1. Why did Gerhard Schröder, as a social-democratic chancellor, initiate the Hartz reforms?

2. What were the main elements of the reforms?

3. Who has benefitted from them? Who has lost out?

4. What is the insider-outsider problem? How did the Hartz reforms affect the insider-outsider problem?

5. What other effects did the reforms have?

6. With hindsight, do you think the Hartz reforms were the appropriate solution to the problems of the German labour market? What further reforms are needed, if any?

1.

* The collapse of the Neuer Markt drove two parameters higher: unemployment and the budget deficit.
* Change in labour market policy in 2003. Fiscal constraints were the key facilitators for policy change. German uniﬁcation saw unemployment beneﬁts and spending on active labour market measures in the East explode. Contribution rates for unemployment insurance doubled, and subsidies by the federal budget to the labour agency rocketed.
* When the dotcom boom collapsed in the early 2000s, public ﬁnance problems accumulated on several frontiers: unemployment rose again in both Eastern and Western Germany, long-term unemployment accounted for an increasingly higher share of the unemployed, reuniﬁcation costs rapidly increased, the Stability and Growth Pact started to kick in and tax reforms (the Eichel tax reform) reduced tax revenue, particularly for local authorities.12 All these developments put enormous pressure on the government to restructure social spending.
* Pressure from public
* Negative economic growth
* Democratic solution inspired by the Netherlands but there was time pressure.
* Protect system fore core workers.

2.

* A much broader catalogue of reforms, combining all measures and plans into a single programme- from tax cuts to health and pension reforms, easing protection against dismissal, reducing bureaucracy and making regional tariffs more flexible.
* Upswing in 2006: Employers hiring staff more quickly. Mini jobs/ part time work/ temporary work and fixed term contracts have not replaced the normal employment relationship but rather has supplemented it.
* Trend is towards reregulation and distribution issues: wage gap between regular and temporary workers was closed by the collective bargaining parties under pol pressure.
* ‘support and demand’: Schroder- those who could work at least 3 hours of the day were considered fit for work under the usual conditions of the general labour market.
* With the economic downturn at the beginning of the new millennium, the pressure to reform the pension insurance system increased sharply. Falling employment depressed premium income, while rising contribution rates threatened to put further pressure on the labour market.
* The Hartz IV welfare reforms cut the maximum duration of unemployment beneﬁts and limited earnings-related transfers to the ﬁrst year of unemployment (18 months for those over 55). The new long-term unemployed beneﬁt (exceeding 12 months of unemployment) was a means-tested ﬂat rate payment and set at what was universally seen as a low level of social assistance (it can be topped up temporarily if a claimant previously received considerably higher unemployment beneﬁts).
* The reform further introduced major in-work beneﬁts for part-time and low paid employees. Since all transfer recipients are required to take any job offered to them to prove their willingness to work, and since no statutory minimum wage has been set, wages can be set at extremely low levels and be topped up by transfer payments.
* At the same time, beneﬁt system reforms have not altered the high-tax wedge that burdens low-skilled low-paid work, an obstacle towards a more employment friendly system. Germany remains the OECD country with the highest marginal tax rate for low-paid employment. Social security contributions are set at a proportional rate and kick in at a comparatively low threshold .The reason for non-progressive social security rate is primarily due to the insurance-based welfare state, which draws on employers and employee contributions equally. This is also partly the reason for the high number of marginal jobs described above. While marginal employment is exempted from contributions, full-time employment for low-paid workers is taxed at a rate of 36 per cent (Immervoll 2007). The strong pressure on unemployed to take up low-paid employment and anewsystemoftoppingupincomewithpartialbeneﬁtscreatestrongincentives for low-skilled workers to take up part-time employment for very low wages and simultaneously draw social security beneﬁts.
* Essentially, job seekers and vacancies came together more efficiently.
* Encourage self- employment by subsidizing but only for 3 years.
* Unemployment benefits cut.
* In work benefits for part time employees: Hartz IV means social benefits.
* Tax reduction to boost demand.
* Collective bargaining rules untouched

3.

