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Labour Market Policy in Germany: Institutions, Instruments and Reforms since Unification

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Abstract

Almost 15 years after Unification in 1990, Germany is still struggling with the economic consequences of this event. Although the East German economy has made considerable progress since its near-collapse after the German monetary, economic and social union in July 1990, the East German labour market has not yet recovered. Western Germany, which had to bear a substantial part of the fiscal cost of German Unification, is also faced with high unemployment though the rate is considerably lower than in the Eastern part. Expenditure for activation measures and income support during unemployment is substantial and one of the highest among OECD countries. In response to exploding cost of unemployment and continuing public pressure to solve the unemployment problem, the German Federal Government has started the largest social policy reform in the history of the Federal Republic. This paper reconstructs the development of the German labour market and the stepwise reform of German labour market policy since German Unification in 1990. It provides a detailed description of the instruments of German active labour market policy and reviews the existing econometric evidence on their effectiveness.

Keywords

Labour market policy, unemployment, Germany

JEL Classification

J68

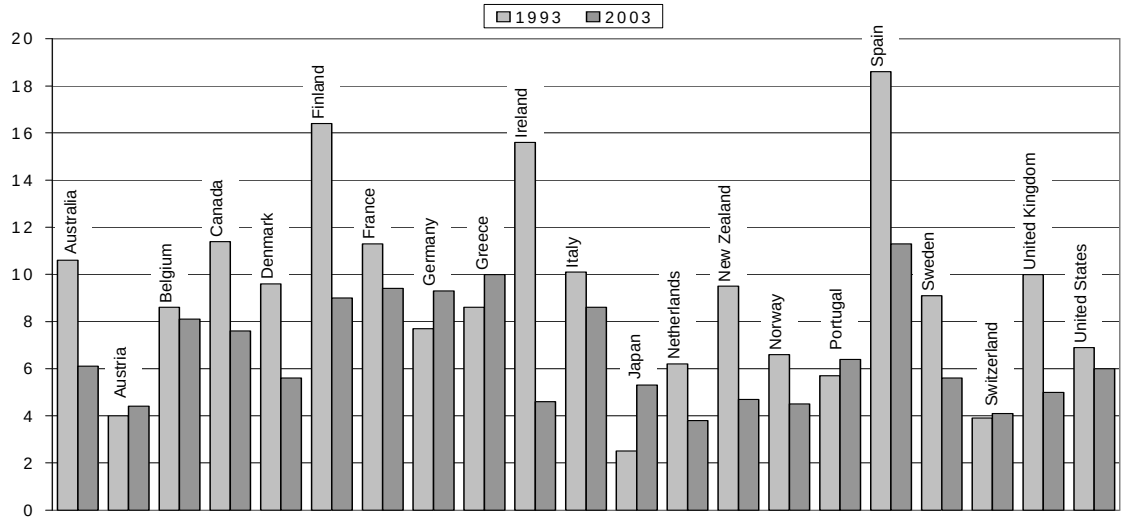
1 Introduction

Almost 15 years after Unification in 1990, Germany is still struggling with the economic consequences of this event. Although the East German economy has made considerable progress since its near-collapse after the German monetary, economic and social union in July 1990, the East German labour market has not yet recovered. Quite to the contrary, unemployment has doubled from 10 per cent in 1991 to 20 per cent in 2004 and has become increasingly persistent as indicated by rising incidence of long-term unemployment. Western Germany, after a short post-unification boom in the early 1990s, is still struggling with the financial burdens of German Unification. The recovery of the East German economy in the early and mid 1990s has been induced and sustained by huge money transfers from the West to the East.[1] In addition, a substantial part of the initial cost of East German unemployment was, in fact, borne by Western Germany. In 1990, the rather generous Western social insurance system had been extended to the former German Democratic Republic (GDR) which did not have a comparable system, so that initial funding for activation measures and benefit payments had to be provided by West German social insurance. Even today, substantial transfers from the West to the East are used to prevent the already weak East German economy and labour market from further deterioration. The high cost of German Unification together with an unfavourable state of the world economy in the early 1990s which depressed German exports, had negative impacts on the West German economy and labour market. As a result, unemployment rose and became increasingly persistent in Western Germany as well. Today, Germany is one of the very few OECD countries with higher unemployment than close to the peak of the world recession in 1993 (see Figure 1).

During East German transition from a centrally planned to a market economy, active labour market policy (ALMP) has become one of the most important economic policy instruments of the German Federal Government. In 1991, about one third of the East German labour force had participated in some ALMP measure (BA, 1992a). In the period 1991 to 2002, Germany has spent between 1.2 and 1.7 per cent of its GDP on ALMP (OECD, 2004*b*,*c*). Also, with increasing levels and persistence of unemployment, expenditure for income support during unemployment has risen to 2.1 per cent of GDP in 2002. In total, Germany has spent 3.3 per cent of its GDP on labour market policy in 2002. Of the 21 OECD countries included in Figure 2, only Denmark, Belgium and the Netherland had higher expenditure. In response to exploding cost of unemployment and continuing public pressure to solve the unemployment problem, the

[1] In the period 1991 to 1999, between 4.1 and 5.4 per cent of West German GDP went to Eastern Germany in the form of public transfers (Wurzel, 2001).

