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And then there were four ...: How many (and which) measures of active labor market policy do we still need?

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685

**Werner Eichhorst
Klaus F. Zimmermann**

***And Then There Were Four...*
How Many (and Which) Measures
of Active Labor Market Policy Do We Still Need?
Finding a Balance after the Evaluation of the Hartz Reforms in
Germany**

Berlin, March 2007

Opinions expressed in this paper are those of the author and do not necessarily reflect views of the institute.

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And Then There Were Four...
**How Many (and Which) Measures of
Active Labor Market Policy
Do We Still Need?**

Finding a Balance after the Evaluation of the Hartz Reforms in Germany

By Werner Eichhorst* and Klaus F. Zimmermann**

March 2007

Abstract

Through the Hartz reforms, German active labor market policy was fundamentally restructured and has since been systematically evaluated. This paper reviews the recent evaluation findings and draws some conclusions for the future setup of active labor market policies in Germany. It argues in favor of a reduced range of active labor market policy schemes focusing on programs with proven positive effects (that are wage subsidies, training, start-up grants and placement vouchers) and calls for a systematic evaluation of all instruments not scrutinized so far.

JEL Classification: J68, H43, D61

Keywords: active labor market policy, Germany, evaluation

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1. Reform as a Process

The growing unemployment rate in Germany has led to a large number of instrumental regulations, which have complicated rather than simplified employment policy. Depending on the type of classification, anywhere from 60 to 80 instruments of labor market policy can be identified. One of the more commendable merits of the Hartz reforms has been the proposals to curtail the uncontrolled growth of active labor market policy schemes. While these reforms have also led to the introduction of many new instruments, which have now been proven to be ineffective, they have been able to enforce a thorough evaluation of the labor market programs—something the academic community has called for.

Measures that seem plausible at first, and are actively—and expensively—embraced by the affected parties, may in the end be totally ineffective in terms of labor policy. The inefficacy of potentially effective instruments may be due to insufficient acceptance or to poorly-designed organization and implementation. A single reason for the failures is, therefore, hard to be identified. A combination of trial and error and of evaluation and innovation has the potential to generate greater success in employment policy.

This paper documents the structural changes and improvements of labor market policy over the last several years, and also provides a comprehensive assessment of the current Hartz evaluations. The result is that the number of instruments of labor market policy can be reduced to four.

2. Structural Change of Active Labor Market Policy in Germany

The Hartz reforms fundamentally changed the structure of active labor market policy in Germany. On the one hand, this meant considerable modifications to the instruments in the German Social Code (SGB) III by the first three Hartz acts, namely to the labor market programs for recipients of Unemployment Benefits I [*Arbeitslosengeld I*] and the now-abolished Unemployment Assistance [*Arbeitslosenhilfe*]. On the other hand, the structural reforms resulted in integration measures for jobseekers who are not entitled to Unemployment Benefits I and, consequently, receive basic support under the *Arbeitslosengeld II* act. Note that *Arbeitslosengeld II* was completely restructured by Hartz IV in 2005. In contrast to pre-reform labor market policy, the principles of effectiveness and efficiency were clearly stressed in the redesigning of the instruments and restructuring of the Federal Employment Agency's placement activities by making increased use of private service providers.

The goals of active labor market policy are, according to Social Code III, higher employment rates, improvement of the employment structure, prevention of long-term unemployment and reduction of the duration of unemployment. Integration into the labor market is a central criterion of success in this respect. In terms of Social Code II (i.e. the code targeting the long-term unemployed and those in need of aid), the focus is on ending their need for assistance. Its implementation is geared towards reentering the labor market and, if necessary, making the recipient fit for employment. For the disabled, who are also mentioned in Social Code III, the aim is participation in working life and ensuring employability. Integration into the labor market can, therefore, be seen as the main task of labor market policy, as well as its most important, yet not the only, measure of success.

Table 1 illustrates the development of expenditures for active labor market policy before and after the Hartz reforms. It provides an overview of total expenditures for the integration measures in Social Code III and—since 2005—in Social Code II. Compared to 2002, spending on active labor market policy through 2006 has decreased from €22.1 billion to approximately €15 billion—a reduction of about one-third. Disregarding transfer payments to avoid unemployment, around €20.5 billion were spent on active labor market policy in 2002 and €13.1 billion in 2006. Training programs were the most important instrument in 2002. Through 2006, however, their financial volume decreased from €7.2 to €2.0 billion. Other important expenditure items were youth programs (€3.2 billion in 2002 and €1.8 billion in 2006) as well as programs for the disabled (€3.1 billion in 2002 and €2.6 billion in 2006). Support of dependent employment in the form of wage subsidies to employers also declined during this period, decreasing from €1.8 billion to just less than one billion. The same can be said of the so-called direct job-creation schemes, for which spending was reduced from €3.2 to €2.0 billion. At the same time, classical job-creation schemes have been effectively replaced by Social Code II employment opportunities. In contrast, the sponsoring of self-employment has been increased from around €1 billion in 2002 to €2.6 billion in 2006. Partial retirement also became more widespread during this period, accounting for an increase from €670 million to €1.3 billion.

TABLE 1 about here

Table 2 shows the annual average number of participants in important labor market programs between 2000 and 2006. Where data on the actual number of participants are not available, the yearly figures are given for both the cumulative number of entrants and authorizations to participate in a measure. This pertains to mobility grants, placement vouchers and the financial support of counseling and placement.

These statistics on the annual average number of participants show a relative continuity over recent years. A significant intensification of placement and counseling is just as noteworthy as the utilization of external service providers and the decrease in the number of participants in training programs. There was, however, a notable expansion of shorter training schemes and aptitude tests, as well as of measures aimed at younger workers in the framework of the special initiative "Jump," and the regular support under Social Code III. The promotion of dependent employment via wage subsidies has lost importance, though, while an expansion of the promotion of self-employment could be recorded. The newer instruments for the promotion of the employment of older people and temporary work agencies for the unemployed made no significant impact. As of 2005, public employment opportunities in Social Code II ("one-euro jobs") have largely replaced job-creation schemes and similar instruments.

