

German Labour Market Policy as envisaged by the Hartz-commission

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This paper is meant to be a brief account of the Hartz-report *Moderne Dienstleistungen am Arbeitsmarkt*. After the first, introductory, section, in section 2 the circumstances will be sketched which led to the installment of the Hartz-commission in February 2002. Next, the main recommendations of the Hartz-report (section 3) and criticisms selected from the press and some articles on Hartz are presented (section 4). The final section contains selected points for discussion.

Both left and right in Germany acknowledge the need to make the labour market more flexible. There is however no consensus on the strategy to be followed and the instruments to be used. Against this background SISWO/Netherlands Institute for the Social Sciences in collaboration with DIA/Duitsland Instituut Amsterdam organizes a thematic expert meeting under the title “Towards a new labour market order in Germany”. In the first part the recommendations of the Hartz report will be discussed. To what extent do the proposals of the Hartz report form a comprehensive solution to large scale and long-lasting unemployment in Germany? Is the report too ambitious in its stated objectives? To what extent hinges success or failure of the report’s policy prescriptions on the growth rate of the German economy in the legislative term 2002-2006? Whereas the Hartz-report largely concentrates on employment service provided by job centres, in the second part of the meeting the more broader issue of labour market policies will be addressed, e.g. alternative active labour market policies.¹

For the expert meeting three distinguished German scholars and labour market policy experts are asked to give their views on the proposed reform. As co-referents three Dutch scholars and labour market policy experts will comment. In total around 10 German and 10 Dutch experts are invited for this meeting. The language at the meeting will be German or English, depending on one’s preference. The purpose of the meeting is first of all to provide a platform to discuss the recent labour market developments in Germany and the Netherlands. It is not only hoped that the exchange of ideas and experiences between Dutch and German participants of the meeting might lead to a better understanding of what is going on on the other side of the border, but also to figure out whether something can be done better or might be (im)possible in one’s own country. A good case in point is the restructuring of the Federal Employment Service in both countries (the ‘Bundesanstalt für Arbeit’

¹ For an overview of existing active labour market policies in Germany and some new trends, as well as the underlying theoretical considerations behind the programs, see Uwe Blien, Ulrich Walwei and Heinz Werner, Labour Market Policy in Germany: Job Placement, Unemployment Insurance and Active Labour Market Policy in Germany, *IAB Labour Market Topics* No. 49 (2002). This report can be downloaded from <http://www.iab.de/ftp/root/topics49.pdf>.

in Germany and the formerly ‘Arbeidsvoorziening’ in the Netherlands).² Another is the promotion of temporary and part-time work to combat unemployment.

1. Introduction

Until quite recently, the German ‘social market economy’ was generally praised as an economic model that combined economic vigor with solidarity and social consensus. At the present time, however, different words fill the air: structural rigidities, resistance to change, political deadlocks, high unemployment, and firms escaping high labor cost by investing abroad. This was the diagnoses of the CPB report *Challenging Neighbours* in 1997,³ and it seems that to a large extent this diagnosis is still valid today. The high unemployment of more than 4 million, amounting to 9.6% of the labour force, was the main theme⁴ in the election campaign in Germany (*Wahl zum Deutschen Bundestag* on September 22, 2002). The level of unemployment was most salient because Schröder promised at the beginning of his first term as Bundeskanzler in 1998 to reduce the number of unemployed to 3,5 million. If not, he would not be worth to be reelected for a second term (see FD 23-7-2002). Now that Schröder has won the elections, the policy recommendations laid down in the report of the Hartz commission, appointed in February 2002 by Schröder, stands a good chance of being implemented. The report, published in mid August 2002 when the water floods struck the eastern part of Germany, contains a number of practical and strategic measures to halve unemployment within three years and to reduce the average length of the unemployment spell from 33 to 22 weeks, without overall cuts in benefits levels. Germany currently pays out more than 50 billion a year in unemployment benefits. Depending on the recipient's family status, an unemployed worker receives in between 60 to 67% of the former wage for up to 32 months, based on a non means-tested benefit and 53 to 57% for an unlimited period thereafter as means-tested unemployment assistance.

