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**Article**

## Five Years after the Reform of the Social and Unemployment Benefits in Germany

Weekly Report

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# Weekly Report

## Five Years after the Reform of the Social and Unemployment Benefits in Germany

*Great expectations were connected with the so-called Hartz IV reform which came into effect five years ago. In fact the number of unemployed recipients of Hartz IV benefits drastically went down during the last economic rebound. In earlier economic cycles the number of unemployed recipients of social benefits had stagnated in phases of recovery. But this alone is only a weak sign for success: Firstly, unemployment on the whole decreased more than in previous economic recoveries, and secondly, re-entering the labor market is a longer process for Hartz IV recipients than for other unemployed persons.*

*This means that for Hartz IV recipients, the development of worklessness is less linked to the overall economic labor demand than for other unemployed persons. This is partly due to the fact that many of them lack professional training and have only a slim chance to get a new job. Additionally, they often live in areas with considerable labor market problems. Insofar it is indeed a success if unemployment rates drastically went down also for social benefits recipients.*

*There were no significant changes in the willingness to take a job that was offered. The overwhelming majority of unemployed persons was willing to accept a job both before and after the reform. On the whole, Hartz IV recipients are just as willing to work as the rest of the unemployed persons.*

Five years ago, the heart of the most radical labor market reform in the history of the Federal Republic of Germany came into effect. The Fourth Act on Modern Services on the Labor Market (so-called Hartz IV) combined existing tax-financed social benefits for persons fit for employment and their families—unemployment benefits and social welfare—to a new unemployment benefit scheme called unemployment benefit II with standardized rates. By pooling responsibilities for the workless and with improved counseling and placement it was hoped to improve their access to the labor market. Additionally, more pressure on social benefits recipients was envisaged, e.g. by giving them more individual counseling and by harmonizing regulations on acceptable jobs in order to motivate them for their job search and for accepting jobs more often.<sup>1</sup>

<sup>1</sup> Before the reform, recipients of social welfare had to accept almost any kind of paid activity. In contrast, recipients of unemployment benefits had the right to refuse a job in case the payment was lower than the benefits they were

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The reform provoked massive resistance. This didn't come as a surprise considering a significant number of recipients of former unemployment benefits now received lower benefits than before and had to cope with stricter regulations on acceptable jobs and deduction of assets.<sup>2</sup> To this day, Hartz IV remains one of the most controversial political topics.

### Number of recipients still high—but clearly below peak

Right after the reform came into force in January 2005, employment agencies counted 4.5 million recipients of unemployment benefit II—for more than expected by politicians and scientists (see figure I).<sup>3</sup> In their so-called *communities of need* there were another 1.6 million persons not fit for work who received benefits.<sup>4</sup> The vast majority of them—about 95 percent—are children under the age of 15. Surprisingly, the number of recipients increased after the reform, reaching a peak in spring 2006. The development on the labor market cannot be responsible for this trend since unemployment decreased slightly during this period.

This strange development in the number of unemployment benefit II recipients was caused by several reasons. Social welfare was a municipal responsibility, and the local authorities had a strong interest in declaring as many of their recipients as possible fit for work just before the reform started.<sup>5</sup> They would then receive the new unemployment benefit II, which is for the most part financed by the federal state. Besides, a lot of households with working members switched from housing allowance to unemployment benefit II, securing higher benefits for them.<sup>6</sup> This way the number of households with working members receiving housing

entitled to.

<sup>2</sup> See J. Goebel and M. Richter: Nach der Einführung von Arbeitslosengeld II: Deutlich mehr Verlierer als Gewinner unter den Hilfeempfängern. DIW Berlin's Wochenbericht 50/2007.

<sup>3</sup> The number of recipients that were fit for work was 4.5 million in January 2005. In 2003, the mediation committee of Bundestag (lower house of parliament) and Bundesrat (upper house) assumed 3.2 million recipients as an average for 2005. The Institute for Labor Market and Occupation Research expected 3.4 million in fall 2004 but hinted at significant uncertainty in its estimations. See H. Rudolph: Arbeitsmarkt-Reformen 2005: Aktualisierte Schätzungen zum Start von ALG II. IAB-Kurzbericht No. 11/2004.

<sup>4</sup> Communities of need are not the same as households. For example persons in a household above the age of 64 do not count for communities of need. University students do not qualify either since the legislator wants to prevent social benefits being used for educational purposes. Students living in households whose other members receive unemployment benefit II are eligible for Bafög (public student loan).

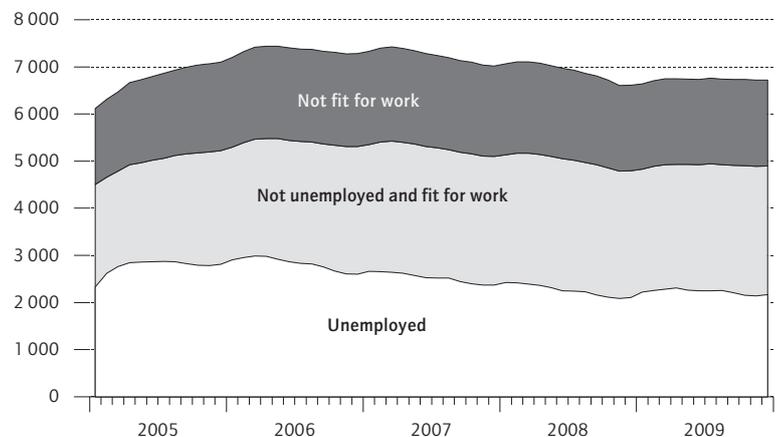
<sup>5</sup> Fit for work are persons able to work more than 15 hours per week or three hours per day.