TABLE 2 about here

While the number of participants and amount spent on these programs reflects a distancing trend from public job-creation and training programs, the number of "one-euro jobs" has been increasing. Meanwhile the volume of promoted dependent employment has decreased and the sponsoring of business start-ups has expanded. With the exception of "Me, Inc.," [Ich-AG] a government-funded program to help the unemployed start their own businesses, the instruments newly created by the first Hartz acts have not been able to make a greater impact.

3. On the Evaluation of Active Labor Market Policy Programs

3.1 Demands on the Method

This evaluation is meant to establish at the individual level whether participation in an active labor market policy measure increases the likelihood of employment, shortens the duration of unemployment or positively affects any other target value. In order to identify the causal effects of participation in a program, the following question arises: What would have happened to the individual had he/she not participated in the program? It is, however, impossible to simultaneously observe an individual in the states of participation and non-participation. Therefore, every evaluation is faced with the challenge to overcome this contradictory requirement. There are generally two approaches that allow for a systematic evaluation of the effects of active labor market policy (Hujer/Caliendo 2000, Schmidt et al. 2001): the selection of a real or an artificial control group.

By their very nature, experiments present a control group and a simple procedure to solve the evaluation problem. Here, individuals who are principally eligible to par-

ticipate in the relevant program are *randomly* selected for either the group of participants or the control group, thus avoiding any systematic differences between the groups in terms of observable or unobservable characteristics. The participation effect can then be identified by a simple comparison of the average values for the observed target values of both groups. Note that such assignments are often politically impractical or cannot be conducted.

Alternatively, an artificial control group can be generated. In this case, however, the allocation of participation and non-participation in an active labor market policy measure is not random. A method that aims at simulating an experiment *ex post* is used. In this context, the so-called matching method is generally used in order to construct two groups with the most similar participants and non-participants possible. This procedure ensures that the group of participants and the control group according to their observable characteristics exhibit similar probabilities of program participation. Again, the participation effect can be uncovered through a comparison of both groups' average target values.

If the methods described for the evaluation of a measure are not applied, no comparative assessment concerning the effectiveness of participation and non-participation can be made. Indicating, for instance, how many participants found employment after the measure does not allow for any conclusions regarding the causal effect of participation, since the counterfactual question cannot be answered without the comparison to an adequate control group. Gross integration rates, which are still used in practice in the field of labor market policy, are no basis to judge success.

In order to ensure that active labor market policy measures not only positively influence the observed target values on a partial, individual level, additional assessments of the national economic effects are also necessary. Here, the focus is on whether measures of labor market policy lead to the displacement of companies without supported persons (crowding-out effects), to the replacement of unsupported by supported workers within a company (substitution effects) or to the subsidization of hirings that would have taken place anyway (deadweight loss). Apart from that, repercussions of labor market policy on non-participants must be examined as those measures are financed by taxes and contributions, consequently placing a burden on non-participants. In the end, the net effect of labor market policy on the national economy can only be found through an analysis of the entire national economy.

3.2 Evaluation before Hartz: Vagueness and Skepticism

Before the Hartz reforms, only a couple of "classical" labor market policy instruments (e.g. job-creation schemes, further training or wage subsidies) were examined by sound micro-econometric evaluations, and they were, in part, significantly changed by the reforms. The studies were usually based on smaller data sets such as

the Socio-Economic Panel (SOEP) or the Labor Market Monitor East Germany (*Arbeitsmarktmonitor Ost*), both of which have too few observations to allow for more detailed analyses of heterogeneous measures. These earlier evaluations, as well as younger analyses which were conducted on the basis of administrative data before the Hartz reforms (cf. for an overview Fitzenberger/Speckesser 2000, Fitzenberger/Hujer 2002, Hujer/Caliendo 2000, Schmidt et al. 2001, Caliendo/Steiner 2005), on the whole, show rather unclear or critical effects on the participants' employment opportunities.

In terms of further training, an ambiguous pattern between individual types of measures and contradictory findings emerged. Effects that were partially positive in the long run were coupled with strong lock-in effects (i.e., a lower employment probability during participation in a measure). Altogether, the employment effect of incentive measures relevant to further training had to be assessed with an amount of skepticism. Despite a particular heterogeneity with regard to the findings, negative results prevailed concerning the effects of job-creation schemes and the associated instruments such as structural adjustment measures (SAM). With regard to wage subsidies, evidence could be found that suggested a reduced duration of unemployment. With regard to promoting business start-ups through the payment of bridging allowances, though, no advantages could be found over individuals who did not receive assistance.

At the same time, there was no evidence that supports the effectiveness of special labor market programs like the Program for the Immediate Reduction of Youth Unemployment (Jump), whose evaluation (Dietrich 2001) drew no comparison to non-participants. Furthermore, no unemployment effects could be verified for the initiative CAST/Mainz Model (Kaltenborn et al. 2005).

3.3 Evaluation after Hartz: A More Intuitive Organization of the Measures

The scientific analysis of the German active labor market policy was further developed and enhanced by the systematic evaluation of the Hartz reforms. The evaluation of the first three Hartz acts comprises the instruments which were kept and partially modified after the reforms. Evaluation reports on the instruments introduced by the Hartz reforms, such as temporary work agencies for the unemployed, start-up grants (Me, Inc.), or the measures to promote the employment of older people, have been presented. There are still, however, no findings concerning the measures under Social Code II (i.e., Hartz IV), such as the "one-euro jobs" or the job-entry-grant. Altogether, more robust results can now be generated, thanks to the availability of a wider data base rooted in administrative data as well as the application of more suitable methods. The available observation period of the evaluation initiated by the government itself, however, was too short to assess the long-term effects so far.

