Ten years since Germany’s Hartz IV labor reform

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On August 16, 2002 a panel of experts headed by Volkswagen personnel director Peter Hartz presented their proposals for labour market reform to the Social Democratic Party-Green Party coalition government led by Chancellor Gerhard Schröder (SPD). Ten years later, German society has been transformed in large part due to the Hartz reforms.

An OECD study published late last year concluded that income inequality has increased faster in Germany than in virtually any other member country.

Ten years ago, the German economy was pilloried for paying excessive wages, possessing a rigid labour market and a social system that was much too generous. The problem confronting the German government was how to make changes to labour contract and social agreements won by workers over the course of decades without provoking substantial resistance. The government chose a different path.

Instead of seeking a frontal confrontation with well-organized sections of the working class, it created an ancillary labour market dominated by low wages and not subject to social rights. That was the task of the Hartz Commission.

As a member of both the SPD and Germany's biggest trade union, IG Metall, Hartz possessed the necessary connections. Sitting on his commission alongside business consultants, managers and scientists were union representatives such as Isolde Kunkel-Weber (Verdi) and Peter Lane (IG Metall). Commissioner Harald Schartau, minister for labour and social Affairs in the state of North Rhine-Westphalia, was also a former union official.

The union officials had no objection to a low-wage sector, as long as their own positions and privileges in the factories remained untouched. In fact, they responded enthusiastically to proposals to reduce labour costs in order to strengthen the competitiveness of the German economy on the world market.

The Hartz Commission developed a host of proposals to force workers into precarious forms of low-paid work. Most have long since been forgotten.

Among the original proposals was the setting up of Personnel Service Agencies (Hartz I), whereby the state itself would function as a labour agency. Unemployed workers were to be relieved of social benefits through the creation of so-called mini-jobs, midi-jobs and I companies (Hartz II). The revamping of the Federal Labour Office in accordance with the principle of “support and demand” (Hartz III) was aimed at accelerating job placement and stepping up the pressure on the unemployed to take any sort of job.

Official sources all agreed that Hartz IV, whereby unemployed workers lost all rights to full unemployment pay after one year and were reduced to begging for social crumbs, was a resounding “success.” After one year workers could only apply for the meagre benefit of €347 per month—and that only after they had exhausted all of their savings and if their spouses were unable to support them. They also have to take any job, irrespective of their qualifications or previous income.

Whoever lands in the Hartz IV trap has little chance of evading poverty. According to a study by the Joint Welfare Association, three-quarters of those affected

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remain permanently dependent on Hartz IV.

The mere threat of falling into the Hartz IV trap forces many unemployed to take up low paid employment, with limited hours and with no security, pension entitlements or other benefits. In a comment on the Hartz anniversary, the *Süddeutsche Zeitung* concluded: “Hartz IV established the principle that it is always better to work for less money than a life of permanent dependency on the state.”

The results of the Hartz laws can be seen in countless statistics. Just 29 million of Germany’s nearly 42 million workers have jobs with full social benefits. Some 5.5 million men and women work part time, and 4.1 million earn less than €7 an hour. There are 4.5 million people dependent on Hartz IV, including 1.4 million who have work but still cannot earn enough to cover their living expenses.

The low-wage sector in turn serves as a lever to drive down wages in the rest of the economy. In the last decade, increases in unit labour costs in Germany have been minimal; the country is at the bottom of European tables in this respect.

Business associations, the media and leading political parties have celebrated the Hartz reforms as a great success. In the *Bild* newspaper former Chancellor Schröder called the measures a “net benefit to society” which had “paid off for our country.”

If by “our country” one understands the richest 10 percent of German society, then Schröder is right. They have profited enormously. Here, too, the statistics speak for themselves. In 2008 the income of the wealthiest 10 percent was eight times higher than that of the poorest 10 percent. This figure has increased in the past four years since the onset of the economic crisis. In the 1990s, this ratio stood at six to one.

In 2010, 924,000 millionaires lived in Germany alongside 4.5 million Hartz IV recipients. The total is now expected to top 1 million.

The Hartz measures and the attendant Agenda 2010 introduced by the SPD and Greens represented an onslaught on the German welfare state that no conservative government had achieved. These “reforms” were only possible due to the active support of the unions.

Peter Hartz himself is unable to enjoy his “success”. In 2007 he was sentenced to two years imprisonment on probation and a hefty fine and is now shunned by society. Hartz was involved in a bribery scandal involving trade union representatives at Volkswagen which was so manifest that even the German judiciary eventually felt compelled to act.

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