* Share of jobs in low wage sectors rose to more than 20%.
* Ten years after the Agenda speech, almost 42 mill people in employment.
* Many unemployed people moved into their own homes.
* Currently, a single adult receives 382 euros a month and the state pays the rent and heating costs.
* As a result of policy change, the trend of declining male employment rates, particularly elderly men, reversed beginning in 2003. Both overall employment rates and the absolute number of people in employment have increased.
* Inactivity is no longer a problem of the German labour market.
* Low quality employment.

4.

* Insider outsider problem: Those who had work were well off whilst those who didn’t were often permanently locked out- high level of protection against dismissal: Employers were afraid of hiring low skilled workers, out of concern that they would hardly be able to part with them later.
* The increase of irregular and marginal employment must be seen in the context of ﬁrms’ attempts to increase or maintain job security for core workers. Governments, employers and unions jointly preferred the deregulation of the peripheral labour market over the deregulation/liberalization of employment protection for the core workforce (Hassel and Schiller 2010: 122).15 As a consequence, the dualism of insiders and outsiders on the labour market has deepened, regarding both the number of workers affected and the degree of regulatory differences.

5.

* Hartz IV reform in 2005 statistically recorded one million people on social assistance who were able to work, which drove the unemployment rate to a peak of 5.3 million.
* Government hoped that about a quarter of the previous recipients of unemployment benefits would lose their entitlement to benefits. No of people who were able to work rose to 5 mill, gov expected less than 3.5 million. Expenditure on Hartz IV rose to 25 billion euros, about 11 billion more than planned.
* Nevertheless, more than one million people have never made the leap from unemployment benefit ii since the introduction of Hartz IV.
* **However, the structure of the German labour market has dramatically changed in the process. The number of full-time jobs has decreased by 20 per cent, while the number of part-time and marginal employment has drastically increased. The rate of part-time employment doubled between 1991 and 2007 and number of marginal employments rocketed.**
* Eight hundred ninety thousand new jobs, 210,000 full-time and 590,000 part-time, were created during the most recent economic upswing in 2006/ 2007. In contrast to earlier periods, the share of full-time jobs has increased again. The share of ‘proper jobs’ compared to marginal employment are signiﬁcantly higher than in previous economic upswings.
* However, many full-time positions are now offered as temporary jobs or agency work. Between 2006 and 2007, agency work increased by 64 per cent. The initial pay rate for agency work is 7 Euro and therefore below the rate unions want to see as a minimum wage (Vanselow 2009: 3).
* Survey data show that the unemployed are increasingly willing to take jobs below their skill levels, for lower pay and with worse terms and conditions. Those employed are also more willing to accept concessions in exchange for job security.
* **The downside of the labour market activation is the rapid increase of low pay. Since the mid-1990s, low pay has been constantly rising. Low pay is gradually diffusing into the core of the labour market; whereas it used to be concentrated in atypical work, it is now found in full-and part-time employment and standard jobs. The majority of those low paid are women, though the share of men is rising. In terms of quantity, marginal employment has been the most important form of irregular employment.**
* The Hartz-IV reforms have thereby introduced a form of negative income tax (or in-work beneﬁts) in which low paid employment is topped up by beneﬁts. In absence of a minimum wage, these forms of combined income further drive down wages already at the bottom end of the labour market.
* **All in all, the quality of employment today is worse than in the 1990s. Due to the many years of declining or stagnating real wages, the income level is relatively low and has risen only slowly in recent times. A large low-wage sector has emerged, and wage inequality has increased significantly.**
* **The Hartz reforms have not only improved job placement but have also increased the pressure to accept work with qualifications and low pay. The number of temporary workers has risen from 100,000 to around one million by 2011 and has remained at this level ever since. One in four of the approximately 4.3 million self-employed is estimated to be self-employed, often with a contract for work on very poor terms. There are more marginal jobs and fixed-term contracts than in the 1990s.**