In detail, the following findings concerning the integration effects of the individual instruments result from the final reports on Hartz I through III (Bundesregierung 2006, Kaltenborn/Knerr/Schiwarov 2006, Jacobi/Kluve 2006):¹

1. Counseling and placement by the Federal Labor Agency were intensified in the course of the reform. Of the newly-introduced services to support placement by including private service providers (i.e., the placement voucher, commissioning third parties to place workers and commissioning providers of integration measures), only the placement voucher exhibited positive effects in terms of an accelerated integration of unemployed voucher holders in comparison to similarly unemployed persons without holding such a voucher. No effects could be verified for commissioning third parties to place workers or to conduct integration measures (WZB/Infas 2006).
2. For the qualification programs (i.e., sponsored further training), evidence of positive effects had already been uncovered by several studies prior to the reforms, even though this pattern was inconsistent. The evaluation of reformed further training in connection with the training voucher yielded clearer evidence to support a positive effect on the employment opportunities of participants and, moreover, showed an improvement of effectiveness in comparison to the situation before the reforms, which may be attributed to the rise in the quality of training measures and the reduction of their duration. The so-called lock-in effect during participation decreased significantly (IZA/DIW/Infas 2006, Schneider 2006).²
3. For wage subsidies to promote dependent employment of older workers, only slight positive effects could be observed, which were limited to women in East Germany. Otherwise, a significant deadweight loss was observed. Other kinds of wage subsidies cause an accelerated transition into non-promoted employment, but they are also subject to substantial deadweight loss. The reforms as such have not brought about any improvement here. Other newly-created measures to promote the employment of older people, such as the social security contribution bonus for employers and the remuneration guarantee (as well as the facilitated use of fixed-term contracts) did not show any effects on

¹ Most of these findings are confirmed by first results from systematic program evaluation within the PES, i.e., the so-called “TrEffer” project (Stefan/Rässler/Schewe 2006).

² Positive effects on an earlier transition to employment are present for four of the six investigated types of measures, while no clear improvement could yet be determined concerning individual and group measures with a recognized vocational qualification due to the short observation period. Positive effects on the transition into employment are also observable in a certain timeframe after commencement if participants in the measures of the ESF-BA-program in the field of promoted further training, which is complementary to the regular instruments, are compared to non-participants (Kruppe 2006).

the integration of older workers into the labor market (Ammermüller et al. 2006, Boockmann et al. 2007, ZEW/IAB/IAT 2005).

4. Regarding the promotion of self-employment through bridging allowances (Business Start-Up Grant I) and “Me, Inc.” (Business Start-Up Grant II), the studies show that the supported individuals were more often self-employed or in dependent employment than unemployed (Caliendo/Steiner 2007, IAB et al. 2006). However, a greater share of the individuals who received support through “Me, Inc.” was still operating in the phase of subsidization. Consequently, only a preliminary estimation of the effects was possible. There are also indicators of substantial deadweight loss in the field of promoted business start-ups.
5. The most-recent evaluation of publicly-sponsored job creation schemes (ABM) corroborated the evidence of delayed integration into employment in comparison to non-participants. Therefore, the employment opportunities of participants are reduced. Negative effects were also found for the temporary work agencies for the unemployed (PSA) (COMPASS et al. 2005, WZB/Infas 2006).
6. Post-completion effects on improved integration into employment have not yet been found for the Transfer Redundancy Compensation (*Transferkurzarbeitergeld*, reformed in 2004) and the transfer measures. The negative effects on the employment opportunities of recipients, however, which were observed in the former redundancy compensation (*Strukturkurzarbeitergeld*), have since disappeared (IZA/DIW/Infas 2006).

The evaluation studies suggest a vast deadweight loss, particularly in the fields of wage subsidies and promoted self-employment. This puts the positive effects of those measures found at the individual level into perspective, since recruitment and business start-ups that would also have taken place without subsidization are extensively promoted. When it comes to wage subsidies and the promotion of self-employment, the formation of suitable participant and control groups already poses problems, since almost all persons entitled to benefits claim them. In case of high deadweight loss, the assumption of conditional independence, one of the central assumptions of matching, is violated. This complicates the determination of a causal effect and may lead to an overestimation of the integration effect (Eichhorst/Schneider/Zimmermann 2006). The available macro-analyses (RWI/ISG 2006) do not yet offer clear findings in this respect.

More generally speaking, the macro effects of active labor market policy schemes are not yet clear, as available macroeconomic studies do not show significant positive effects of active labor market policies on employment except for business start-up

grants (RWI/ISG 2006). Macro studies are thus more skeptical than micro studies and show no clear improvement of policy effectiveness after the reforms. Furthermore, the costs and benefits of active labor market policies have not yet been assessed. It is, therefore, unclear whether active labor market policies in Germany are efficient. Without knowing the “true” net effects of active labor market policies—taking into account deadweight loss and other side-effects, as well as the repercussions of taxation—the question whether the economy is better off with active labor market policies remains unanswered.

In the “slipstream” of the Hartz evaluation, a formidable amount of money is still being used for measures that have not yet been evaluated. The packages of measures concerning the young and the disabled, which are quite large in terms of expenditure and numbers of participants, have still not been systematically examined for their effectiveness. An exception is the evaluation of the Special Preparatory Training Program for Disadvantaged Youths (EQJ), which shows that participants have a greater chance of transcending into vocational training than the control group (Becker/Ekert 2006). This evaluation result must, however, be viewed with due skepticism since the procedure chosen to construct the control group does not control for likely relevant selection mechanisms. Significant deadweight loss is also to be assumed. The effect of measures in decentralized free promotion is just as unclear.

However, comprehensive studies of Social Code II (Hartz IV) may soon be available in order to reliably evaluate the effectiveness and efficiency of the integration benefits of employment opportunities, job-entry grants and other measures under §§16(2) Social Code II as well as the application of Social Code III instruments in this context.

It has so far remained largely unsettled whether granting wage replacement benefits to avoid unemployment or to promote other jobseekers’ entry into employment satisfies these demands. The effects of early retirement have not yet been examined. There is, however, certain evidence that short-time work helps avoid layoffs, after all (Deeke 2005).