The Hartz report contains a number of modules, labelled by words like Job Centres, Personnel Service Agencies, Job Floaters, Mini Jobs and Me plc (Ich-AG). They are mainly intended to make the employment services administratively less cumbersome and to make job placement more efficient. Germany's 181 labour offices are to change their names into friendlier-sounding and more service-oriented Job Centres to provide able and timely advice and support to the unemployed. They must become one-stop shops for those seeking employment. New emphasis will be put on finding jobs for the unemployed rather than managing unemployment. The Personnel Service Agencies, which are to function as independent organisational units on behalf of the labour offices, are intended to place unemployed people as temporary or hired labour, in order to give them a chance to demonstrate their knowledge and abilities and to train them for permanent jobs. The Job Floater is a subsidy scheme for

² See e.g. Steigerung von Effizienz und Reputation in der Arbeitsvermittlung: Fragen der Privatisierung oder Modernisierung im Spiegel internationaler Ansätze und Erfahrungen, *IAB Werkstattbericht* Nr. 15/2002, (downloadable from <http://www.iab.de/ftp/prot/wb1502.pdf>), especially pp. 20-24.

³ See the publication *Challenging neighbours: Rethinking German and Dutch economic institutions*, Berlin: Springer, 1997.

⁴ See Richard Hilmer, *The Political Situation in Germany before the General Election on 22 september 2002*, Friedrich Ebert Stiftung working paper 6/2002, July 2002, p. 4, Graph ‘Most important Problems’ which shows that the theme Unemployment/Labour market is mentioned by 77% against Foreigners/Asylum seekers (11%), Social injustice (8%) and Reform of the pension system (8%).

small and medium-sized enterprises, which are to receive a loan of up to €100,000 if they give an unemployed person a permanent job. The concept of the Me plcs is aimed both at combating illegal work and at promoting self-employment. Below the threshold of €25,000 of self-employed income only 10% taxes have to be paid. The unemployed are thus to be given new opportunities to set up a business, with tax concessions and continuing welfare insurance cover. The system of preferential tax treatment for minor jobs (currently those paying up to €325 per month) is to be expanded to include jobs paying up to €500 (for more details and a complete list, see section 3).

2. The history of the Hartz-commission

The direct occasion for the expert meeting is the publication of the Hartz-report *Moderne Dienstleistungen am Arbeitsmarkt* ('Modern Services on the Labour Market') in August 2002. This commission for the reform of the labour market was set to work in February 2002 following the scandal over falsified job-placements at the Federal Employment Service (Bundesanstalt für Arbeit, BA for short). BA was found to be grossly exaggerating its own success. It claimed to find work for 60% of the jobless, but it was barely 20% (see *The Economist* 27-6-2002). BA, with 90,000 employees the largest bureaucracy in Germany, is the institution that is supposed to combat unemployment and it enjoyed a near-monopoly over job placement, but is often said to be a 'paralysed colossus'. According to the commission, if the BA could be reorganized so that its core activity becomes job placement rather than writing unemployment checks, many more unemployed will return to work in less time.

The commission was composed of fifteen experts (two academics and thirteen members drawn from trade unions, management consultancies, company managing boards and political and economic circles). Significantly, the two most important employers' and business associations - the German Confederation of Employers' Associations (Bundesvereinigung der Deutschen Arbeitgeberverbände, BDA) and the German Industry Association (Bundesverband der Deutschen Industrie, BDI) - did not join the commission. Ever since the commission presented the concept version in July 2002 it has been the subject of intense debate. In August 2002, just before the Bundestag elections, it presented its final report.

In the press the installment of the Hartz-commission was often associated with Schröder's failure to reduce unemployment. Normally the installment of a government commission is politically an admission of weakness. Commissions often produce fine-tuned packages of measures which must be implemented in full, otherwise the construction collapses. However, in the political process it is normal that proposals become highly adjusted and compromised. Not this time. To show that Schröder was completely serious with the Hartz proposals he decided already before his re-election that all recommendations that can be implemented without change in laws should be carried through as soon as possible. After his re-election, chancellor Schröder appointed Wolfgang Clement as the government's new superminister over the new merged Economics and Labor ministries,⁵ and at several

⁵ The chancellor explained that the basis for this decision was that they had considered it meaningful to end the traditional separation of economic affairs and employment and to combine the two ministries. The reason for this

occasions committed himself to a wholesale implementation of all the Hartz-modules (see section 3 below). On top of that, the new SPD-Green coalition included the full implementation of the Hartz-measures in the coalition agreement. As will be shown in the next section, the commission borrows heavily from the experience with expanding work in Holland in the last two decades, especially with regards to promoting temporary and part-time work and reorganized job mediation.