<sup>6</sup> Housing allowances used to cover nearly the full rent without utilities; with unemployment benefit II the whole amount for rent and utilities can be reimbursed.

Figure 1

### Number of Social Security Code II benefits recipients

in 1,000 persons



Source: Federal Employment Agency

DIW Berlin 2010

The number of Hartz IV recipients was far higher than expected when the reform started in 2005; the peak occurred in 2006.

allowance decreased from 500,000 at the end of 2004 to 300,000 at the end of 2005; at the end of 2007 the number was only 220,000.<sup>7</sup> Additionally, certain groups now receive unemployment benefit II who were not entitled to social benefits before. This concerns especially youths and young adults who leave their parents' home and receive benefits if unemployed. This was in most cases not possible before the reform because parents had to pay for their children until the age of 25 if they could afford it. In the meantime regulations on benefits for leaving the parents' home have become stricter.<sup>8</sup> On the other hand, the number of recipients of unemployment benefit II should have decreased because some recipients of former unemployment benefit schemes are not eligible any more based on a stricter deduction of assets.<sup>9</sup>

Since April 2006, the number of recipients has clearly decreased, which can without doubt be attributed to a continuing labor market recovery. In the context of the economic and financial crisis the number went up again in fall 2008 and has maintained the same level since last spring. The current number of recipients—6.7 million people—is slightly higher

<sup>7</sup> Federal Statistical Office: Fachserie 13, Reihe 4, Wiesbaden.

<sup>8</sup> Now the youth welfare office's permission is needed for such a move.

<sup>9</sup> Deduction of assets differs a lot from former unemployment benefits and actual unemployment benefit II. A simple example for assets which are calculated in relation to age: A 55 year old couple used to have an allowable deduction of 57,200 €, whereas now with unemployment benefit II the sum is only 21,000 €.

**Table 1**  
**Recipients of SGB II benefits by selected characteristics**

	Annual average 2008		September 2009	
	Number of persons	percentage of that population group <sup>1</sup>	Number of persons	percentage of that population group <sup>1</sup>
<b>Germans</b>				
Under the age of 15 <sup>2</sup>	1 466 755	14.7	1 471 483	14.7
15-64 years	4 113 957	8.5	3 995 409	8.2
Total	5 580 712	9.5	5 466 892	9.3
<b>Foreigners</b>				
Under the age of 15 <sup>2</sup>	271 792	29.4	265 407	28.7
15-64 years	966 643	16.7	971 907	16.8
Total	1 238 435	18.5	1 237 314	18.5
<b>Total</b>				
Under the age of 15	1 825 523	16.7	1 746 189	15.9
15-24 years	988 460	10.1	910 988	9.3
25-54 years	3 365 693	9.6	3 322 335	9.4
55-64 years	688 094	7.1	719 132	7.3
<b>Selected household types</b>				
Singles	1 883 477	17.0	1 950 697	17.6
Single parents <sup>2</sup>	652 286	27.9	636 003	27.2
Thereof: under the age of 25 <sup>2</sup>	78 277	86.0	75 223	82.7
<b>Total</b>	<b>6 906 953</b>	<b>10.5</b>	<b>6 733 742</b>	<b>10.2</b>

**1** Population according to Mikrozensus 2008.  
**2** Estimations based on marginal distributions.

Sources: Federal Employment Agency, Federal Statistical Office, calculations by DIW Berlin.

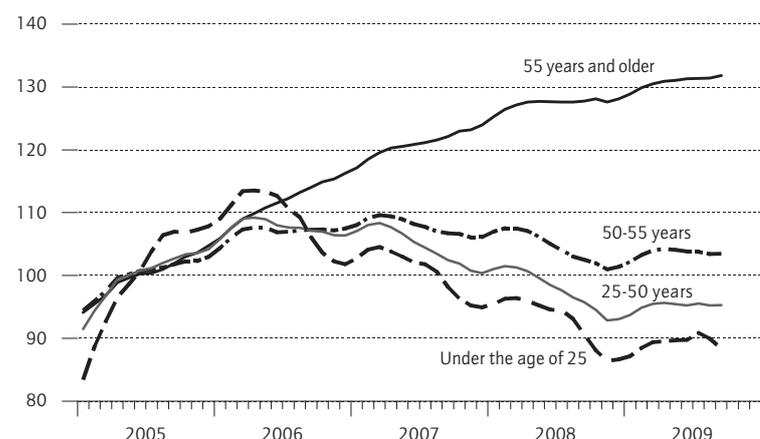
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About one tenth of the population receives Hartz IV benefits. Single parents under the age of 25 and foreigners are groups with a very high percentage of recipients.

**Figure 2**

### SGB II Recipients fit for work by age

Index 2005 = 100



Sources: Federal Employment Agency, calculations by DIW Berlin.

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The number of Hartz IV recipients over 55 years has been on the increase since the reform came into effect. In all other age groups the numbers have been decreasing since April 2006.

than at the start of the reform, but at least 700,000 less than in spring 2006.

Especially high numbers of children, migrants and single parents among recipients.

About one in ten under the age of 65 receives benefits under Social Security Code II (SGB II) legislation, meaning unemployment benefit II or welfare (see table 1). The few existing official data show considerable differences in different parts of society. The percentage of foreigners who receive Hartz IV benefits is twice as high as the percentage of German recipients—this applies to adults as well as to children. Generally, children more often depend on benefits than adults; one in three children with foreign nationality lives in a *community of need*.

