

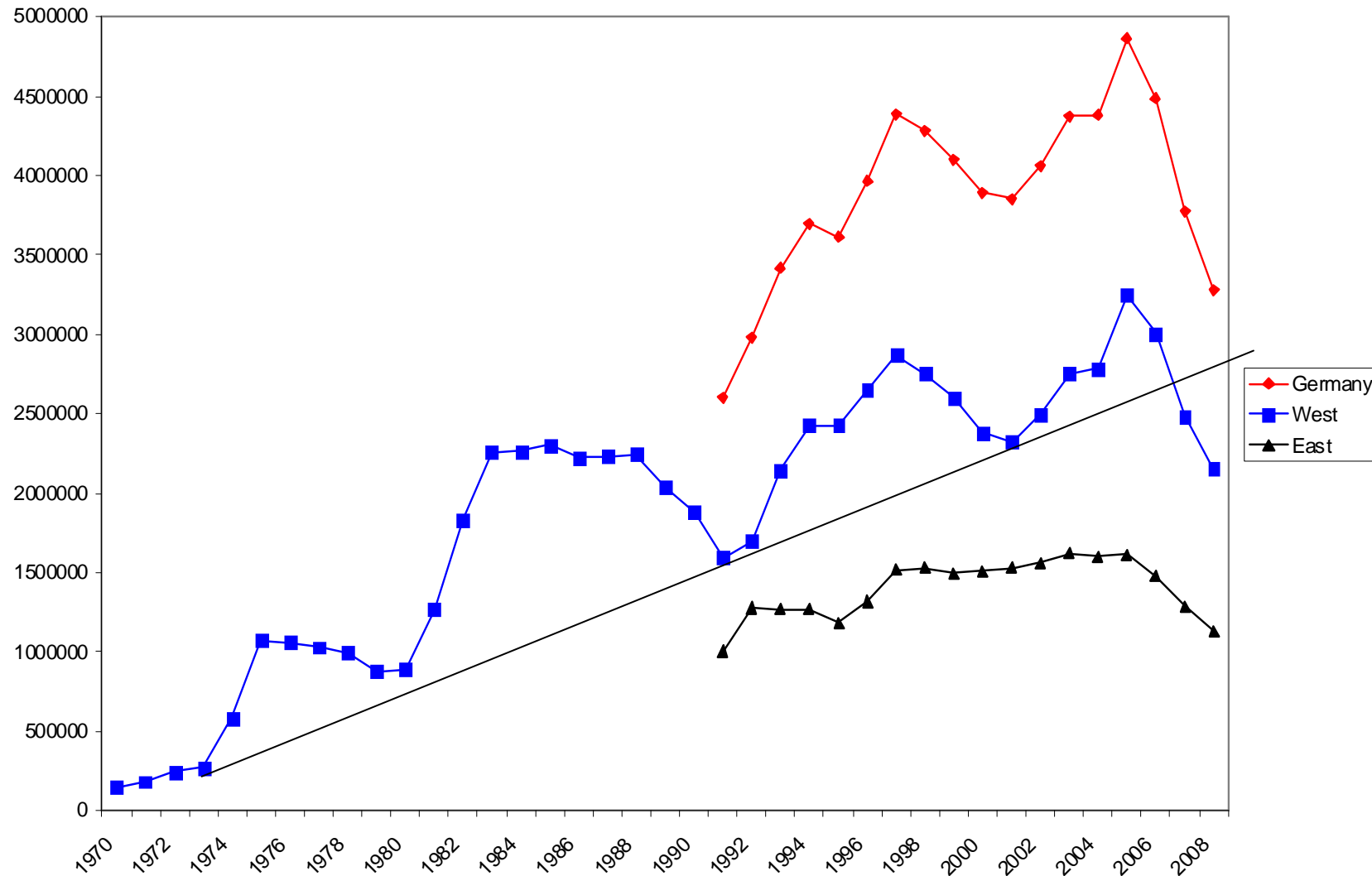
Reform effectiveness: the micro level

b1. Wage subsidies to employers (Eingliederungszuschüsse)	(+)	+	+ 20-50 percentage points higher probability of regular employment post-treatment. Extent of windfall gains unclear.
b2. Start-up subsidies (Überbrückungsgeld, "Ich-AG")	(+) ^b	+	+ Subsidy significantly reduces risk of unemployment (decreasing over time). Some windfall beneficiaries exist.
b3. Wage protection for older workers (Entgeltsicherung)	n/a	0	0 No significant effect.
b4. Employment with reduced social security contributions			
Minijobs	n/a	+	+ Reform caused large increase in employees in minijobs (+1.8 million). (-) Inflow from unemployment low. Incidence of intra-enterprise displacement cannot be ruled out.
Midijobs	n/a	(+)	(+) Modest effect on creation of midijobs (+125,000). (-) Incidence of intra-enterprise displacement cannot be ruled out.

Reform effectiveness: the micro level

c1. Temporary work deregulation	n/a	+	+ 23,700 additional employees in temporary work 6 months after reform (short-term). Deregulation widely acclaimed.
c2. Fixed-term contracts for older workers	n/a	0	0 No significant effect.

DID the reforms reduce unemployment?



Conclusions

Strong and rapid decline in unemployment likely caused by:

- Economic upswing
 - Boom of temporary work sector: +300,000 jobs
 - Impact of the new “Fördern und Fordern” concept
 - Increased effectiveness of active policies?
- } Hartz

Since Hartz:

- “Grand coalition” government has not continued reforms. Instead, some elements have been reversed (benefit eligibility of elderly workers), others might still be (temporary work sector)
- Outlook 2009: unclear how persistent structural effect will be (fluctuations around equilibrium)