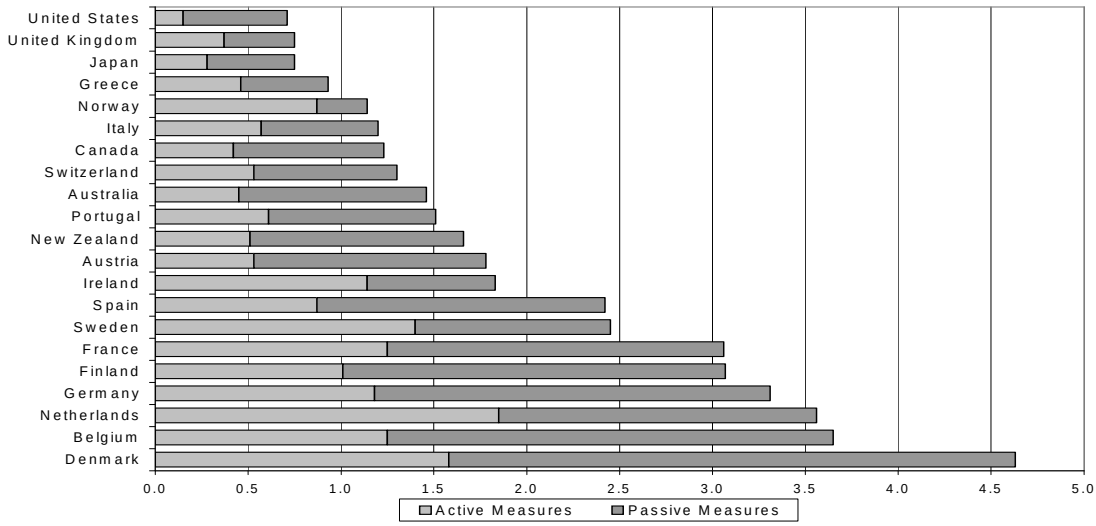
Figure 1: Standardised unemployment rates in 21 OECD countries 1993 and 2003



Note: Unemployment as a percentage of the total labour force. Greece: 1993 and 2002.
Source: OECD (2004*b*).

German Federal Government has started the largest social policy reform in the history of the Federal Republic in 2002. Substantial labour market and welfare reforms had taken place earlier in several other OECD countries with high unemployment rates in the early 1990s, e.g. in Australia, Finland, Ireland and the United Kingdom. These countries have succeeded to lower their unemployment rates considerably (see Figure 1).

Figure 2: Expenditure on active and passive measures in 21 OECD countries 2002



Note: Expenditure as a percentage of GDP. United States, Japan, Canada, Australia, New Zealand fiscal year 2001-02, United Kingdom 2002-03, Greece 1998, Ireland 2001.
Source: OECD (2004*b*).

This paper reconstructs the development of the German labour market and the stepwise reform of German labour market policy since German Unification in 1990. The remainder of the paper is organised as follows. Section 2 describes the developments in the German labour market following the German monetary, economic and social union. In Section 3, the general objectives of German labour market policy and their changes over time are discussed. Section 4 provides information on the public employment service in Germany. In Section 5 an overview over the German unemployment insurance system and its recent reform is given. Section 6 discusses the different instruments of Germany's active labour market policy and how they have been used under changing economic conditions, and it reviews the existing econometric evidence on their effectiveness. The last section, 7, summarises and concludes.

2 Development of the German Labour Market after Unification

In 1989, the centrally planned economy of the German Democratic Republic (GDR) was characterised by a capital stock and production technologies that were largely obsolete by Western standards, an industry structure that was biased in favour of agriculture and manufacturing and against services, as well as strong dependency on exports to the CMEA[2] countries. Almost 55 per cent of the GDR's industry equipment was older than 10 years and more than 21 per cent older than 20 years. Agriculture, forestry, energy, mining and manufacturing accounted for 47 per cent of employment compared to only 37 per cent in Western Germany. Almost 73 per cent of the GDR's exports went to CMEA countries.[3] Moreover, most of the GDR's goods were produced for the sheltered domestic and CMEA market only. Thus not being exposed to open competition in the world market, product quality was frequently low. The GDR had a labour force of about 10 million people in 1989 and unemployment was almost non-existing.[4] Western Germany, in contrast, was a modern market economy with a labour force of about 28 million people and an unemployment rate of 7.9 per cent in 1989 (BA, 2001).

The German monetary, economic and social union on July 1, 1990, introduced the Deutschmark in the GDR, replaced all trade, capital and labour movement barriers between Eastern and Western Germany, and harmonised their legal, tax and social insurance systems. Within days a severe price-cost squeeze became apparent (Akerlof et al., 1991). Because contractual wages were converted into Deutschmarks at par and contracts remained unchanged in nominal terms

[2] The Council for Mutual Economic Assistance (CMEA) was an organisation for the economic cooperation of the communist countries Soviet Union, Bulgaria, Czechoslovakia, GDR, Hungary, Romania, Poland, Cuba, Mongolia and Vietnam, which had existed from 1949 to 1991.

