

# Germany: study draws devastating balance of the Hartz labour reforms

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Who can still recall the 2002 German elections?

At that time, the name Hartz was at the centre of the Social Democratic Party's (SPD) election campaign. Faced with horrendous numbers of unemployed and a stagnating economy, Chancellor Gerhard Schröder (SPD) published the proposals drawn up by a commission headed by Volkswagen personnel director Peter Hartz, promising wondrous results.

In an article in the SPD house organ *Vorwärts*, Schröder said the proposals by the Hartz commission represented a "concept for the lasting reduction of unemployment by implementing thorough and reasonable reforms of the labour market" and were a "blueprint for more employment, for people to take more individual initiatives and for more security." Up and down the country, Hartz and Schröder announced the reforms would halve the number of unemployed from 4 million to 2 million within two years.

Ten days before the elections, the Bundestag (parliament) adopted the package of laws known as "Hartz I" and "Hartz II.. After the election, Hartz III and IV followed.

Among SPD voters the Hartz proposals met with widespread rejection. The core of the legislation involved the privatisation of the state-run employment agency, cuts in unemployment benefits and the formation of a low-wage sector. The unemployed were to be forced to accept any work they were offered. In the end, the SPD and Green Party coalition owed their extremely narrow re-election not to the Hartz reforms, but to their opposition to the Iraq war.

The trade unions enthusiastically welcomed the Hartz proposals. "Getting 2 million people back into work—that's something we support," commented the chairman of the IG Metall union, Klaus Zwickel. The unions had also participated in the Hartz commission, alongside high-ranking representatives of big business and SPD functionaries.

For the unions, the Hartz proposals formed a welcome pretext to place themselves unreservedly behind the SPD and avoid any struggle against the Schröder government over the devastating level of unemployment. Such a struggle would have inevitably raised the question of a political alternative—that mass unemployment cannot be overcome within the existing capitalist system. Instead, the trade unions claimed the Hartz commission had pointed a way to overcome mass unemployment with Germany's well-proven method of "social partnership."

Three years afterwards, the balance sheet of these reforms is devastating in every regard. A study running to several thousand

pages has found that, even based on the business-friendly criteria of the Hartz commission itself, the reforms were nothing more than an enormous fraud—it was all show, propaganda or "spin." It is no coincidence that Volkswagen is the company that invented "transparent manufacturing," presenting "auto-city Wolfsburg," where it has its headquarters and oldest plants, as a theme park.

"Many of the Hartz reforms" missed their target of lowering unemployment, the report notes. Some even proved counterproductive.

Unemployment figures failed to fall in either 2004 or 2005, but continued to rise. In February 2005, it briefly exceeded 5 million, thereby reaching the highest level since 1933, when Hitler came to power. However, the Hartz measures did prove effective in creating and expanding an extensive low-wage sector.

The study into the effects of the Hartz measures was commissioned by the SPD-Green Party government and was conducted by several economics research institutes, including the Berlin Centre for Science, the German Institute for Economic Research (DIW), the Rhine-Westphalia Institute for Economic Research (RWI), as well as the Centre for European Economic Research (ZEW). Although the final report was available six months ago, well before the October 2005 Bundestag elections, the Schröder government kept it under wraps for obvious reasons. On December 27, 2005, Germany's main business daily *Handelsblatt* reported for the first time on the study.

The report deals with the Hartz I-III regulations. The Hartz IV regulations, combining unemployment benefits and welfare assistance, aimed at cutting benefits to the long-term unemployed (those jobless for over one year), are to be dealt with in a separate study.

The privatisation of the state-run employment agency, establishing instead so-called "Personnel Service Agencies" (PSA), was considered to form the "core" of Hartz I. These PSAs hire unemployed people and then subcontract them out to various companies. Peter Hartz promised that the establishment of PSAs alone would create 500,000 new jobs. This proved to be pure hype; in reality not even one tenth of this target was achieved. Since 2003, some 127,000 jobless were referred to a PSA; not even a third of them (38,000) found employment in a job that paid enough to warrant social security contributions.