Table 3 provides an overview of the integral components of the active labor market policy instruments currently used under Social Codes II and III. This list of over 60 instruments surpasses the degree of detail with which the Federal Labor Agency categorizes its monthly and annual reports. It conveniently groups instruments together if they are thematically similar and target only slightly-different focus groups. The list, therefore, is shorter than the 80 instruments available under German labor market policy that are sometimes mentioned in public debate. Furthermore, Table 3 shows how much of the intended integration effects of individual instruments have been empirically proven.

TABLE 3 about here

3. 4 Assessment

Since the evaluation of Hartz I through III, there are more evaluation studies using adequate methods for a larger number of instruments than in the past. Evidence of the positive and negative effects of individual measures can also be verified in more concrete ways. At the same time, a comparison of the evaluation studies from before and after the Hartz reforms shows that the effectiveness of some measures could be increased. On the whole, the evaluation process in the course of the Hartz reforms enabled a clearer distinction between effective and superfluous instruments. This should be recognized and appreciated as a distinct merit of recent German labor market policy.

A comparison over time (Figure 1 and Table 4) shows that approximately 56 percent of expenditures in 2002 were allotted to measures for which effectiveness studies were present. Their reliability, though, was restrained by the then still-insufficient data basis. Positive effects were only to be assumed for six percent of expenditures (wage subsidies), while there were contradictory results for nearly 36 percent of expenditures (promotion of further training and self-employment) and, with around 14 percent, one-seventh of expenditures was associated with negative effects (ABM and SAM).

FIGURE 1 about here

TABLE 4 about here

After the Hartz reforms and the most-recent evaluation reports, the share of 2006 spending dedicated to evaluated measures decreased to 32 percent. That being said, additional expenses for the measures in Social Code II that have not yet been examined (25.6%) must be taken into account, for which evaluations are due (primarily job-entry grants, “one-euro jobs” and psycho-social services but also instruments stemming from Social Code III). Expenditures for instruments that had already been evaluated, such as job-creation schemes, further training or wage subsidies, were particularly on the decrease. But the degree of reliability and strength of current evaluations have significantly improved. Consequently, approximately 28 percent of expenses can now be regarded to have positive effects (sponsoring of further training and self-employment as well as wage subsidies and placement vouchers), while the share of measures to be assessed negatively has decreased to 1.5 percent (ABM, SAM and PSA). Unclear or neutral results occur for 1.9 percent of expenditures (transfer payments and commissioning third parties). Although big expenditure items such as measures for the disabled and the young (accounting for 16.3 and 11.2 percent, re-

spectively) have still not been evaluated, the overall performance of labor market policy has largely increased in recent years.

All in all, a mixed pattern emerges from the currently available evaluation studies:

1. Comparatively positive results are brought about by (i) wage subsidies (i.e. fixed-term payments to employers), (ii) measures of publicly sponsored further training (especially if leading to a recognized vocational qualification), (iii) the promotion of self-employment and (iv) the placement voucher.
2. Job-creation schemes and similar instruments, but also temporary employment agencies for the unemployed, have negative effects on re-entry into employment.
3. Even in the case of the positively-assessed measures, the possibility of massive deadweight loss must be pointed out. This goes particularly for wage subsidies and the promotion of self-employment. They partially foster employment that would have occurred either way. With regard to the measures of further training, it has not yet been unequivocally established how positive these effects will be in the long run. The evaluation period in the framework of the Hartz evaluation has been too short to draw any conclusions.
4. It must, however, be noted that presently, still only a part of all labor market policy measures in Germany have been evaluated using adequate methods, of which, in turn, only some of those measures that were subject to a robust impact analysis can, with certain limitations, be assessed as positive. But even not employing instruments that were shown to have positive effects may lead to greater overall welfare if the negative effects caused by financing the implementation of said instruments are too great.

4. The Future of Active Labor Market Policy in Germany

4.1 The Comprehensive and Obscure Array of Instruments Must Be Sorted Out

The instruments of active labor market policy in Germany are still too complex and obscure. The reasons include the great level of detail in the Social Code III statutory prerequisites and the frequent changes to the measures brought about by legal changes or special labor market programs. This makes handling the instruments in practice just as difficult as evaluating, improving or sorting them out. The comprehensive and obscure catalog of measures could be shortened significantly without consequences for the effectiveness of German active labor market policy. There is much in favor of turning away from detailed statutory or administrative regulation and frequent legal modification. Social Code II, with its open phrasing geared toward

utility, is the more flexible and modern law. It could soon replace Social Code III. A bundle of broadly-defined measures that provide more scope to the actors to design precise programs would be a sufficient legal provision. The instruments may be further improved through controlled experiments and strict performance reviews in a limited setting. The legal provisions for this already exist.

Based upon the evaluation, it makes sense to primarily keep four instruments:

1. placement vouchers,
2. training programs,
3. wage subsidies and
4. business start-up grants.

It is important, however, not to massively expand these relatively successful instruments in the future, in order to avoid the creation of additional deadweight loss. In fact, efforts to reduce deadweight loss through regulations that serve as filters must be increased. For instance, the more positive effect of further training can partially be attributed to the more focused use of the instrument. Any measure lacking proven positive effects or even having negative effects on participants should be discontinued. This applies to the temporary work agency for the unemployed, job-creation schemes and similar instruments. Waiting for further assessments seems practical with respect to measures whose effects have not been clarified yet. At the moment, it is evident that around 28 percent of expenditures or €4.2 billion cause positive effects. There are, however, some reservations concerning the integration effects because of the existing deadweight loss.

4. 2 Continuing and Expanding Evaluation Efforts

With the evaluation of Hartz I through III, there is a broad overview of the short- and long-term effects of the examined labor market policy instruments. The evaluation of the “classical” measures of labor market policy as well as of the instruments introduced by the Hartz reforms yields a rather consistent pattern by now. It should be enhanced by studies that aim at evaluating the long-term effects of further training measures and the promotion of self-employment.