[3] All numbers are taken from Siebert (1991).

[4] However, estimates of hidden unemployment range from 15 to 30 per cent (BA, 2001).

while - in response to intensified competition - nominal producer prices were roughly halved, real wage costs approximately doubled in July 1990. In contrast, the ratio of gross wages to the cost of living remained almost unchanged. In addition, East Germans began to substitute Western products for domestic goods on a massive scale. As a consequence, industrial output declined by 35 per cent in the same month, a phenomenon which affected every major industrial sector and virtually every commodity (Akerlof et al., 1991). Output declined further as CMEA countries were no longer able to pay the effectively tripled prices (given the true value of the GDR's currency) of East German goods and new buyers could not be found given the lack of world market competitiveness of most products (BA, 2001). By December 1990, production of goods had dropped to 46 per cent of its 1989 level (Akerlof et al., 1991). This had strong adverse impacts on the East German labour market. From 1989 to 1991 the work force declined by almost 3 million people (BA, 2001). A substantial part of these people was directly absorbed by active labour market programmes (see Section 6.2) to keep the official unemployment rate - which does not include participants in ALMP - from skyrocketing. Many older people left the labour force encouraged by generous early retirement schemes. In spite of this, registered unemployment rose rapidly to a rate of more than 10 per cent in 1991 (BA, 1992a).

Western Germany, in contrast, experienced a boom directly after Unification. With substantial East German spending diverted away from domestic products to previously unavailable West German goods, production and labour demand increased in Western Germany. GDP grew 5.7 per cent in 1990 and 5 per cent in 1991 (see Table 1). Unemployment declined to a rate of 6.2 per cent in 1991 despite a significant growth of the labour force due to migration from Eastern Germany and Eastern Europe to Western Germany.[5] At the same time, the world economy was experiencing a recession. In 1992, this recession also began to affect Western Germany because of its large export share. Economic growth slowed down to only 1.7 per cent. Already one year later, the West German economy was deep in recession. GDP declined by 2.6 per cent in 1993 and unemployment rose to 8 per cent.

Despite a boom in the construction industry due to substantial public infrastructure investment and private building activity as well as a constantly expanding service sector which produced annual GDP growth rates of 6 to 9 per cent, the situation in the East German labour market continued to deteriorate in the mid 1990s. One reason for this was the large and only slowly narrowing gap between worker productivity and wages (see Table 1). Already in 1990, at the beginning of East German transition process, in most industries collectively bargained

[5] Annual migration from Eastern to Western Germany during 1989 and 1990 amounted to about 2 per cent of the East German population (Akerlof et al., 1991).

Table 1: Selected economic indicators for Germany 1990-2004

Year	GDP growth[a]		Unemployment rates[b]		Productivity[c]	Gross wages[d]
	West	East	West	East	East/West	East/West
1990	5.7	-15.6	NA	NA	NA	NA
1991	5.0	-19.2	6.2	10.2	32.9	57.5
1992	1.7	6.2	6.4	14.4	35.5	67.7
1993	-2.6	8.7	8.0	15.4	39.0	74.2
1994	1.4	8.1	9.0	15.7	41.4	77.1
1995	1.4	3.5	9.1	14.8	42.5	79.1
1996	0.6	1.6	9.9	16.6	43.4	79.5
1997	1.5	0.5	10.8	19.1	44.6	79.8
1998	2.3	0.2	10.3	19.2	66.9	80.1
1999	2.1	1.8	9.6	18.7	67.7	80.9
2000	3.1	1.3	8.4	18.5	68.5	81.3
2001	1.1	-0.5	8.0	18.8	69.1	81.2
2002	0.2	-0.2	8.5	19.2	69.9	81.2
2003	-0.1	-0.2	9.3	20.1	NA	81.2
2004	1.7	1.2	9.4	20.1	NA	NA

Note: All entries are in per cent. [a]GDP at constant 1995 prices. The numbers for 2004 are first preliminary estimates. [b]Registered unemployment as a percentage of the dependent civilian labour force. [c]GDP per hour worked at 1995 prices. [d]Gross wages per employee. NA: not available.
Source: Statistisches Bundesamt, BA (1992a-2004a), IAB (1998).

wages were set to reach parity with West German levels in 1994. Yet, the wage increases were completely unrelated to labour productivity which, in 1991, was only 33 per cent of the West German level. In contrast, wages were already at 57 per cent in 1991. Although average education levels were high in Eastern Germany, many were underprepared for work in a modern market economy (Akerlof et al., 1991). The human capital of many East Germans depreciated rapidly due to a completely changed demand for skills. In addition, the East German capital stock inherited from the GDR was largely obsolete by Western standards. One argument for a quick catch-up of East German wages popular among both politicians and union leaders was that otherwise, there would have been massive migration from the East to the West which would have congested the already crowded labour and housing market in Western Germany (Franz and Steiner, 2000). In response to rising unemployment throughout the early and mid 1990s, collective agreements have been adapted. Achievement of wage parity has now been postponed to 2007 or later in most industries. Since 1995 relative wages have remained almost constant at about 80 per cent of the West German level (see Table 1).