The percentage of elderly people receiving SGB II benefits is relatively low; this might be due to the fact that they are longer eligible for insurance-financed unemployment benefit I. However, persons over the age of 55 are the only group with rising numbers of recipients, in all other age groups the numbers are going down—especially for youths and young adults (see figure 2).

Another group with a comparatively low percentage of recipients are adults in couple households. But one in six singles is dependent on social benefits, one in four single parents, and astonishing 80% of young single parents receive benefits.

### Number of unemployed recipients considerably decreased

Out of all recipients fit for work, only 44% are currently unemployed; only in the first one and a half years since the start of the reform their percentage was somewhat higher than 50%. Fit for work are by definition all recipients over 15 years—meaning also a considerable number of students and apprentices, who are of course not unemployed. The same goes for persons who participate in labor market schemes of the employment authorities. Persons who are not available for the labor market because of small children or nursing cases in the household are not counted as unemployed either. Of course recipients who work in a job above the minor employment limit<sup>10</sup> and who additionally receive unemployment benefit II are not counted as unemployed either.

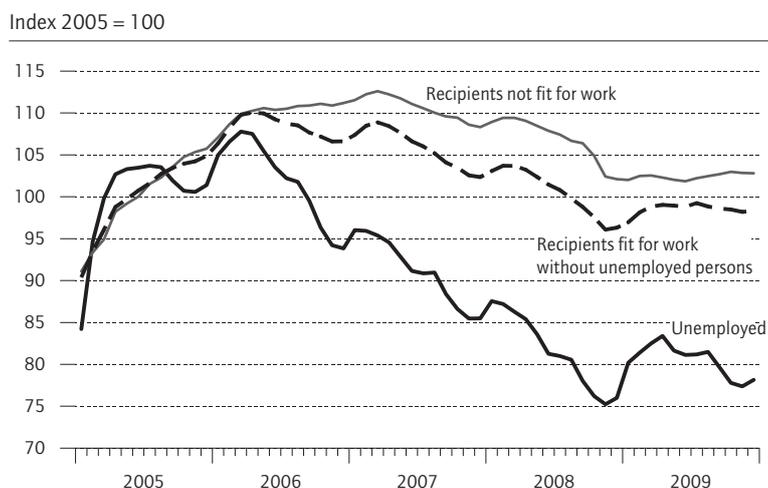
After this increase in the percentage of unemployed recipients, which was caused by special effects described above, their percentage has significantly gone down since spring 2006 (see figure 3). The decrease for employed benefit recipients was considerably weaker. In this context also the recent economic crisis showed fewer effects.

One possible explanation for the drastic decline of unemployed persons among recipients is the expansion of labor market schemes. Actually the number of participants in such schemes has risen, but only slightly; the increase doesn't explain at all the decrease in unemployed recipients (see figure 4). Besides, not every participant was necessarily unemployed before. The development was not consistent for all schemes. So-called independent promotion—local agencies' programs for individuals or certain groups—declined on the whole. In total, the number of participants in job-creating measures with job opportunities (so-called *one euro jobs*) as most important factor has stagnated. The same applies to measures for further training and, in the past three years, for promotion of professional training of youths and young adults. In contrast, the number of persons who draw on special services for job placement has increased. This includes placement by institutions other than the employment agencies. Persons who use their services are not counted as unemployed any more since legislation changed

<sup>10</sup> Employment with more than 15 hours per week.

Figure 3

### Development of number of SGB II recipients



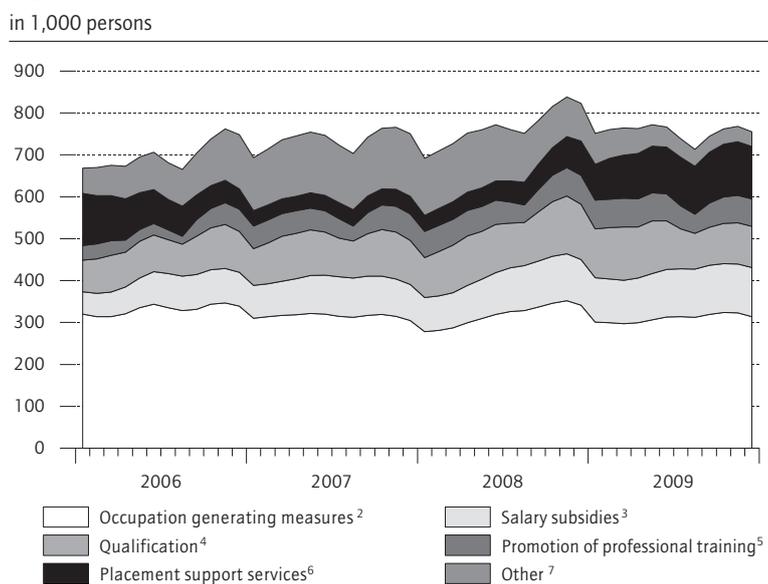
Sources: Federal Employment Agency, calculations by DIW Berlin.

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Unemployed Hartz IV recipients were able to profit from the economic recovery. Their number went down by roughly 30 percent between spring 2006 and fall 2008.