3. The Hartz-report' recommendations

One of the most central elements in the Hartz-proposal is to transform the employment offices into temp agencies. In 2002, in Holland temporary work accounts for 4.5% of total employment (in persons), against 3.7% in the UK, 2.1% in the US and less than 1% in Germany. Temporary work contracts are now limited to two years under German labor law and it is prohibited to offer a second contract to the same worker without offering them a legally protected permanent position.⁶ However, unions have insisted that temporary workers are to be paid wages equal to those of staff employees (the equal pay for equal work principle).⁷ The commission hopes that if all the unemployed, among them also the medium and highly skilled workers, would be required to register with a personnel service agency companies will place them as temporary workers. Although wages will still be according to normal standards, this would create a loophole in Germany's restrictive hiring and firing practice. The German employment protection for permanent workers is one of the best in the world. The hope is that the temp agencies make companies more willing to employ temporary staff even when market conditions are uncertain.

The commission proposes measures at three different levels of action:⁸

I Creation of new jobs, by means of:

- PSA (*PersonalServiceAgentur*, a sort of temp agencies directly linked to the 181 Job Centers, see below under II: Improvement of the employment service). The temporary work sector is to be expanded. Unemployed individuals are to be assigned to Personnel Service Agencies and placed in temporary jobs or provided with job training. Anyone still jobless after six months would in effect be employed by these agencies, and hired out on a short-term basis (though on trade union-negotiated rates). The Hartz Commission estimates that some 780,000 jobs could be created in this way.
- Mini-Jobs. To promote the creation of more lower income jobs, the level below which no tax and social security are to be paid is raised from €325 to €500 per month for household and childcare workers.

was the conviction that the reform of the labour market had to be placed at the very centre of the federal government's efforts. Schröder said that this could not be done without information and influence on the federal government's economic policy. That was why they had decided on this far-reaching ministerial reorganization.

⁶ A study by McKinsey shows that temping could create up to 4 million new jobs in Europe until 2010, and the biggest potential for growth is in Germany.

⁷ In the alternative plan proposed by the Christen-democrats led by Stoiber temporary workers receive an equivalent pay only after 12 months at the same job.

⁸ For an overview see L. Kaiser, *Sweeping modernisation of labour market policy proposed*, Hans-Böckler-Stiftung, <http://www.eiro.eurofound.ie/2002/09/Feature/DE0209205F.html>.

- Ich-AG and Familien-Ag. Low-paid self-employment is to receive a more favourable tax treatment, with a fixed rate of 10% (instead of the current 19.9%) for all income below €25,000 per year. It is hoped that this will bring workers in the unofficial economy back into the registered economy.
- Job Floater. Companies, especially in eastern Germany, are to get low-interest loans of €100,000 for each unemployed individual they hire on a permanent basis. The budget available for this measure is €10 billion.

II Improvement of the employment service, by means of:

- Job Centers. All Germany's (181) labor offices are to change their names to *Job Centers* and become one-stop shops for those seeking employment ('Service aus einer Hand'). An up to date list of available vacancies is required. Each job seeker is assigned a personal case manager.
- Simplification of labour law, in particular simplification of part-time work ('Leistungsrechts').
- People who have been fired or who know they are about to be laid off are required to register immediately with local labor offices. The requirements that govern entitlement to full unemployment benefit and assistance are to be tightened. Under the proposals, penalties may be incurred if an unemployed person turns down a job that has been offered or refuses to accept a position in a personnel service agency. Young single unemployed people will be required to accept jobs anywhere in Germany, rather than just in their region, otherwise they risk losing their claim for full benefits. More generally, the burden of proof on the suitability of a vacancy will be reversed. At present, the labour office has to prove that a job offered to an unemployed person is appropriate for his or her skills and requirements before it can cut benefits. Under the Hartz proposals, the unemployed person will have to prove that a job offer is unreasonable.
- Expansion of availability of child daycare facilities.
- Promotion of training and employment for young people, e.g. JUMP for youngsters will be expanded to JUMP plus
- Development of a 'bridge' system of employment for older persons. Income loss if older persons resume work will be compensated by the Bundesanstalt.