In the second half of the 1990s, growth in the East German economy slowed down, mainly induced by the down-sizing of the construction industry following the continuous cut in public expenditure, as well as substantial layoffs in the public sector.[6] As a result, unemployment

[6] For a detailed description of the East German process of transition and economic integration see e.g. IAB (1998) or, somewhat more recently, Wurzel (2001).

in Eastern Germany increased further to more than 19 per cent in 1998. With the recovery of the world economy in the late 1990s, the situation also began to improve in Germany. In Western Germany, GDP growth increased from only 0.6 per cent in 1996 to more than 3 per cent in 2000. Unemployment fell from almost 11 per cent in 1997 to about 8 per cent in 2000. In Eastern Germany, on the other hand, the recovery was only short. After stagnation in the period 1997 to 1998, GDP grew by almost two per cent in 1999, but growth already began to decline in 2000. From 2001 to 2003, the East German economy has been shrinking. The unemployment rate remained almost unchanged at about 19 per cent during these years and has reached a new peak of more than 20 per cent in 2003. In Western Germany, economic growth decelerated following the slow down of the world economy after September 11, 2001, and unemployment returned to more than 9 per cent in 2003. Currently, the German economy is suffering from the enormous cost of its high and persistent unemployment and the still to be solved structural problems in Eastern Germany which, supported by a strong Euro which depresses exports, constrain Germany's full participation in the recovery of the world economy. In 2004, the German economy has grown by 1.7 per cent which is the highest rate since 2000. However, the situation on the labour market did not improve. The unemployment rate remained unchanged at about 20 per cent in the East and increased slightly to 9.4 per cent in the West.

Tables 2 and 3 show the structure of registered unemployment in Eastern and Western Germany from 1991 to 2003. There are substantial differences between these two labour markets. Firstly, East German women have been affected by unemployment to a much larger extend than their West German counterparts in the early and mid 1990s. This is the result of a traditionally much higher labour force participation rate of East German women which, in 1991, was 77 per cent compared to only 58 per cent in Western Germany (BA, 2001). However, the participation rates as well as the proportion among the unemployed are converging. In 2003, labour force participation of women was 73 per cent in Eastern Germany compared to 65 per cent in the West, while women made up 49 per cent of the unemployed in the East and 43 per cent in the West (BA, 2004*a*). There is also a substantial difference with respect to the fraction of non-German unemployed which is much larger in Western Germany. This is due to the fact that the number of non-German nationals living in Eastern Germany is very low though increasing. Another striking difference exists for unemployed individuals without any formal professional degree. While in Eastern Germany these people make up about 20 per cent of the unemployed, the corresponding number for Western Germany is about two times as high. The reason for this is a higher average education level in Eastern Germany which is the result of socialist education

policy in the former GDR. With respect to the age structure of unemployment there is a strong convergence in the two parts of Germany. In 2003 the fraction of unemployed individuals below age 25 was 12 per cent while the fraction of elderly people of age 55 or older was almost the same. Individuals with health problems make up between 25 and 30 per cent of the unemployed in Western Germany. The corresponding number for Eastern Germany has increased over time from about 10 per cent in 1993 to more than 21 per cent in 2003.

Table 2: Structure of registered unemployment in Eastern Germany 1991-2003

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total number	1,029	1,111	1,159	1,041	1,033	1,100	1,375	1,381	1,472	1,448	1,487	1,502	1,554
Thereof (%)													
Women	60.0	64.7	65.4	66.9	63.7	59.6	58.0	54.2	54.2	51.9	50.7	49.1	49.2
Non-German	1.5	1.4	3.2	3.2	3.6	3.7	3.8	4.0	4.3	4.4	4.5	4.8	4.8
No degree	NA	NA	23.2	20.5	21.0	20.8	21.1	24.6	24.4	25.0	24.3	23.4	22.6
Age <25	NA	NA	11.8	11.3	11.0	11.1	11.6	12.4	11.7	13.2	12.9	13.6	12.3
Age ≥55	NA	NA	7.5	12.4	16.4	20.1	19.8	21.4	21.4	18.1	15.4	12.5	10.1
LTU	NA	NA	30.7	34.7	28.8	27.0	29.8	34.6	31.9	35.4	35.3	38.1	43.4
Health problems	NA	NA	9.9	11.7	13.8	15.7	16.4	18.1	19.4	20.4	21.1	20.8	21.3

Note: The first line states the total number of unemployed individuals in thousand. No degree: no formal professional degree. LTU: at least 12 months (long-term) unemployed. NA: not available.
Source: BA (1992b-2004b).