Figure 4

### Participants in labor market schemes<sup>1</sup> under SGB II legislation



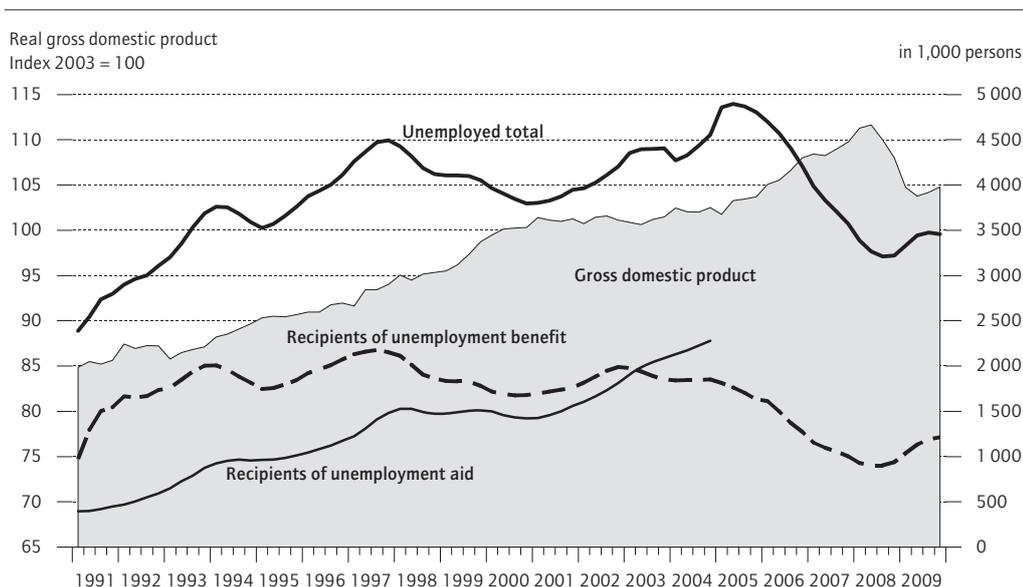
- 1 Without approved municipal schemes.
- 2 Job opportunities, job-creating measures, municipal combination.
- 3 Integration and employment subsidies, integration payments (incl. for start-ups) etc.
- 4 Further training, assessment and training measures.
- 5 Preparatory training, training of handicapped and disadvantaged persons etc.
- 6 Placement by third parties, activation measures etc.
- 7 Independent promotion.

Sources: Federal Employment Agency, calculations by DIW Berlin.

DIW Berlin 2010

The number of Hartz IV recipients in labor market schemes has increased since 2006, but this increase cannot be the sole reason for the considerable decrease in unemployed Hartz IV recipients.

Figure 5

**Number of unemployed persons and real gross domestic product<sup>1</sup>**

<sup>1</sup> Seasonally adjusted according to BV4 method

Sources: Federal Statistical Office, Federal Employment Agency, calculations by DIW Berlin.

DIW Berlin 2010

The number of unemployment benefit recipients has been on a constant level since reunification, but is subject to cyclical fluctuation. In contrast, there was a growing number of recipients of unemployment aid until it was replaced by the Hartz IV reform.

in 2009. This regulation has led to a decline of the statistical number of unemployed persons—by more than 100,000 in January 2010 compared to one year before.

In short: Unemployed recipients and persons depending on them (i.e. mostly children) have reacted much stronger to cyclical influence than non-unemployed recipients who are either prevented from entering the labor market because of their social circumstances or who are employed and receive additional benefits.

### **Economic cycle: Weaker effects on unemployed recipients of unemployment benefit II than on other unemployed persons**

Before the Hartz IV reform, unemployed persons could be categorized in two large groups: recipients of unemployment benefit and those receiving so-called unemployment aid.<sup>11</sup> After the upheaval

in East Germany, which resulted in considerably higher unemployment rates, the number of unemployment benefit recipients stagnated for a while—although with significant cyclical fluctuations (see figure 5). The situation was different for recipients of unemployment aid, whose number had shown a stepwise increase since the 1990s: In economic rebounds the number stagnated or went slightly down, in downturns the increase was substantial.

After the reform, we see again two groups of unemployed persons: Those under SGB II legislation—who receive unemployment benefit II—and those under SGB III legislation. This group includes recipients of unemployment benefit I and unemployed persons who do not receive any benefits. The number of SGB III unemployed persons went considerably down until the end of 2008, but then rose again caused by the crisis and more strongly than usual for the season (see figure 6). The number of SGB II unemployed persons grew based on the special factors mentioned until spring 2006 and then decreased—also substantially, although not as drastically as the number of other workless persons.

<sup>11</sup> A third group includes those who did not receive any kind of benefits from employment agencies at all. This concerns recipients of social welfare and persons without any kind of public benefits, who only registered

as unemployed because they were hoping to find a job or in order to generate pension claims.

Also in this group the recent crisis caused rising numbers, but less strongly than in the group of SGB III unemployed persons.

If we compare unemployment development before and after the reform, we get the impression that the reform showed the desired effects. Before the reform, the number of unemployed persons who depend on social benefits stagnated during economic recovery; after the reform, this number significantly decreased. At the same time it cannot be neglected that during the last economic rebound unemployment rates went down more than in previous cycles, providing also those depending on social benefits with better job opportunities than before. We also need to take into account that the two groups of unemployed persons used for comparison are not identical.<sup>12</sup>

However, it can clearly be observed that workless recipients of unemployment benefit II react less strongly to changes in the overall economic labor demand than SGB III workless persons. This applies on the one hand to cyclical influences in times of economic recovery or downturn. On the other hand it also concerns seasonal changes in demand since the number of SGB III unemployed persons shows clear seasonal fluctuations. This means this group includes people who regularly lose their job based on the season and for whom unemployment benefit is an inherent part of their annual income.