III Overhaul of the massive Federal Employment Service (Bundesanstalt für Arbeit):

- The Bundesanstalt für Arbeit will be reformed into a modern employment service agency. This requires a simplification of the instruments for the promotion of employment, and strengthening of competition.
- A better allocation of responsibilities and a more effective organisation of workflows and control activities at the BA.
- A merger of unemployment benefits ('Arbeitslosenhilfe') and welfare benefits ('Sozialhilfe').

As said, the center piece of the Hartz concept is the PSA: temp agencies where private firms can hire temporary workers, while the workers obtain protection by the temp agency. Hartz expects that about a

fifth of the unemployed can get a temporary job (see FD 16-8-2002).⁹ To summarize, given the background of the installment of the Hartz-report sketched in the previous section, it was to be expected that most of the efforts would be directed towards improvement of the employment service. It cannot be denied that the report gives clear clues and leads how a modernized employment service could work in the future. However, since Hartz is quite ambitious in what these reforms can bring about in terms of unemployment reduction, it is legitimate to evaluate whether these proposals are indeed the most important and promising measures to be taken to reduce unemployment. The next section sets out where the reduction of unemployment by almost two million comes from and presents some criticisms on the report.

4. Some criticisms on the Hartz-report

By far the most criticized aspect of the Hartz-report is its ambition to halve unemployment within three years. Wolfgang Franz, President of the Zentrum für Europäische Wirtschaftsforschung (ZEW), formulate it as follows:

Befremden erweckt die (implizite) Vorstellung, der Staat hätte es in der Hand, eine bestimmte Beschäftigungssituation herbeizuführen, zumindest nähme er hierbei die Führungsrolle ein. Dies ist eine afwegige Vorstellung. Arbeitsplätze werden von privaten Unternehmen geschaffen (zumindest sollte das so sein), auf die die staatliche Wirtschaftspolitik im Wesentlichen einen nur indirekten und nachrangigen Einfluss hat, nachrangig etwa im Vergleich zur Lohnpolitik und der Entwicklung der (Welt-) Konjunktur. Die Führungsrolle bei der Schaffung von neuen und wettbewerbsfähigen Arbeitsplätzen haben die Tarifvertragsparteien" (W. Franz, Für mehr Beschäftigung: Was jetzt zu tun ist, ZEW news Sonderausgabe nach der Bundestagswahl, Sept. 2002, p. 3).

Hartz expects too much from the shortening of the unemployment spell and improvement of employment services (450,000), the increase of part-time work (280,000) and the effectiveness of PSA to deliver permanent jobs after time to temporary workers (500,000), reduction of youth and long-term unemployment by special efforts of job centers (230,000) and the boost of self-employment (500,000). In total, 1,960,000 more jobs will result (see 'Die Rezepte der Job-Macher', in *Stern* 18-07-2002). Herman Scherl, an economist from Nürnberg, estimates that 100,000 is the most likely outcome and 500,000 the maximum potential of the Hartz measures (see FD 10-8-2002). Following Wolfgang Franz, much will depend on economic growth and on the behaviour of unions and employer associations. By and large, new jobs only result if economic growth is higher than 2%, whereas the expectation for 2002 is about 0.5-1% (see FD 17-8-2002).

⁹ Randstad, an originally Dutch firm, is very prominent in Germany and has even the highest market share. Under pressure of the unions temporary workers have now their own collective labour agreement, including 30 holidays and a 13th month. The minimum wage however is only €6,20 (see FD 17-8-2002).

The bottom line of the criticism of Trube and Wohlfart¹⁰ is that Hartz concentrates too much on the improvement of job search by unemployed:

Allen öffentlichkeitswirksamen Vorschlägen gemeinsam ist, dass das Strukturproblem Arbeitslosigkeit in ein Vermittlungsproblem umdefiniert wird. Nicht fehlende Arbeitsplätze, sondern deren Besetzung hemmende Faktoren sollen beseitigt werden und die sind nach Meinung der Gutachter in erster Linie darin begründet, dass der Arbeitslose zu teuer, zu wenig motiviert und bei den bisherigen Instrumenten offensichtlich vermittlungsresistent ist.... Die meisten Vorschläge der Hartz-Kommission wie z.B. JobCenter, PersonalServiceAgenturen (PSA), Familienfreundliche Quick-Vermittlung, Neue Zumutbarkeit etc., zielen im Wesentlichen letztlich darauf ab, die Übergänge von Arbeitslosigkeit in Arbeit zu verbessern, was unterstellt, das eigentliche Problem in der Bundesrepublik sei eine Mismatch- bzw. friktionelle Arbeitslosigkeit, d.h., dass vorhandene Arbeitslose nicht passgenau auf die vorhandenen Stellen zu vermitteln wären. Nur: Das ist ausdrücklich nicht das entscheidende Problem, sondern die negative Arbeitsmarktbilanz, die einen Fehlbedarf von ca. sechs Millionen Stellen ausweist. In der Bundesrepublik herrscht seit über 25 Jahren Massenarbeitslosigkeit, die in ihren Grundzügen maßgeblich eher auf Struktur- als auf Vermittlungsprobleme zurückzuführen ist.