According to *Handelsblatt*, the PSA was the worst of all the measures investigated in the study. "On average, when compared to a control group, those in a PSA experienced longer

unemployment by almost one month, at the same time, the monthly costs exceeded what the scheme brought in.” The way the Personnel Service Agencies were then set up meant they were “neither effective nor efficient.”

The only measure that *Handelsblatt* said the report evaluated positively was the introduction of so-called “Me Inc.” (Ich Ag), introduced in 2003 as part of the Hartz II reforms. Such “Me Inc.” companies (in fact, single individuals posing as “companies” and responsible for their own exploitation) were aimed at encouraging self-employment, offering a three-year subsidy to those who participated. Me Inc. workers were generally employed as freelancers by companies (mainly in the computer and advertising sectors) or providing services to wealthy private households.

Almost 356,000 people had established a Me Inc. by November 2005. According to one study of such jobs in North Rhine-Westphalia, despite receiving a degree of state support, only one in four were able to live from the income they generated through their Me Inc. Consequently, approximately 120,000 Me Inc. companies were wound up. Those who had taken this self-employment route and failed were usually left with enormous debts, further increasing the pressure to accept whatever work was then offered.

The new regulations establishing so-called “mini jobs” had a similar effect. The level of income for those employed in such “marginal employment,” the legal definition for mini jobs, was increased from €325 to €400 a month under the Hartz II regulations (which meant that employers could pay a much lower rate of social security contribution). The introduction of mini jobs created a boom in marginal employment, writes *Handelsblatt*, but “there are substantial doubts regarding the integration of the unemployed into the jobs market.” The transition from mini job to regular work is usually the exception.

This result of the Hartz reforms—the establishment of an uncertain low-wage sector, which also serves to undermine the collectively agreed wages system—was the political intention from the outset. In particular, the Christian Democratic Union-led government is now taking the publication of the report in *Handelsblatt* as justification to demand further steps expanding the low-wage sector.

CDU Secretary-General Ronald Pofalla said the results of the study confirmed the course being proposed by the Christian Democrats. The catalogue of supporting measures offered by the Federal Employment Office (BA) should now be “thinned out.” The Christian Democrats want to cut the last remaining funding for job-creation schemes or re-training, replacing them with a state-subsidised low-wage sector. They are canvassing for a “combination wage” model, under which a person’s pay would comprise a portion derived from “mini wages” paid by the employer and a state subsidy. The previous SPD-Green Party government had already intended to introduce combination wages.

The present grand coalition government of the CDU and SPD is trying to utilise the report into the effects of the Hartz measures in order to strengthen the negative consequences of the reforms. The number of people in jobs paying sufficiently high wages to be eligible for social security contributions has fallen sharply. In September 2005, 331,000 fewer people were in such a job

compared to one year earlier.

What has risen is the number of those employed in the low-wage sector or working in a Me Inc. Approximately 4.9 million men and women presently work in a mini job. This is an increase of more than 30 percent over the last five years. Moreover, 1.5 million work in a mini job alongside their main occupation. They often perform the same jobs that were previously held by those in full-time work. In addition, there are approximately 240,000 in a Me Inc., and some 255,000 in so-called “one-euro jobs.” In these jobs, the unemployed can be made to undertake so-called “community” work for €1-2 an hour “compensation” in addition to their unemployment benefit, up to a maximum of €200 a month.

Cheap wage working is also growing apace elsewhere. Increasingly, university and college graduates are taking on low paid or even unpaid “internships” as the number of unemployed graduates continues to rise.

At the end of September 2004, there were approximately 253,000 unemployed graduates in Germany. Some 95,600 of these had no professional experience, with 22.4 percent being jobless for more than one year. Thousands of these unemployed architects, economics and social scientists, linguists, software experts, engineers, etc., are forced to work without wages—in particular those who have recently graduated from university.

In early 2007, the German Trade Union Association intends to present the results of a detailed study on the scope and extent of the exploitation of young students in so-called “internships.” The initial results of the study already point to a fatal development: Under the camouflage of “internships,” “volunteering” or “project assistants,” unpaid or badly paid work has increased considerably. Some 39 percent of those questioned receive no payment during their internship despite working full time and about half of respondents complained about “exploitation.”



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