Table 3: Structure of registered unemployment in Western Germany 1991-2003

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total number	1,610	1,784	2,288	2,452	2,488	2,749	2,933	2,584	2,472	2,237	2,256	2,440	2,653
Thereof (%)													
Women	47.9	46.6	44.5	43.9	44.1	43.5	44.0	45.3	45.8	46.3	45.6	43.9	43.2
Non-German	12.8	14.4	15.3	16.0	16.6	17.3	17.2	17.1	17.0	16.8	17.2	17.2	17.1
No degree	47.3	47.7	46.5	46.3	46.5	46.7	45.7	46.1	45.4	46.2	45.4	42.8	41.3
Age <25	15.2	14.8	14.1	13.3	13.0	12.9	12.4	11.7	11.1	11.4	12.3	12.7	12.2
Age ≥55	19.8	20.5	19.8	21.3	23.0	22.9	22.4	24.3	24.6	23.7	19.4	15.5	11.9
LTU	28.3	26.6	26.0	32.5	33.3	32.7	36.1	37.8	36.8	37.2	32.3	30.0	32.3
Health problems	NA	NA	26.5	26.2	26.3	25.6	25.3	27.1	28.4	29.8	29.2	26.7	25.2

Note: The first line states the total number of unemployed individuals in thousand. No degree: no formal professional degree. LTU: at least 12 months (long-term) unemployed. NA: not available.
Source: BA (1992b-2004b).

An interesting pattern can be observed for the proportion of long-term unemployed (LTU). For Western Germany it shows the increasing persistence of unemployment up to 2000. In 2001 and 2002 the rate has declined but started to increase again in 2003. In Eastern Germany the situation was different. Before Unification there was virtually no unemployment. With the dramatic rise in unemployment during the early stages of transition, the proportion of LTU also increased rapidly until 1994. When unemployment dropped in 1995 the fraction of LTU also declined and dropped further in 1996. Since then, however, the proportion of LTU has increased

steadily independent of the development of the unemployment rate indicating that East German unemployment has now reached a level of persistence comparable to or even worse than that of Western Germany in 2000.

3 The Changing Objectives of German Labour Market Policy

Until the end of 1997 the legal basis of German Labour Market Policy had been the Employment Promotion Act (*Arbeitsförderungsgesetz*, AFG).[7] Enacted in 1969, it replaced the Job Placement and Unemployment Insurance Act (*Gesetz über Arbeitsvermittlung und Arbeitslosenversicherung*) from 1927 which had become obsolete due to fundamental changes in the economic, social and societal environment. The law had introduced unemployment insurance to the German social security system and its main objective had been to alleviate the negative effects of abrupt loss of labour income when becoming unemployed.

The AFG had been one of the most important sociopolitical laws of the 1960s. Rather than just providing counselling and job placement services as well as passive income support during unemployment, it introduced a variety of new activation measures to German labour market policy. Being established in a situation of almost full employment in Germany their primary objective was to keep employment high and to constantly improve the employment structure in order to foster economic growth (§ 1 AFG). In particular, these measures were aimed at balancing labour demand and supply both quantitatively and qualitatively. Special emphasis was given to training programmes which were designed to constantly adjust and increase the skills of the labour force with the aim of encouraging technological progress and hereby fostering economic growth as well as facilitating fast adjustment of employees' skills to changing demands of employers. § 2 AFG defined the objectives of the policy measures more concretely:

1. to reduce unemployment, underemployment and labour supply shortages,
2. to improve job-related mobility,
3. to eliminate the adverse effects of technological and structural change,
4. to eliminate gender discrimination in the labour market,
5. to improve the labour market integration of disadvantaged people, and
6. to improve the employment structure by region and industry.

In 1981 the goal of reducing illegal employment was added. Although formally these objectives did not change until abolishment of the AFG in 1998, the specific measures provided under

[7] In this and the following sections, the choice of tempi indicates whether or not the specific regulation considered is still effective.

the AFG as well as the form and intensity of their use varied substantially over the years depending on the situation in the labour market. Especially after German Unification in 1990 when unemployment rose rapidly and became increasingly persistent, the divergence between the policy instruments provided under the AFG and the needs of the labour market became more and more apparent. Therefore, in 1998, the almost 30 year old and repeatedly amended AFG has been replaced by Social Code III (*Sozialgesetzbuch III*, SGB III) which substantially reformed German labour market policy.

In contrast to the AFG, the measures provided under SGB III focus on jobseekers that are unemployed or directly threatened with unemployment. Against the background of high levels and persistence of unemployment in Germany in the mid 1990s, they are designed with the explicit aim of preventing or reducing unemployment and payment of income support during unemployment (§ 1 SGB III). This is, for example, emphasised by the fact that job placement has been given priority over passive payment of income support during unemployment and all other active measures unless these are necessary for permanent labour market integration (§ 4 SGB III). Under the AFG legislation job placement and all forms of training had had equal priority (§ 5 AFG). Moreover, the new legislation has given local employment agencies more discretion in implementing ALMP. Up to 10 per cent of the ALMP budget can now be allocated to innovative measures that are not defined in the legislation (§ 10 SGB III). One of the most important innovations of SGB III was that a substantial amount of self-responsibility is required from both jobseekers and employers, and also from employees (§ 2 SGB III). Similar to the old regulations, jobseekers have to use every opportunity to find employment and they have to take up any acceptable job, but requirements for independent job search and acceptability of jobs have been tightened.[8] Employers, on the other hand, have to take measures to prevent layoffs and dependence of their employees on the measures provided under SGB III, and they have to announce and fill vacancies as early and as quickly as possible. Employees, with the support of their employers, have to adjust their skills to changing requirements and must not quit an acceptable job without having a new one if they do not want to loose potential benefit claims.