This criticism is especially relevant in Eastern Germany: against 1,4 million unemployed there are only 76,000 vacancies (see FD 18-08-2002). The report can be optimistic about the potential of temporary work contracts, self-employment or Job Floaters to bring down unemployment, but in a weak labour market there is also a danger of introducing a hire and fire mentality amongst employers and of strong substitution effects where temporary workers and self-employed persons replace regular workers.¹¹

Employees leaving a job will be required to register at the labour office immediately after receiving notice, rather than after they have actually left. Although this will allow labour offices more time to relocate workers before they join the unemployment register, also much more bureaucracy is involved. To give an idea, if 30 million people are at work with an average turnover rate of 5%, each year 1.5 million notices are sent. Given a staff of 90,000 employees at the BA, this amounts to more than 15 notices per employee which must be checked, whereas only a small minority cannot find new work on their own.

Another criticism is that Hartz misses the point:

¹⁰ Achim Trube and Norbert Wohlfahrt, *Zur fachlichen und wissenschaftlichen Qualität wohlfeiler Reformkonzepte der Arbeitsmarkt- und Sozialhilfepolitik*, http://www.arbeitnehmerkammer.de/sozialpolitik/doku/1_politik/ba_hartz_trube_wohlfahrt_2002_10.pdf.

¹¹ See also Trube and Wohlfahrt (*ibid*, p. 7): "Bei Hartz liegen die 'blinden Flecken' vor allem bei der konsequenten Unterlassung der Ausweisung von Netto-Nutzen-Wirkungen, indem fast durchgängig die Verdrängungs-, Substitutions- und Mitnahmeeffekte seiner Vorschläge ignoriert bzw. bagatellisiert werden.... Dies ist insbesondere bei den Verdrängungseffekten normaler Beschäftigungsverhältnisse durch die für die Unternehmen deutlich günstigeren geringfügigen Beschäftigungsverhältnisse und die Subunternehmerschaft von

On balance, the Hartz commission's proposals contain important elements that correct some of the shortfalls of the German labour market. However, the Economist Intelligence Unit believes that they do not address the most important grievance of employers. The main problem of the German labour market is not the stringent restrictions on hiring and firing,¹² nor frictional unemployment, high social benefits or weak public investment. Rather, it is the lack of flexibility in the wage-setting mechanism, which limits the ability of employers to adjust for differences in the productivity of workers with different skills, in different companies, sectors and regions. The rigidity of the wage-setting mechanism has meant that wages for low-skilled labour tend to be too high relative to their productivity, which makes companies reluctant to hire them.

This criticism suggests that Hartz must be supplemented by other proposals which make a low wage sector more viable in Germany. The point is not so much that Hartz is wrong, but that the Hartz-package is not enough. Supplementary measures are required, e.g. to motivate unions and employers to make wages more flexible or to subsidise low wage workers.

5. Elements for discussion

This section has a limited goal. It only wants to raise a few points which might be relevant for the discussion at the expert meeting. First of all, it might be an interesting thought experiment for Dutch labour economists to evaluate the Hartz recommendations if they were translated to the Dutch context. Maybe some parts seem not relevant, e.g. the Netherlands have already a high share of part-time and temporary workers. Is it true that some of the proposed reforms are already implemented in the Netherlands, as the Hartz-commission says it is inspired by the Dutch labour market policy? If so, is this of any help to explain why unemployment was at its top in 1985 in Holland but still modest in Germany, whereas now it is just the other way round. Because of the almost constitutional provision of the 'tariff autonomy' in Germany, it seems that Germany and the Netherlands are not comparable in the wage-setting mechanisms by means of which government can influence the employment situation.¹³ This would also suggest that Germany must follow a different route than the Netherlands to solve unemployment. The success of the polder model hinges to a large extent on continued wage moderation, subscribed by unions, employer associations and the government. Wage moderation might also happen in Germany due to market forces, but this is something different than a deliberately chosen or coordinated labour market policy.