On the whole, around 68 percent of current spending—or roughly €10 billion—has not (yet) been covered by evaluation studies. Approximately €3.8 billion of these expenditures are associated with instruments of Social Code II, including job-entry grants, “one-euro jobs” and psycho-social services, as well as with measures borrowed from Social Code III, which are still up for evaluation.

However, the integration effects of the measures for disadvantaged youth and the disabled, which are important in terms of participant numbers and associated expenditures, are still unclear. After all, a total of €4.1 billion are spent annually on these measures. In the course of a comprehensive and systematic evaluation of labor market policy (using current scientific methods) the measures for the young and the disabled should also be subject to a first impact analysis. It is yet to be seen whether the measures achieve their goals or if they should be modified to improve their effectiveness.

Ultimately, the combined macro-economic effects of active labor market policy still await clarification. Present macro-studies do not yet offer the possibility to evaluate the net effects of labor market policy regarding deadweight loss, substitution and crowding-out and tax effects.

4.3 Focused Implementation as a Catalyst for Effective Measure Design and Activation as a Necessary Supplement

Active labor market policy features remarkable effectiveness and efficiency reserves, which could be utilized by better controlling the use of resources. First of all, this focuses on a target-oriented control of the respective service provider at the decentralized level (i.e. the congruent responsibility for measure design, target-oriented commitment of resources and its budgetary consequences) (Eichhorst/Schneider/Zimmermann 2006). Here, private service providers can play an important role in practical realization.

This also means that those actors who are concerned with the realization receive a greater scope of action with regard to target and budget responsibility, which applies particularly to the design of promising labor market policy measures. Achievement of objectives will be controlled through evaluation and monitoring. Effective and efficient measures will then succeed, while others will justifiably be abandoned. A central, detailed definition of available instruments is thus unnecessary. It would suffice to define a scope of action, similar to free promotion or Social Code II, which allows for designing, combining, experimentally testing and evaluating measures according to usefulness, which may then be broadly implemented in the case of success. Program evaluation within the PES is a useful step forward in this respect (Stefan/Rässler/Schewe 2006).

A “demanding” or “activating” labor market policy, which in practice connects the eligibility to transfer payments, Unemployment Benefit I or Unemployment Benefit II, to participation in active measures and an intensive job-search will probably have a much stronger impact on shortening the duration of unemployment than a primarily “supportive” labor market policy. Suggestions of the effective impact of “demanding” interventions, like a more intensive monitoring of the job-search, more frequent contact with employment services or the use of job offers or labor market

policy measures to test availability as well as imposing or threatening sanctions, result from present foreign evaluation studies (Konle-Seidl 2005, Lalive/van Ours/Zweimüller 2000, Dolton/O'Neill 2002, van den Berg/van der Klauw/van Ours 2004). In the course of the Hartz evaluation, substantial effects that fostered employment were found for the periods of benefit suspension in Social Code III (WZB/Infas 2006). Increasingly activating recipients of basic support for job seekers should result in corresponding effects. Thus, activating recipients of transfer payments is a comparably effective and cost-efficient expansion of active labor market policy measures.

4.4 Opening the Labor Market rather than Special Segments

When enhancing labor market policy, attention should be paid that no additional special segments of publicly-funded or -sponsored employment are created or existing segments expanded. Public employment opportunities are a good way to test availability to the labor market or to restore employability, but they should not be used as a permanent receptacle or “surrogate employment” for job-seekers who are not easy to place. The evaluation has clearly shown by now that job-creation schemes and similar instruments do not contribute to a speedy reintegration into the labor market but usually represent dead-end streets. In all probability, this will also apply to “one-euro jobs” and all forms of a “third labor market.” There are also only slight chances to transcend into regular employment from special segments like mini-jobs, especially since signs of crowding-out of employment subject to social security contributions can be observed here (Fertig/Kluve 2006, RWI/ISG 2006). According to preliminary results, this also applies to “one-euro jobs” (Kettner/Rebien 2007). In this context, other models of combined wages, which – if the level of basic support remains unchanged – do not make much change in terms of employment policy but may induce large costs, are also problematic (Bonin/Schneider 2006).

The chances for a transition to the regular, non-sponsored labor market are increasing with an intensive activation of and care for job-seekers and a more flexible labor market where employment opportunities are also offered to the long-term unemployed. The more open and absorbent the labor market and the more consequential the activation, the easier it will be for initially “hopeless” job-seekers to find entry into employment. Before this has been achieved in practice, no thought should be given to exceptions from the principle of reciprocity and the establishment of “protected” labor market segments. The examples of the positive effects of the liberalization of temporary employment and mini jobs, which have been exempt from some duties and taxes, show that employment benefits from less regulation and a lower tax and duty burden (Fertig/Kluve 2006). Yet this should not remain restricted to certain segments but, rather, be extended to all of them. At the same time, new entry barriers like minimum wages or additional restrictive regulations should not be introduced. Opening the labor market without additional subsidies is a necessary supplement to an activating policy.

5. Conclusions

Our survey of German labor market policies shows that only a small part of the complex and opaque repertoire of active schemes effectively improves individual reemployment probabilities. Hence, according to recent micro-econometric evaluation findings, only four instruments can be seen as helpful: (i) publicly sponsored training, (ii) start-up grants, (iii) wage subsidies, and (iv) placement vouchers. Yet, further evaluation is needed in order to assess the long-term effects of these schemes. At the same time, however, macro-econometric studies could hardly confirm the positive effect of active labor market policies and point at considerable deadweight loss, substitution effects and negative tax effects. Additional evaluation studies should not only address these macro issues and assess the overall efficiency of active schemes but also analyze the whole range of active labor market policy programs that have not been under scrutiny so far, in particular programs for disadvantaged youth and the disabled. With respect to the future setup of active labor market policy, our findings point at the potential benefits of streamlining and shortening the list of instruments with a focus on the most effective ones. In order to help select the most effective and efficient policy tools, practical implementation should be decentralized – also in terms of budget responsibility – and systematically monitored according to consistent and uniform objectives.