Only a few years after the enaction of SGB III in 1998, the German Federal Government had to realise that the new legislation had not been able to substantially improve the situation in the labour market. The unemployment rate was declining only slightly despite improving economic conditions in the late 1990s and in 2000. Especially in Eastern Germany the situation remained worrying. There, the unemployment rate stayed above 18 per cent and expenditure of the Federal

[8] The new regulations regarding acceptability of jobs have become effective already in April 1997; see § 103b AFG in the version of March 24, 1997.

Employment Agency for active and passive labour market policy remained almost unchanged at about € 25 billion. As a consequence, the Federal Government agreed on a complete, stepwise reform of German labour market policy.

As a first step and effective from 2002, the so-called Job-AQTIV[9] legislation has changed the main focus of German labour market policy from an *active* to an *activating* and more preemptive and more flexible labour market policy. The most important innovations of the new legislation are (i) intensification of job search monitoring and placement efforts, in particular, (ii) introduction of qualitative profiling to classify jobseekers by their individual strengths, barriers to employment and need for assistance immediately upon registration with the LEA, and (iii) written agreement (*Eingliederungsvereinbarung*) between the jobseeker and the local employment agency setting out the placement strategy and the associated obligations of both parties; (iv) more preemptive and more flexible use of ALMP, introduction of new ALMP measures and simplification of existing ones; and (v) improvement of the labour market integration of youth and elderly people. In addition, to increase both transparency about how UI funds are spent and the effectiveness of ALMP measures, the Job-AQTIV legislation has introduced the obligation to conduct comprehensive research on the effectiveness of all ALMP measures to SGB III.

The second part of the reform has become known under the synonyms Hartz I, II, III and IV.[10] Effective since 2003, Hartz I and II have provided new foundations for faster and lasting (re)integration of jobseekers into the labour market by opening up new opportunities for temporary work, small jobs, self-employment and employment in private households. In addition, conditions for acceptability of jobs have been tightened further and sanctions in case of non-compliance with conditions for receipt of UI benefits have become stricter but also more flexible. Hartz III, which is effective since 2004, has established the legal foundations for the restructuring of the Federal Employment Agency from a bureaucratic public institution to a modern and efficient service provider as well as a considerable simplification of the policy measures (active and passive) provided under SGB III. Finally, effective since January 2005, Hartz IV has established a common basis for serving all jobseekers without unemployment benefit claims with respect to payment of income support as well as availability of and eligibility for ALMP measures. Following the new principle of 'supporting and demanding' (*Fördern und Fordern*) the main objective of the Hartz IV reform is to increase both employment prospects and work incentives for welfare

[9] AQTIV stands for the German equivalents of activate, qualify, train, invest, and place (into jobs).

[10] Dr. Peter Hartz had been head of the commission that worked out the proposals for the reform of German labour market policy following the Job-AQTIV legislation. The official names of the four SGB III amendments are: *Erstes, Zweites, Drittes und Viertes Gesetz für moderne Dienstleistungen am Arbeitsmarkt.*

recipients in order to activate the economic potentials of this group of people and to reduce the number of individuals dependent on social welfare.

4 The Public Employment Service in Germany

4.1 The Federal Employment Agency and its Responsibilities

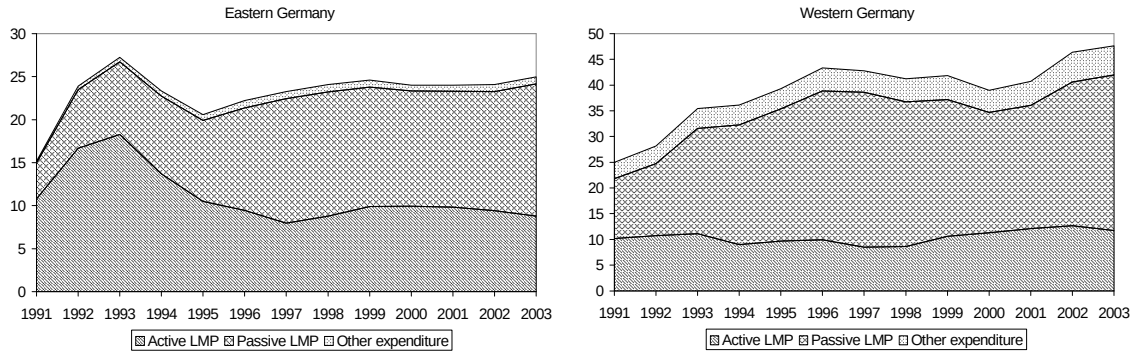
In Germany it is the Federal Employment Agency (*Bundesagentur für Arbeit*, BA)[11] which executes the labour market policy for the Federal Government. The BA is a public institution under direct jurisdiction and supervision of the Federal Ministry for Economics and Labour Affairs (*Bundesministerium für Wirtschaft und Arbeit*, BMWA). Affiliated to the BA are 180 local employment agencies (LEAs) with about 660 branch offices which execute the labour market policy for the BA on the regional and local level. In addition, there are ten regional directorates (RDs) which coordinate the activities of the local agencies. The BA gives the overall directions for the activities of the RDs and LEAs and with this ensures that the labour market policy is executed coherently and consistently in the whole country. The responsibilities of the BA are defined by the duties associated with the provision of the services established by the AFG/SGB III legislation.[12] These can be broadly categorised into counselling and job placement services, labour market training, subsidised employment, support of self-employment, and payment of income support during unemployment. In addition, the BA has to publish detailed labour market statistics on a regular basis. It is also responsible for employment research. While the AFG and earlier versions of SGB III only stated the general obligation to conduct employment research,[13] legislators, with the introduction of the Job-AQTIV legislation, have mandated the BA to conduct comprehensive research on the effectiveness and efficiency of the measures provided under SGB III.[14] The results of this research have to be made available to the public.