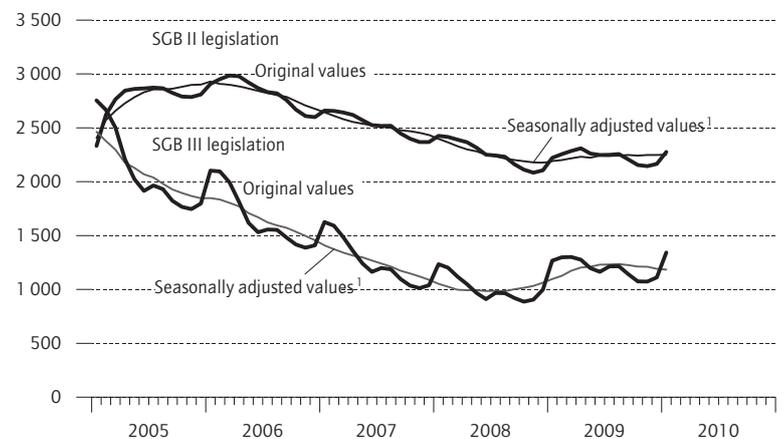
The fact that SGB III unemployed persons are on average closer to the labor market than workless unemployment benefit II recipients is supported by the number of transfers into and out of unemployment. First of all, it is striking that the SGB III group of unemployed persons fluctuates much stronger than the other group. Statistically, its members were replaced 3.6 times in the past year, whereas Hartz IV unemployed persons were replaced only 2.1 times (see table 2). In particular, the group of SGB III unemployed persons transferred more often to and from the regular labor market: a relatively large portion comes from employment to worklessness, and another high number leave unemployment for a new job. However, in both groups unemployment

<sup>12</sup> The group of SGB II unemployed persons not only includes those who would have received unemployment aid before the reform, but also those who would have received social welfare or who would not have received any benefits at all. The group of SGB III unemployed persons not only includes those who would have received unemployment benefits before 2005, but also those who were not entitled to insurance or public benefits. Furthermore, in the group of unemployment benefit recipients—the group which is compared with unemployment aid recipients before the reform—we must take into consideration that a part of them was in fact not unemployed. This concerns essentially persons over the age of 58, who received benefits but who did not have to be available for the labor market and thus were not counted as unemployed. This regulation has been changed in the meantime.

Figure 6

**Unemployed persons under SGB II and SGB III legislation**

in 1,000 persons



<sup>1</sup> Seasonally adjusted according to BV4 method.

Sources: Federal Employment Agency, calculations by DIW Berlin.

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*In the recent crisis, the number of unemployment benefit recipients has grown more than the number of Hartz IV recipients.*

is often terminated by the beginning of some kind of training—be it professional training or qualification programs. Another common reason for leaving unemployment is unfitness for work—especially for unemployment benefit II recipients.

The overall problems with integration into the labor market are mirrored by the fact that, in comparison, a lot of unemployment benefit II recipients are long term unemployed (see table 3).<sup>13</sup> Some of them may have received unemployment benefit I before being transferred to SGB II coverage. Contrary to popular belief, not even half of workless unemployment benefit II recipients are long term unemployed according to official statistics. A lot of them probably have no insurance claims, but what's even more important: in many cases their unemployment was probably discontinued once or many times, e.g. for participation in programs of the employment agencies or because of temporary unfitness for work.<sup>14</sup> These are de facto cases of hidden long term unemployment. There are long term unemployed persons in the SGB III group as well: for the most part

<sup>13</sup> There are no data on the characteristics long term unemployed and without professional training from exclusively municipal employment agencies. But this concerns only about 10% of all unemployed persons.

<sup>14</sup> A study of the communities of need has shown that the majority receives Hartz IV benefits for more than a year and that a significant number of those who cease to receive benefits become recipients again after some time. See T. Graf and H. Rudolph: Dynamik im SGB II 2005-2007: Viele Bedarfsgemeinschaften bleiben lange bedürftig. IAB-Kurzbericht Nr. 5/2009.

Table 2

**Transfers to and from unemployment by SGB group**

Percentages

	SGB II group			SGB III group		
	2007	2008	2009	2007	2008	2009
<b>Persons becoming unemployed</b>						
Employment (without training)	29.1	28.6	27.7	55.5	56.5	57.4
Thereof: employment on 2nd labor market	12.9	11.9	11.8	0.4	0.3	0.1
Training and other program participation	20.1	21.4	24.1	23.4	24.5	25.6
Thereof: other training/program	15.0	16.5	19.3	14.9	16.5	18.5
Not employed	31.7	37.1	38.8	16.9	16.8	15.7
Thereof:						
Unfit for work	23.2	27.5	28.1	9.1	9.1	9.5
Not available	8.3	9.1	10.2	7.7	7.3	5.9
Other, n/a	19.1	12.9	9.4	4.2	2.2	1.3
Reporting: Total in 1,000 persons	4 035	4 093	4 467	4 171	4 260	4 786
<b>Persons leaving unemployment</b>						
Employment	33.2	32.9	28.6	46.0	45.6	43.3
Training and other program participation	16.3	18.5	22.8	18.4	21.6	28.0
Not employed	32.3	34.5	37.2	32.7	30.9	27.0
Thereof:						
Unfit for work	20.8	24.5	26.5	11.9	13.4	14.5
Not available	8.3	8.3	8.3	16.7	16.0	11.2
Other reason, n/a	18.1	14.1	11.3	2.9	1.9	1.7
Reporting: Total in 1,000 persons	4 586	4 609	4 715	4 176	4 003	4 310
Total number in 1,000 persons	2 524	2 258	2 229	1 252	1 010	1 194
Turnover <sup>1</sup>	1.82	2.04	2.11	3.34	3.96	3.61

<sup>1</sup> Persons leaving unemployment in relation to total number.