It is of utmost importance for the future, however, to invest in education and further training, thus reducing the need for resources for active and passive labor market policies, which serve to compensate for deficits that have set in—be it by granting transfer payments, wage subsidies and combined wages or the promotion of further training for people who have become unemployed. A preventive policy must use education to see to it that low qualification upon taking up employment is avoided as much as possible and that employability remains in the later course of the working life through further training. At the same time, this means that low-wage employment cannot be sponsored, in order to avoid weakening individual incentives to invest in education and to keep from withdrawing resources from the field of education, which is so important for the future.

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Table 1: Expenditures according to Type of Measure in Million Euros, 2002-2006

	2006	2005	2004	2003	2002
Counseling and assistance with job-search	347	272	471	552	302
Placement voucher	102	61	75	47	14
Contracting third parties for placement services	89	101	180	351	174
Contracting providers of integration measures	26	17	24	12	
Support to counseling and placing	130	93	148	98	72
Payments to specialized integration services			44	44	42
Qualification	2,032	2,322	4,112	5,579	7,180
Sponsoring of further training (= maintenance allowance, costs of actual measures, unemployment benefits in case of further training)	1,702	1,985	3,616	5,001	6,702
Aptitude tests and training measures	330	337	496	578	478
Vocational guidance and promotion of vocational training/measures for youths	1,844	1,960	2,541	3,131	3,214
Vocational preparation schemes	365	414	433		
Vocational training for the disadvantaged (=support of disadvantaged trainees)	973	1,005	1,100	1,114	1,076
Training allowance because of vocational training	506	541	562	1,093	1,037
Immediate program for the young			446	924	1,101
Disabled people					
Benefits to enable disabled people to participate in working life, employment rehabilitation for the seriously disabled	2,572	2,850	3,235	3,296	3,101
Benefits on the job					
Promotion of dependent employment	968	850	1,704	1,996	1,795
Temporary work agencies for the unemployed	55	157	350	175	
Wage subsidies	608	454	908	1,349	1,225
Wage subsidies for start-ups	68	69	158	162	126
Wage subsidies in case of replacements	6	9	19	18	5
Remuneration guarantee for older workers	31	25	22	7	
Remuneration allowance for employees undergoing further training	14	18	20	16	4
Mobility grants	186	118	222	193	131
Employment support for the long-term unemployed				61	289
Reintegration into working life			5	15	15
Promotion of self-employment	2,645	3,222	2,726	1,413	1,006
Modified start-up grant	83				
Business start-up grant I (Bridging allowance)	1,471	1,847	1,746	1,145	1,006
Business start-up grant II (Me, Inc.)	1,027	1,353	980	268	
Job-entry grant according to §29 SGB II	64	22			
Employment-creating measures	2,040	1,900	1,660	2,334	3,168
Employment opportunities according to §16(3) SGB II	1,381	1,105			
Job-creation schemes	578	616	1212	1,676	2,333
Employment-creating infrastructural measures	12	12	49	60	25
Structural adjustment measures	69	167	399	598	810
Free promotion according to §10 SGB III	113	81	203	286	504
Other services according to §16(2) SGB II	441	196			
Other expenditures on integration listed in SGB II	34	282			
European Social Fund (ESF-BA program)	55	106	163	193	278

	2006	2005	2004	2003	2002
TOTAL ACTIVE LABOR MARKET POLICY	13,093	14,041	16,815	18,780	20,548
Short-time work	150	416	637	687	604
Transfer redundancy payment and promotion of transfer measures	213	231	40		
Old-age part-time work (cases sponsored by the Federal Employment Agency)	1,271	1,111	986	864	674
Sponsoring of construction work in winter	253	241	216	272	245
TOTAL	14,978	16,040	18,694	20,603	22,071

Source: Bundesagentur für Arbeit 2004a, 2005a, 2006a, 2007a, 2007b; figures for 2005 and 2006 include expenditures in the field of SGB II by the consortia of local and state labor agencies (BA 2006c).

Table 2: Participants in Active Labor Market Policy Schemes, 2000-2006

	2006	2005	2004	2003	2002	2001	2000
Counseling and Assistance with Job-search	113,699	116,554	105,120	14,795			
<i>Placement voucher, entrants</i>	<i>63,047</i>	<i>50,302</i>		<i>35,409</i>			
Contracting third parties for placement services	101,237	103,296	94,553				
Contracting providers of integration measures	12,462	13,258	10,567	14,795			
<i>Support to counselling and placing, entrants</i>	<i>1,944,003</i>	<i>1,824,184</i>	<i>1,837,836</i>	<i>1,544,647</i>	<i>934,148</i>	<i>742,065</i>	<i>601,282</i>
Qualification	207,505	222,924	434,901	396,328	548,970	556,251	503,470
Sponsoring of further training	119,513	114,350	184,418	250,976	331,586	344,816	324,274
Qualification of the disabled			138,030		131,822	135,308	42,316
Professional reintegration of disabled people	27,105	34,021	43,091	45,425	38,922	41,941	27,695
Aptitude tests and training measures	60,887	69,000	94,748	77,887	61,950	51,266	47,492
German lessons		5,553	17,705	22,040	23,612	24,861	89,388
Vocational guidance and promotion of vocational training/measures for youths	305,344	305,819	316,653	334,503	238,339	221,586	182,702
Vocational preparation schemes	99,581	97,544	97,523	108,018	106,859	93,285	123,905
Vocational training for the disadvantaged (=support of disadvantaged trainees)	111,487	113,385	124,191	130,946	131,480	128,301	58,797
Vocational training for the disabled	94,276	94,890	94,939	95,539			
Training allowance because of vocational training	90,568	100,330	107,821	102,659			
Benefits on the job	408,685	415,479	398,472	280,994	209,222	187,861	175,070
Promotion of dependent employment	109,829	93,004	161,158	168,647	154,917	144,715	133,810
Temporary work agencies for the unemployed	8,251	16,833	27,784	10,749			
Wage subsidies	83,385	60,263	111,136	134,348	112,272	100,101	90,535
Wage subsidies for start-ups	6,581	8,816	14,967	13,611	10,406	11,119	11,259
Wage subsidies in case of replacements	410	699	1,206	811	163		
Remuneration guarantee for older workers	4,868	4,357	4,596				
Wage subsidy in case of continuous training	1,288	1,345	1,469	883			
Mobility grants	261,357	211,996	303,531	292,356	177,331	141,981	106,081
Job-entry grant according to §29 SGB II (dependent employment)	5,046	691					
Employment support for the long-term unemployed				8,245	32,076	33,495	32,016
Promotion of self-employment	298,856	322,473	237,276	112,347	54,305	43,146	41,260
Modified start-up grant	7,208						
Business start-up grant I	63,370	82,993	83,730	72,081	54,305	43,146	41,260