The activities of the BA, the RDs and the LEAs are mainly funded by contributions to the unemployment insurance system (UI; see Section 5 for details). In 2003, total UI contributions amounted to € 47 billion and made up about 93.5 per cent of total revenues of the BA. Additional funding is provided by the Federal Government and through financial allocations from third parties.[15] Figure 3 displays the expenditure of the BA from 1991 to 2003 for Eastern and Western Germany. On the one hand, it shows the extensive use of ALMP in Eastern Germany in the first years after Unification. On the other hand, it documents the continuous rise in

[11] Until the end of 2003: *Bundesanstalt für Arbeit*.
[12] § 3 AFG, §§ 280, 370 SGB III
[13] § 3 AFG, § 280 SGB III.
[14] § 282 SGB III.
[15] §§ 340, 354-362 SGB III. See also Section 6.

expenditure for income support during unemployment which is a result of the increasing level and persistence of unemployment in Germany.

Figure 3: Expenditure of the Federal Employment Agency 1991-2003 in billion €



Source: BA (1992a-2004a).

When the German Federal Government started the complete reform of German labour market policy in 2002, it very soon realised that it would also be necessary to reform the more than 30 year old BA in order to fully align goals of the reform and structure of the public employment service. The strongly centralised and bureaucratic institution was no longer compatible with a decentralised, flexible and success-oriented labour market policy. As a consequence, at the beginning of 2004, a complete reform of the BA became effective (Hartz III). In accordance with a success-oriented labour market policy, the former management-by-directives approach has been replaced by a management-by-objectives approach where operationalised goals are set for each LEA taking into account the special circumstances in the local labour market. The RDs, in turn, have the responsibility for the success, i.e. the effectiveness of the regional labour market policy (§ 367 SGB III). The main objectives of the new BA are effective and efficient use of the measures provided by SGB III as well as transparency about how and with which results UI funds are spent. Provision of services has been decentralised and based on the specific, individual needs of the clients of the BA (jobseekers and employers) in order to ensure fulfillment of the set objectives. For this purpose, jobseekers are categorised into different groups according to their individual needs for advice and specific services (see Section 5.1). Moreover, the change in the overall strategy of the BA has been accompanied by the organisational restructuring of the BA which aims at aligning incentives of BA executives and staff with the new objectives of the BA. In particular, caseworkers are increasingly released from administrative duties to give them more time for their core responsibility of serving clients (jobseekers and also employers),

and caseloads are planned to be reduced considerably in the medium run to facilitate more intensive care for each client.[16]

4.2 Outsourcing of Employment Services

The Job-AQTIV legislation has been the beginning of a paradigm change in German labour market policy in many respects. One of them is the understanding that efficiency gains may be realised when allowing for more competition in the provision of employment services. Before 2002, competitive elements in the German system had only been of limited relevance. Although the placement monopoly of the BA had been abolished already in 1994, the responsibility for placement of unemployed jobseekers remained almost exclusively with the BA since private placement agencies were focussing on filling vacancies for managers, executives and high-skilled labour on behalf of employers (Konle-Seidl, 2004). Moreover, despite the fact that outsourcing of training and employment programmes to external providers based on contracts with the BA had been common practice, competition was limited since participants were not able to choose their own provider but were assigned directly by the LEA.

In contrast to Australia and the Netherlands which have established systematic contracting-out of all employment services in the course of a complete welfare reform in the late 1990s (see e.g. Bruttel, 2004, for details), Germany has started to build up opportunities for external provision of employment services which are supplementing rather than replacing the previous system. On the one hand, opportunities for private job placement have been extended considerably since 2002. The Job-AQTIV legislation has enabled caseworkers in the LEAs to refer jobseekers to external providers of placement services if this is likely to improve the jobseeker's chances for successful (re)integration into the labour market. Moreover, individuals who have been unemployed for at least six months have a legal claim for referral. The external provider can receive a remuneration for his services from the BA (§§ 37, 37a SGB III). In addition, an explicit competitive element has been introduced. Jobseekers who have not been referred to an external provider by the LEA are - under certain conditions - entitled to financial assistance for private job placement in the form of a so-called placement voucher (*Vermittlungsgutschein*, § 421g SGB III). Eligibility is restricted to UB claimants who have been unemployed for at least six weeks as well as participants in job creation or structural adjustment measures. The validity of the voucher is three months and it entitles the placement agency which has been chosen by the jobseeker to receive a bonus of € 2,000 for placement into insured employment of at least 15