Sources: Federal Employment Agency, calculations by DIW Berlin.

DIW Berlin 2010

*There are significantly more transfers of unemployment benefit I recipients to and from the regular labor market than of Hartz IV recipients; this is especially clear if we look at the figures for turnover.*

elderly persons who are entitled to unemployment benefit for more than one year.

### **Hartz IV unemployed persons often without professional training**

Also in other socio-structural aspects unemployment benefit II recipients differ from SGB III unemployed persons. There are for example many middle-aged persons and relatively few young and elderly people. Foreigners are over-represented in the Hartz IV group. Primarily this group lacks professional training (more than half of them are not sufficiently qualified). This is probably the most important obstacle in finding a job. Furthermore, the percentage of unemployment benefit II recipients out of all unemployed people is higher in East Germany than in the West.

Generally, it can be stated: The higher the unemployment rate in an unemployment agency district and, thus, in a region, the higher the percentage of unemployment benefit II recipients out of all unem-

ployed persons. Obviously the scope of unemployment goes hand in hand with a structural change of unemployment—meaning the group of people who depend on public benefits is especially high if unemployment rates are high. This might lead to a hardening of the situation in problematic regions since the importance of unemployed persons with generally slim chances on the labor market is on the increase. This correlation is very clear in West Germany (see figure 7). In East Germany it is less clear; this is probably due to the fact that unemployment rates are high throughout this part of the country, which makes it a non-determining factor.

### **Willingness to work and job search activity nearly unchanged after Hartz IV reform**

One important goal of the reform was to improve the willingness to take on a job of recipients of public benefits. We will try to find an answer as to whether this was successful. We used data from the

Table 3

**Unemployed persons 2009 by group and selected characteristics**

Percentages

	SGB II	SGB III
Men	53.3	56.9
Women	46.7	43.1
Germans	81.9	89.9
Foreigners	18.1	10.1
West Germany	65.1	72.8
East Germany	34.9	27.2
Severely handicapped persons	4.5	5.6
Long term unemployed <sup>1</sup>	41.2	11.0
Persons without professional training <sup>1</sup>	54.4	25.3
15 – under 25 years	8.6	15.5
50 – under 65 years	24.2	31.5
55 – under 65 years	11.5	20.2

<sup>1</sup> Only unemployed persons from IT procedure of the Federal Employment Agency.

Sources: Federal Employment Agency, calculations by **DIW Berlin**  
DIW Berlin. 2010

The number of long term unemployed persons is much higher in the group of Hartz IV recipients than in the group of unemployment benefit I recipients. Still, it is clearly less than half of all Hartz IV recipients – less than usually assumed.

Socio-Economic Panel for the years 2003-2008<sup>15</sup> for persons who correspond to recipients of unemployment benefit II.<sup>16</sup> For comparison we took unemployed persons who receive unemployment benefit I.<sup>17</sup>

According to the interviewees' answers there are no significant differences before and after the reform regarding the willingness to accept a job offered to them (see table 4). There is no difference between recipients of Hartz IV and those receiving unemployment benefit either. The vast majority of both groups would accept a short term job offer. However, there is a considerable number of persons who do not want to be available for the labor market at all.

This concerns primarily unemployed persons above the age of 56 (see table 5). Many of them may have resigned because of their slim chances on the labor market. Interesting to note that also about one sixth

<sup>15</sup> In 2003, the reform was being prepared in the ministries, in 2004 the basic concept became known in public, and in 2005 the reform came into effect.

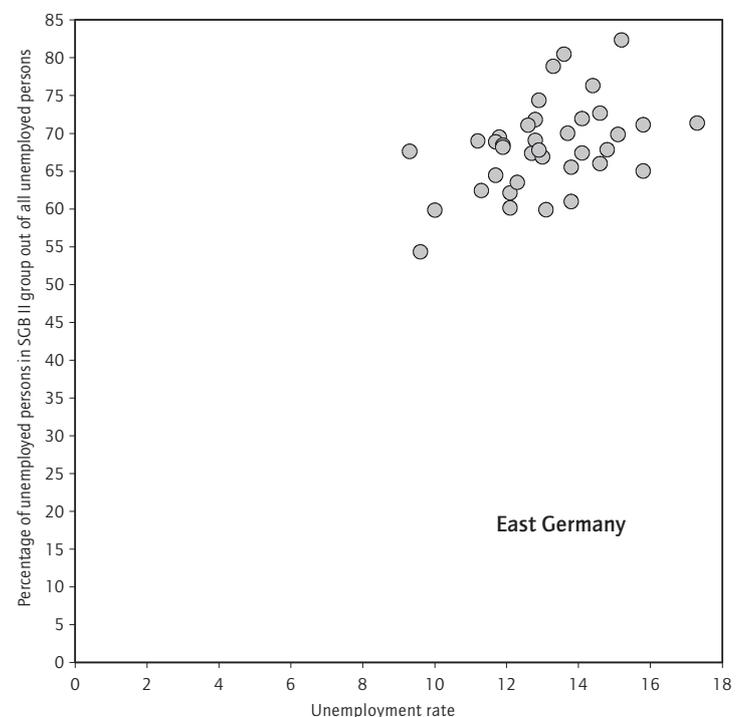
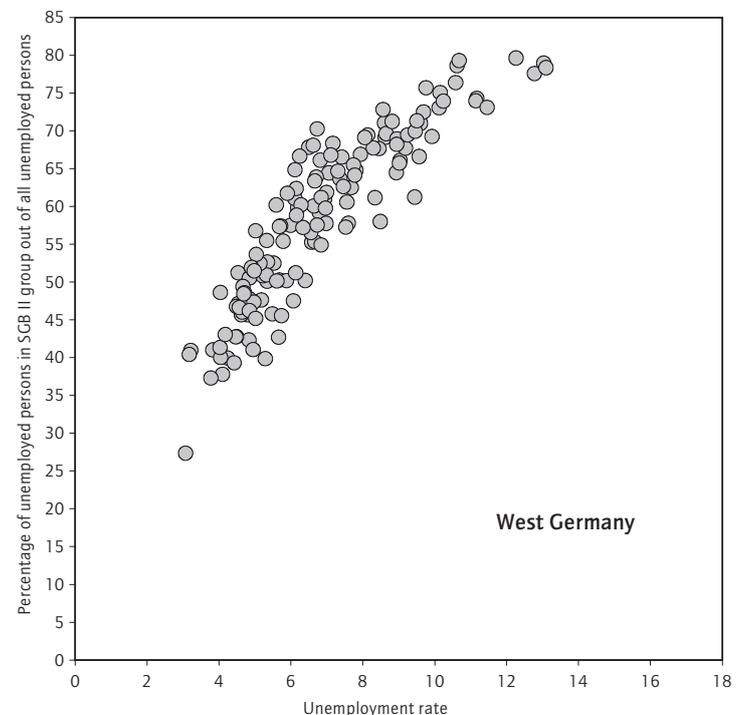
<sup>16</sup> It is impossible to exactly determine the corresponding group with data from the Socio-Economic Panel. We used unemployed persons who had small children or nursing cases in their household for whose care no other adult was present, who did not attend school or take part in professional training, who described their health condition as good and who received unemployment benefit II (for 2003 and 2004: unemployment aid or welfare) either themselves or someone in their household.