	2006	2005	2004	2003	2002	2001	2000
(Bridging allowance)							
Business start-up grant II (Me, Inc.)	209,784	233,601	153,546	40,266			
Job-entry grant according to §29 SGB II (self-employment)	18,494	5,879					
Employment-creating measures	344,520	287,010	223,137	222,747	278,354	327,250	390,018
Employment opportunities according to §16(3) SGB II	293,903	201,207					
Job-creation schemes	43,904	47,782	85,735	92,443	124,709	166,643	203,601
Employment-creating infra-structural measures	597	965	1,785	1,296	373		
Structural adjustment measures for enterprises (East Germany)				3,062	12,978	23,250	52,591
Traditional structural adjustment measures	6,116	13,115	31,509	44,781	54,443	53,216	57,165
Jobs for the long-term unemployed			27,737	1,620			
Employment opportunities for recipients of unemployment assistance		23,941	12,493				
Immediate Program for the young (Jump plus)			25,572	3,945			
Immediate Program for the young			38,306	75,600	85,851	84,241	76,661
Other schemes	116,156	46,588	32,775	48,719	62,899	66,471	57,873
Free promotion according to §10 SGB III	25,541	23,618	32,775	48,719	62,899	66,471	57,873
Other services according to §16(2) SGB II	90,615	22,970					
European Social Fund (ESF-BA program)	35,066	49,993	36,832	27,180	30,732		
TOTAL ACTIVE LABOR MARKET POLICY	1,515,433	1,494,242	1,618,879	1,330,253			
Short-time work		125,505	150,593	195,371	206,767	122,942	86,052
Old-age part-time work (cases sponsored by the Federal Employment Agency)			79,632	69,673	61,440	50,323	33,412

Source: Bundesanstalt für Arbeit 2001-2003; Bundesagentur für Arbeit 2004b, 2005b, 2006b, 2006d.

Table 3: Active Labor Market Schemes after the Hartz Reforms and Available Evaluation Findings³

Type of Measure	Effects on Labor Market Integration
Counseling and Job Search Assistance	
Placement voucher (§421g SGB III)	POSITIVE Integration is accelerated (WZB/Infas 2006)
Contracting third parties for placement services (§37 SGB III)	NEUTRAL No effects found (WZB/Infas 2006)
Contracting providers of integration measures (§421i SGB III)	NEUTRAL No effects found (WZB/Infas 2006)
Support to counseling and placement (§§45-46 SGB III)	Not evaluated
Qualification and Training	
Sponsoring of further training (§77 SGB III)	POSITIVE Higher chance of transition to employment after end of measure, long-term evaluation not clear yet (IZA/DIW/Infas 2006)
Wage subsidy in case of continuous training of employees without vocational training (§235c SGB III)	Not evaluated
Aptitude tests (§§48, 49(1) SGB III)	Cannot be evaluated due to short duration of measure and heterogeneous character
Training measures (§§48, 49(2) SGB III)	
Vocational guidance and promotion of vocational training/measures for youths	
Vocational training assistance – Promotion of vocational training (§60 SGB III)	Not evaluated in a systematic way
Vocational training assistance – Occupation-specific educational programs (§61 SGB III)	
Employer subsidies for apprenticeship pay (§235 SGB III)	
Reimbursement of internship pay (§235b SGB III)	
Promotion of vocational training by grants to service providers (§§240 ff SGB III)	
In-work integration benefits through grants to service providers (§246a ff SGB III)	
Support of institutions for vocational training or vocational rehabilitation (§248 ff SGB III)	
Support of residential centers for youth (§252 SGB III)	
Socio-educational assistance during preparatory vocational training (§421m SGB III)	
Preparatory training (EQJ program)	
Promotion of dependent employment	
Temporary work agencies for the unemployed (§37c SGB III)	NEGATIVE Integration in regular employment is

³ Bold: Instruments that are currently available for new entrants; italics: instruments that were available in the beginning of 2006, but abolished later on.

Type of Measure	Effects on Labor Market Integration
	impeded (WZB/Infas 2006)
Wage subsidies in case of placement difficulties (§§217 ff SGB III)	POSITIVE Integration in regular, unsubsidized employment is facilitated, but significant deadweight loss (ZEW/IAB/IAT 2005)
Wage subsidies for older workers (§421f SGB III)	NEUTRAL No effects, mainly deadweight loss (ZEW/IAB/IAT 2005)
Wage subsidies for start-ups (§§225 ff SGB III)	Evaluated as a part of support for business start-ups
Wage subsidies in case of replacements due to continuous training (§§229 ff SGB III)	Not evaluated
Remuneration guarantee for older workers (§421j SGB III)	NEUTRAL No effects found (ZEW/IAB/IAT 2005)
Exemption of employers from unemployment insurance contribution in case of hiring older workers (§421k SGB III)	NEUTRAL No effects found (ZEW/IAB/IAT 2005)
Wage subsidies for employees enrolled in occupational training §417 SGB III)	Not evaluated
Mobility grants (§§53, 54 SGB III)	Not evaluated
Job-entry grant according to §29 SGB II (dependent employment)	Not evaluated so far (part of Social Code II)
Measures for the disabled	
Wage subsidies for the disabled (§218(2) SGB III)	Not evaluated
Integration benefits for the severely disabled (§219 SGB III)	
Apprenticeship subsidies for the disabled (§235a(1) SGB III)	
Integration benefits after completion of (further) training programs (§235a(3) SGB III)	
Probationary employment of the disabled (§238 SGB III)	
Direct job-creation for the disabled (§270a(1) SGB III)	
General benefits for the disabled: Mobility allowances (§§100, 101(1) SGB III)	
General benefits for the disabled: Occupational training (§§100, 101(2-5) SGB III)	
Special benefits for the disabled: Training allowances (§§102 -104 SGB III)	
Special benefits for the disabled: Bridging allowance (§§160 -162 SGB III)	
Special benefits for the disabled: Reimbursement of program participation fees (§109 SGB III)	

