

Ten Years of Hartz IV (2015)

Abstract

Rebutting the leftist criticism of the labor market reforms referred to as Hartz IV, an economist defends the double strategy of “support and demand” that reduced unemployment numbers by cutting subsidies, even if some problems remained unresolved.

Source

Ten Years of Hartz IV: The Epoch-Making Social Reform

The law has led to many changes, some of them for the better, but certain problems remain unresolved

On January 1, 2005 the so-called Hartz IV law went into effect as the final labor market reform package of the Red-Green government under Federal Chancellor Gerhard Schröder (SPD). It was and is one of the most controversial pieces of social legislation in postwar German history. Viewed in a positive light, the reforms in Germany, as elsewhere, were an attempt to maintain a financeable welfare state within an established system of budgetary discipline and timid-to-vigorous neoliberal reforms in a reasonably socially integrative manner but within necessarily tight budgetary constraints.

Viewed in a negative light, the labor market reforms were driven by an interest in adjusting an excessive welfare state downward to meet the expectations of a deregulated economic and employment system.

Hidden poverty

The introduction of Hartz IV in 2005 was, however, no simple neoliberal victory: Rather, neoliberalism—if it actually exists as a political actor—left the Red-Green federal government a demolished welfare state. And the so-called *Genosse der Bosse* (comrade of the bosses), as Schröder was often dubbed, charged Volkswagen personnel director Peter Hartz, who was well connected in the SPD and the unions, with forming a commission to reform the labor market, which makes it difficult to speak of Hartz IV as a socio-political paradigm shift, left alone a revolution from above.

At first, the change of system in early 2005 went unexpectedly smoothly, albeit with one million more households than expected, presumably applying from hidden, previously undetected poverty situations. Since then, with slight fluctuations, between six and seven million people a year have depended on the basic security benefits according to Social Security Statute Book II (SGB II).

The first years of the reform were accompanied by extensive protests by those viewed as harmed by the changes to the law—especially former recipients of unemployment benefits or those adversely affected by the shorter duration of *Arbeitslosengeld I*, unemployment assistance based on the unemployed person’s previous salary or wages.

Even if the basic material assistance worked more or less, and improvements were made here or there, Hartz IV had farther-reaching goals. Activation was the word of the hour from about 2003 on with the aim of returning or moving recipients to an existence without state benefits, often expressed in a manner reminiscent of classic liberal theses according to which unemployment is a problem either of education or motivation. A broad bundle of measures was immediately put into practice; training units and short-term subsidized employment were the main promotional tools.

Support and activation

Enforcing measures, low-threshold checks on the willingness to work, the actual existence of shared households, rational ways of life and labor-market oriented behavior were the “challenging” components. Support and activation were moderated in so-called integration agreements, whose actual purpose, “integration into paid employment,” could ultimately only be influenced to a limited extent by placement officers and those needing help.

The effect of the activation policies in SGB II is, however, no unmitigated success story. Instead, the results were quite mixed, at least if we understand labor market integration as the immediate aim. Here, workplace training courses and internships come first. Subsidized transitions to self-employment have also been quite successful for those who prove themselves in the complex selection process. In the long term, certain target groups also benefit from participation in subsidized employment schemes or support for training for youths and young adults or language instruction for immigrants, even if these measures often have only limited effects.

For instance, when we compare the duration of unemployment of the participants in such courses to similar jobless individuals who have not taken part in such programs, only the best schemes manage to shorten the period of unemployment by one-fifth or one-tenth.

Many benefit recipients do not need to be activated, though, but return to the labor market on their own after an employment pause, for example well-qualified single parents after parental leave. Others are in a training scheme, in school or employed, including the more than one million people who need *Arbeitslosengeld II* benefits to supplement meager earnings in order to make ends meet.

Experiences with One Euro Jobs

If we use an expanded definition of participation such as that on which the welfare state norms of the Federal Republic are ultimately based, it becomes evident that we need to pay far greater attention to the effects of the social stabilization or improvement of participation in social and cultural life than occurred in the first years of Hartz IV. Thus, the much-maligned One Euro Jobs were not that bad in this respect, but this only became clear with the passage of time. The education and participation package passed in 2011 also marks a process of rethinking, even if many experts have criticized it.

The same applies to the insight that many benefit recipients with no employment experience must first be stabilized in some cases, and then accustomed to social life before they can be integrated into the first labor market after intermediate stages of subsidized employment schemes.

Such gradual processes are a field for classic social work and counseling in case management. They exceed the standard tasks of job placement, to which quite a few basic security benefit providers have however already responded.

Constant number of recipients

While there is significant fluctuation in the persons drawing ALG II benefits and only a small number constitute the so-called hard core, the number of citizens who need to claim basic security benefits for those capable of work has remained surprisingly constant over the years of Hartz IV. Economic trends have had little effect on the number of benefit recipients, so that even after ten years of Hartz IV and five years of an eased labor market situation, the basic security system for the unemployed still has to deal with 6.5 million people.

What has Hartz IV achieved, then? In any case, not a drop in social welfare costs or a substantial reduction in poverty in Germany. Hartz IV does, however, cover the basic needs of millions of

households, as its predecessors did. The basic social security system in Germany was unified to the detriment of some of those affected: no more one-time benefits, no special system for the previously employed based on their biography or earnings.

The new system is, in turn, somewhat more generous than the old welfare system with respect to home ownership, automobiles and life insurance, but only a minority of recipients benefit from this. Drawers of basic security benefits have more systematic access to labor-market measures than those who received welfare payments under the old system.

Fortunately, contrary to what many feared and some hoped in 2005, Hartz IV has not turned into a neo-liberal poverty regime. This is evident from the gradual recognition of the importance of other dimensions of participation and a (albeit not always optimal) process of improvement, such as one-time payments for children, education and participation packages, the preference for training over “work first“ for young people, and small changes in the calculation of the standard rate for benefits.

Precarious underemployment

Thus, when it comes to financial support, Hartz IV is a moderately effective system of basic security benefits, which has not managed to reduce poverty substantially. At best, one sector of long-term unemployment could be transformed into precarious underemployment.

If the situation is not worse, it is also down to the tenacity of German interest group democracy and a “hidden coalition” of Social Democrats, employee-oriented Christian Democrats and left liberals —and not least to the fact that today’s Left Party has succeeded in anchoring extra-parliamentary social protest within the parliament. Even in 2015, legislative changes to the SGB II are being discussed again. Some of them seem to make sense, for instance the minimum limit for demanding the repayment of overpayments by the benefit agency or the extension of the reapplication period to twelve months. Some initiatives have not yet been exhaustively discussed from a constitutional law perspective, such as the expansion of possible sanctions, and some seem merely populist, such as the exclusion of EU citizens from benefits under certain conditions.

Now the same forces are needed to further develop the Social Security Statute Book II after ten years and much experience, to keep it capable of learning and to use it to maintain social participation and societal inclusion even if labor market and distribution conditions should become less favorable again.

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