<sup>17</sup> Only persons with the same socio-economic characteristics as the Hartz IV group were taken into account.

Figure 7

**Unemployment rate and percentage of unemployed persons in the SGB II group in West and East German employment agency districts 2009**

Percentages



Sources: Federal Statistical Office, Federal Employment Agency, calculations by DIW Berlin.

DIW Berlin 2010

In regions with high unemployment rates the number of Hartz IV recipients is especially high as well. In East Germany this correlation is less clear, but this is due to missing low unemployment rates for comparison.

Table 4

### Unemployed persons<sup>1</sup> receiving unemployment benefit II and unemployed persons receiving unemployment benefit I by availability for the labor market 2003-2008

Percentages

	Unemployed persons receiving unemployment benefit II			Unemployed persons receiving unemployment benefit I <sup>2</sup>		
	Does not want to be available for the labor market at all	Would not accept a short term job offer	Would accept a short term job offer	Does not want to be available for the labor market at all	Would not accept a short term job offer	Would accept a short term job offer
	Total					
2003	10	5	85	15	3	82
2004	7	5	88	14	7	79
2005	9	3	88	14	2	84
2006	11	6	83	15	3	82
2007	12	4	85	19	8	73
2008	15	6	80	14	6	80
	Unemployed persons under 56 years					
2003	3	5	92	3	2	95
2004	3	4	93	4	8	89
2005	4	3	93	5	2	93
2006	3	6	91	1	3	96
2007	5	4	92	3	9	88
2008	4	6	90	6	6	88
	Unemployed persons under 56 years in West Germany					
2003	5	6	90	4	3	93
2004	3	5	92	5	7	88
2005	3	4	93	7	2	91
2006	4	7	88	2	3	96
2007	5	5	90	4	10	87
2008	4	8	88	10	5	86
	Unemployed persons under 56 years in East Germany					
2003	0	4	95	1	1	98
2004	2	4	95	0	9	91
2005	6	1	93	1	1	98
2006	1	5	94	0	3	97
2007	4	2	93	2	4	94
2008	4	3	93	0	9	91

<sup>1</sup> Not working unemployed persons.

<sup>2</sup> Without unemployed persons who receive both unemployment benefit I and II.

Sources: Socio-Economic Panel (SOEP), calculations by DIW Berlin.

DIW Berlin 2010

*The work ethic of Hartz IV recipients* is not worse than that of other unemployed persons; in many cases their willingness to accept a job is even a bit higher.

of young unemployed persons is not available for the labor market.

If we exclude the older generation from our calculations, the percentage of unemployed persons who would refuse a suitable job offer is very small. The percentage of those willing to work had already been high before the reform and could hardly increase any more. This holds especially true for East Germany, where the number of those willing to refuse a job offer is even lower than in the West.

If we take Hartz IV recipients' independent job search efforts as an indicator for their motivation, it seems to have improved after the reform on first glance. But this increase can nearly be neglected;

besides it went down again in 2007 and 2008 (see figure 8). The figures don't show evidence for a stronger motivation of unemployed persons. But even then: About one in four Hartz IV recipients is not actively looking for a new job. Whether this is because they consider their search hopeless or because of other reasons remains to be seen.

On the whole, neither a stronger willingness to accept a job nor more efforts in the search for a job can be observed after 2004. But these data are only first indicators. For example one could examine whether way and intensity of the job search have changed and if expectations regarding payment and working

conditions have gone down. There are already signs of a greater readiness to make concessions.<sup>18</sup>

**Conclusion**

The number of persons who receive benefits in the Hartz IV framework is with 6.7 million still very high, but at least about 700,000 less than at its peak in spring 2006. This decline was caused by the last economic recovery that made unemployment rates go down also for unemployment benefit II recipients. For the first time since the beginning of the 1990s, unemployment decreased also for persons receiving public benefits. You could take that as a success, but caution is needed for this evaluation since the number of unemployed persons declined in this recovery as strongly as never before since German reunification.