Ich-AGs möglich. Es wäre betriebswirtschaftlich irrational, wenn ein Unternehmer, sich die dann bietenden Gelegenheiten zur Personalkostensenkung entgehen ließe."

¹² "Maybe the restrictive nature of Germany's employment protection laws is not the dominant factor for explaining the high level of unemployment, as this primarily influences the turnover on the labour market, rather than the absolute level of jobs. In addition, less productive, low-skilled unemployed workers, who are the primary problem cases, are unlikely to be hired by the agencies. Many companies may just replace ordinary employees with workers from personnel service agencies. The overall impact of this measure is therefore likely to be limited" (see http://www.livestation.com/content/de/economy/german_employment.htm).

As set out in the previous section, much criticism is levelled at the fact that the Hartz Commission is excessively focused on job placement, whilst the core of the problem might not job placement, but the lack of vacancies. To halve the number of unemployed by the end of 2005 and to reduce the average unemployment spell by one third is not seen as realistic by most critics. Perhaps only a sweeping reform, with a significant cut in labour costs, could establish that.

There is perhaps too much focus on bringing down the unemployment rate. Instead, much can be said that German labour market policy should focus much more on raising the participation rate¹⁴ and must abandon its preoccupation with the unemployment rate. To make this point clear, imagine that a policy maker is offered the choice between two states of affairs, the one with an unemployment rate of 9% and a participation rate of 60% and the other with an unemployment rate of 10% but a participation rate of 65%, and also other things equal. For a host of reasons, the most important the sustainability of the welfare state, the latter is to be preferred to the former. Also, a policy to raise the participation rate can differ substantially from a policy aiming to reduce the unemployment rate. First of all, the target group differs: the participation rate (measured in the share of persons of the labour force engaged in paid work) can be raised by stimulating the large group of non-participating housewives to enter the labour market. This will not have any direct effect on the unemployment rate. Next, the participation rate can be raised by implementing measures in the legislative sphere, e.g. on working part-time, relaxation of hiring and firing restrictions, shortening of the duration of social benefits, without budgetary costs. Regarding the objective of raising participation rates, the measure that older workers will be allowed to deregister from the unemployment roll without loss of benefits in order to free staff and resources in the labour offices to concentrate on more employable younger workers, is controversial. With the ageing of the population in Germany as well as in Holland it becomes increasingly important to maintain high participation rates among the older, and also densely populated, cohorts.

In the CPB report *Challenging Neighbours*¹⁵ the proposal is made to copy the Dutch bargaining model at the national level to Germany on a *regional* scale. To secure that the negotiators will internalize the negative external effects of high wage claims, the regio must get a higher budget responsibility:

Is the revitalized Dutch model of any help in creating a more flexible socioeconomic order in Germany? Although the Dutch model is often believed to fit only a relatively small homogeneous society like the Netherlands, some of its strong elements may be applied in Germany at the level of individual Länder. Accordingly, less coordination would occur at the national level but more bargained consultation would take place at the regional level. This would not only allow flexibility to accommodate diverse regional circumstances and to

¹³ For an historical account of the German bargaining structures, see C.W.A.M. van Paridon, *Het Duitse overlegmodel. In ongerede geraakt?*, *Tijdschrift voor Arbeidsvraagstukken* 2002, Jg. 18, nr. 4, p. 351-64.

¹⁴ Despite the much higher unemployment rate in Germany, the German participation rate (in 2000 58.6% in full-time equivalents) is still higher than in the Netherlands (57.2%, see Table 5 in Lei Delsen, *Meer banen, minder armoede?*, *Tijdschrift voor Arbeidsvraagstukken* 2002, Jg. 18, nr. 4, p. 365-75).