Type of Measure	Effects on Labor Market Integration
Promotion of training for the disabled (S 236 SGB III)	
Work aids for the disabled (§237 SGB III)	
Subsidies for vocational centers for the disabled (§102(2) SGB III und §40 SGB IX)	
Miscellaneous labor market integration benefits for the disabled (§§33 ff SGB IX)	
Promotion of self-employment	
<i>Start-up grant I (bridging allowance) (§57 SGB III, old version, available until July 2006)</i>	POSITIVE <i>Furthers exits from unemployment, but considerable deadweight loss; long-term effects unclear (IAB et al. 2006)</i>
<i>Start-up grant II (Me, Inc.) (§421l SGB III, available until July 2006)</i>	
Modified start-up grant (introduced in August 2006) (§57 SGB III, new version)	Recently introduced, not evaluated yet
Job-entry grant according to §29 SGB II (self-employment)	Not evaluated so far (part of Social Code II)
Employment-creating measures	
Employment opportunities according to §16(3) SGB II – pay variant	Not evaluated so far (part of Social Code II)
Employment opportunities according to §16(3) SGB II – additional pay variant	
Direct job-creation schemes (ABM) basic support (§§260 ff SGB III)	NEGATIVE Integration in regular employment is impeded (COMPASS et al. 2005)
Direct job-creation schemes (ABM) intensified support (§266 SGB III)	
Employment-creating infrastructural measures (§279a SGB III)	Not evaluated
Other measures	
Free promotion according to §10 SGB III	Not evaluated in a systematic way, heterogenous cluster of instruments
Other services according to §16(2) SGB II: child care and care for the elderly	Not evaluated so far (part of Social Code II)
Other services according to §16(2) SGB II: debt counseling	
Other services according to §16(2) SGB II: psychological and social support	
Other services according to §16(2) SGB II: support in case of drug addiction	
Other supplementary services according to §16(2) SGB II	
European Social Fund (ESF-BA program)	Heterogenous cluster of instruments, no clear findings
Transfer payments to avoid unemployment	
Short-time work allowance (§§169 ff SGB III)	No systematic evaluation
<i>Winter bad weather benefits (§§214 SGB III, previous version, abolished in 2006)</i>	<i>Not evaluated</i>
Seasonal short-work benefits (replaced previous winter bad weather benefits in April 2006, §175 SGB III, new version) in conjunction with additional winter benefits (§§209 ff SGB III) and employer reimburse-	Not evaluated so far

Type of Measure	Effects on Labor Market Integration
ment of extra social costs (§175a SGB III)	
Transfer schemes (§216a SGB III)	NEUTRAL
Transfer redundancy compensation (§216b SGB III)	No effects found (IZA/DIW/Infas 2006)
Subsidized old-age part-time work (AltersTG)	Not evaluated

Quelle: authors' compilation.

Table 4: Expenditure and Evaluation, 2002 and 2006

	2002			2006	
	Bill. €	%		Bill. €	%
Total expenditure on active labor market policies	22.1	100.0	Total expenditure on active labor market policies	15.0	100.0
Not evaluated includes	9.7	43.7	Not evaluated includes	10.2	68.4
<i>Programs for the disabled</i>	3.1	14.1	<i>Programs for the disabled</i>	2.4	16.3
<i>Programs for young unemployed</i>	3.2	14.5	<i>Programs for young unemployed</i>	1.7	11.2
<i>Old-age part-time work</i>	0.7	3.1	<i>Old-age part-time work</i>	1.3	8.4
			<i>Active schemes for the long-term unemployed (Hartz IV)</i>	3.8	25.6
Evaluated	12.4	56.2	Evaluated	4.8	31.7
Positive effects includes	1.4	6.1	Positive effects includes	4.2	28.1
<i>Wage subsidies</i>	1.4	6.1	<i>Publicly funded training</i>	1.3	11.4
			<i>Start-up grant I (bridging allowance)</i>	1.5	9.8
			<i>Start-up grant II (Me, Inc.)</i>	1.0	6.9
			<i>Wage subsidies</i>	0.3	1.9
			<i>Placement voucher</i>	0.1	0.7
Negative effects includes	3.2	14.4	Negative effects includes	0.2	1.5
<i>Direct job creation</i>	2.3	10.6	<i>Direct job creation</i>	0.1	0.7
<i>Structural adjustment schemes</i>	0.8	3.7	<i>Structural adjustment schemes</i>	0.1	0.5
			<i>Temporary agency work for the unemployed (PSA)</i>	0.04	0.3
No or unclear effects includes	7.9	35.7	No or unclear effects includes	0.3	1.9
<i>Publicly funded training</i>	6.7	30.4	<i>Transfer measures</i>	0.2	1.4
<i>Start-up grant (bridging allowance)</i>	1.0	4.6	<i>Contracting-out</i>	0.03	0.2
<i>Contracting-out</i>	0.2	0.8			

Source: authors' calculations. Note: expenditures within Social Code II were classified as not evaluated even if the instruments are borrowed from Social Code III.

Figure 1: Expenditure and Evaluation, 2002 and 2006