Furthermore, we see no evidence of a greater percentage of those willing to accept a short term job offer. Their percentage was already high before the reform—both among recipients of social benefits and recipients of insurance benefits. And it hasn't changed since. Also regarding the number of persons actively engaged in job search the reform seems to have shown no visible effect. Based on our criteria for this study we cannot certify the success of the Hartz IV reform that was expected by politicians.<sup>19</sup>

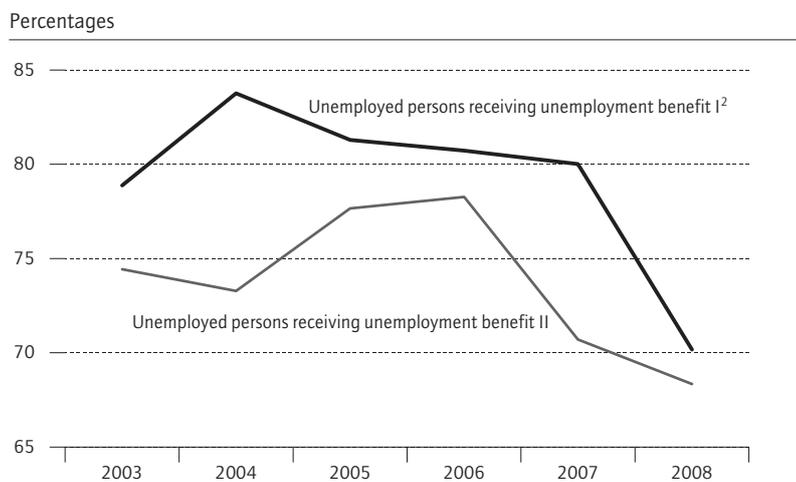
Over the past weeks, the discussion came up again whether the willingness to work of SGB II unemployed persons shouldn't be checked more strictly in order to avoid misuse. Of course it would be naive to assume there are no recipients who are satisfied with their situation and thus hardly motivated to take up a new job. Wherever public benefits are paid there will always be misuse by some. We have seen this principle too often with subsidies, e.g. agricultural EU subsidies over the last decades, and more recently with short time work regulations. Of course one needs to fight misuse of benefits, and it is already happening. But if we call for stronger monitoring of unemployed persons, we are in danger of generalizing in an inappropriate way and putting their work ethic under general suspicion. According to our findings, the vast majority of unemployed persons is willing to accept a job offer, at least according to their answers. Two exceptions are on the one hand the older generation who seems to have

<sup>18</sup> See A. Kettner and M. Rebien: Hartz-IV-Reform: Impulse für den Arbeitsmarkt. IAB-Kurzbericht Nr. 29/2009.

<sup>19</sup> This assessment is supported by other surveys. See J. Möller, U. Walwei, S. Koch, P. Kupka, J. Steinke: Fünf Jahre SGB II: Eine IAB-Bilanz. Der Arbeitsmarkt hat profitiert. IAB-Kurzbericht Nr. 29/2009.

Figure 8

**Unemployed persons who are available for the labor market<sup>1</sup> and have looked for jobs in the past two weeks**



- 1 Not working unemployed persons without those who do not want to be available for the labor market at all.
- 2 Without unemployed persons who receive both unemployment benefit I and II.

Sources: Socio-Economic Panel (SOEP), calculations by DIW Berlin.

DIW Berlin 2010

*The percentage of unemployed persons who are actively looking for a new job has substantially declined since 2007; more than one in four does not search themselves.*

Table 5

**Unemployed persons<sup>1</sup> by age and their availability for the labor market 2008**

Percentages			
	Does not want to be available for the labor market at all	Would not accept a short term job offer	Would accept a short term job offer
Under 25 years	8	15	77
26-35 years	8	5	87
36-45 years	5	4	91
46-55 years	0	4	96
56 years and above	42	5	53
All age groups	15	6	80

- 1 Not working unemployed persons receiving unemployment benefit I or II.

Sources: Socio-Economic Panel (SOEP), calculations by DIW Berlin.

*Mainly unemployed persons above the age of 56 are less available for the labor market; however, also a lot of unemployed persons under the age of 25 would not accept a short term job offer (15%)*

resigned regarding their chances on finding a job, and on the other hand a remarkable minority of young unemployed persons.

Another point against wide-spread unwillingness to work among SGB II recipients is the fact that their number has substantially declined in the last economic recovery: about nearly one third from

the peak in spring 2006 until the crisis hit the labor market. Still, the number of SGB III unemployed persons decreased even more—the reason being a stronger correlation between the number of unemployed persons and the overall demand for labor. Among SGB II unemployed persons there are strikingly many without professional training. Furthermore, recipients of unemployment benefit II live more often than the average in regions with high unemployment rates and few employment opportunities.

Problematic with regard to society is the large number of children living in Hartz IV communities of need. This applies to foreigners even more than to Germans. Single parents are another important group of recipients. The majority of young single parents depend on public benefits. If in the context of the most recent judgment of the Federal Constitutional Court the debate about social benefits for children in communities of need is taken up again, it should be taken into account that the biggest problem of Hartz IV recipients is their lacking labor market integration caused without doubt by their insufficient professional training. In order to solve the root cause of the problem more investments in the field of education are needed. In contrast, higher benefit rates might even have counterproductive effects because investments in education could seem less worthwhile to recipients, resulting in an orientation on benefits, even across generations.

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