¹⁵ CPB report *Challenging Neighbours*, 1997/3, L. Bovenberg, G. Gelauff and André de Jong, p. 45.

experiment at the regional level, but also help to build commitment within Länder... The German system of collective bargaining is not conducive to wage moderation. In particular, sectoral collective bargaining is less strongly influenced by consensus building at a centralized level than it is in the Netherlands. Rather, by giving leading sectors a large autonomy in collective bargaining, it tends to induce leapfrogging. In line with the suggestions with respect to the socioeconomic order, part of the centralized coordination in Germany could occur at the regional rather than the national level because the building of consensus and commitment tends to be easier at a lower level. In order to ensure that regional agents internalize the external effects of their bargain on the unemployment level, the regional level may have to assume a larger budget responsibility for unemployment insurance. Bargaining consultation at the central -- regional -- level could provide general guidelines, while delegating specific issues to a more decentralized level to meet the need for more differentiation and flexibility.

However, this proposal, also put forward by Fehn, is criticized by Butter and Blien in their final chapter 'Spielraum zu politischen und institutionellen Reformen für deutsche und niederländische Arbeitsmärkte - einige Konsequenzen aus dem Ländervergleich'.¹⁶

Die Zuweisung erweiterter regionaler Kompetenzen bei der Arbeitsmarktpolitik könnte sicherlich zu einer verbesserten und vor allem angemesseneren Reaktion auf Arbeitsmarktprobleme in der Bundesrepublik beitragen, indem asymmetrische regionale Schocks besser verarbeitet werden können. Leider hätte die beschriebene, weitgehende Regionalisierung der Leistungen und der Finanzierung der Arbeitslosenversicherung sicherlich problematische Konsequenzen für die regionale Entwicklung. Prosperierende Regionen könnten niedrigere Beiträge verlangen als Krisenregionen, dies würde zu einer Kostenentlastung der Unternehmen in den besser gestellten Bundesländern beitragen, während jene in den schlechter gestellten einen zusätzlichen Nachteil hätten. Durch eine regionalisierte Arbeitslosenversicherung würde eine zusätzliche Tendenz zur regionalen Divergenz auf Arbeitsmärkten etabliert werden. Fehns Vorschlag wäre nur realisierbar, wenn die institutionelle Ausgestaltung der Arbeitslosenversicherung tatsächlich die zentrale Determinante nicht nur der Arbeitsmarkt-, sondern sogar der Wirtschaftsentwicklung wäre. Dann könnte man auf die Wirksamkeit des Wettbewerbs unter den Bundesländern hoffen.

To this can be added that, due to the strong 'Tarifautonomie', the government in Germany has only a very limited influence on the employment rate. The 'Bündnis für Arbeit', set up by Schröder in the beginning of his first term, did not yet succeed to reconcile the diverging interests of unions, employer associations and the federal government.¹⁷

¹⁶ See BeitrAB Nr. 262: *Institutionelle Rahmenbedingungen für Beschäftigungspolitik in den Niederlanden und in Deutschland*, <http://www.iab.de/iab/publikationen/beitrab2002.htm>.

¹⁷ For an assessment of the very limited usefulness of the Dutch model for Germany, see Lei Delsen, *Das niederländische Bündnis für Arbeit und seine Wirkungen*, *Arbeit*, Heft 4, Jg 9 (2000), S. 119-132.

To what extent receive competing models – Mayence model (Mainzer Modell)¹⁸ or the EITC (Earned Income Tax Credit) model - less public recognition now that the discussion concentrates on the pros and contras of the Hartz model. In the Mayence model, the government reduces labour costs by taking over low wage earners' social security contributions. Employers would then be induced to hire those people whose marginal productivity of labour is lower than the gross wage rate consisting of the net wage plus social security contributions. This model has the advantage of being simple: it implies high subsidies for the very low wage earners, but strong negative incentive effects for those higher wage earners whose subsidies are withdrawn. Under EITC, a wage earner receives an increasing wage supplement in the low wage range, which declines steadily at higher wage rates. Incentives to work are said to be higher under EITC than under the Mayence model.¹⁹

Finally, in the Netherlands recently much effort is spent to establish so called transitional labour markets, to wit setting up arrangements that allows for temporary breaks in the labour market career for study, sabbatical, home work etc. It seems that this life-cycle approach to labour market policy is absent in the Hartz-concept.

¹⁸ See IAB (2001), Institut für Arbeitsmarkt- und Berufsforschung-Materialien 3/2001, <http://www.iab.de/ftproots/mat0301.pdf>2001.

¹⁹ See Hans-Werner Sinn, Sinn, Die Höhle in der Eiger-Nordwand. Eine Anmerkung zum Mainzer Modell und zum Wohlfahrtsstaat an sich, *Ifo Schnelldienst*, vol. 55, 3, pp. 20-25.