[16] See Knuth (2004) for further details on the organisational restructuring of the BA.

hours per week. However, to prevent abuse, payment of the bonus is performance-based: the first half is paid after six weeks of continuous employment and the rest only after six months.[17]

In addition to increased opportunities for private job placement, new foundations for more competition in the provision of labour market training have been established. Since 2003, participants in further vocational training (FVT; see Section 6.1.2) for whom BA support is granted receive a so-called training voucher (*Bildungsgutschein*) of potentially limited validity with respect to duration, regional area, or specific educational objectives. With this voucher the individual can choose freely among all providers that have been admitted by the BA (§§ 77, 84-86 SGB III). The idea underlying both training and placement vouchers is that jobseekers will only choose good providers with high success rates so that providers are encouraged to improve the quality of their services and, in the longer run, only good providers will survive. However, critics of these vouchers argue that jobseekers - in contrast to the LEAs - do not have enough information to be able to correctly distinguish good from bad providers (Konle-Seidl, 2004).

As another part of the reform, competitive contracting-out of reintegration services for specific target groups has been enabled for the period 2003 to 2005 (§ 421i SGB III). The main objective of this instrument is to test alternative concepts for the (re)integration of jobseekers into the labour market, but it is also a test of how well competitive contracting-out of employment services works in Germany. External providers can make independent proposals for innovative measures specifically designed for enabling the labour market integration of the target group that has been put to tender by the BA (e.g. long-term unemployed, youth below age 25, elderly people above age 50). The BA then decides which proposal to accept based on both the quality - i.e. the chances for reaching the objectives set by the BA - and the price of the concept. Remuneration of the providers that have been selected by the BA is performance-based in order to provide incentives for both effective and efficient provision of employment services.

Another instrument closely related to the idea of outsourcing of employment services is BA supported temp-work which has been introduced in 2003 (§ 37c SGB III). Based on an agreement between a temp-work agency (TWA) and the LEA, the TWA can employ jobseekers proposed by the LEA to let them work for employers temporarily in need of workers. From the point of view of the BA the hope is that these temporary employments work as a bridge to permanent placement into a job with one of these employers. And even if this is not the case, it still provides work experience and helps to maintain attachment to the labour market. BA support is usually

[17] Before 2005 the requirements that had to be fulfilled for the placement agency to receive the amount certified in the voucher had been less restrictive. Yet, during the first two trial years of placement vouchers a considerable number of cases of abuse had been discovered so that requirements have become much stricter in 2005.

limited to nine months and remuneration includes both a monthly flat-rate payment which is decreasing over time, and a performance-related bonus in case of successful placement of the jobseeker into a job. In times in which the jobseeker does not work for another employer during the term of the contract, the TWA is obliged to assist him in searching for a permanent job and to provide opportunities for further qualification. Similar to measures according to § 421i SGB III, the BA contracts out these services to applying TWAs (Konle-Seidl, 2004).

5 The Unemployment Insurance System

Unemployment insurance (UI) has been established in 1927 as the fourth pillar of the German social insurance system after health insurance, accident insurance and pension insurance.[18] UI funds are used not only for payment of income support during unemployment but also for the provision of employment services. UI is compulsory for all employees with more than a minor employment including apprentices in vocational training. However, civil servants (*Beamte*), judges, professional soldiers, clergymen and some other groups of persons are exempted from contributions.[19] Self-employed individuals are not covered by German UI.[20] The total UI contribution is shared equally between employer and employee.[21] Before German Unification in 1990, the contribution had been 4.3 per cent of the employee's gross salary.[22] In order to be able to cover the cost of the dramatic increase in unemployment in Eastern Germany after Unification,[23] the contribution was raised temporarily to 6.8 per cent for 1991 but was then reduced to 6.3 per cent for the next two years. Since 1994 the contribution is stable at 6.5 per cent.[24] For some groups of people who are subject to UI contributions but do not receive regular salaries the contribution is paid by the Federal Government or some other institution. These include individuals in rehabilitation measures, people who receive sickness benefits, women on maternity leave, and prisoners.[25]

[18] In 1995, compulsory long-term care insurance has been added as the a fifth pillar.

[19] §§ 168-169c AFG, §§ 24-28 SGB III. Minor employments are jobs with a salary less than € 325 (€ 400 since April 2003) as well as short-term and occasional jobs.

[20] However, from February 2006 on individuals that start their own business can apply for voluntary UI if they had been subject to UI contributions for a certain period of time in the past. See § 1 No. 20 Drittes Gesetz für moderne Dienstleistungen am Arbeitsmarkt.

[21] § 167 AFG, § 346 SGB III

[22] Up to the upper earnings limit for social insurance contributions. In 2004 the limit was € 61,800 per year for Western Germany and € 52,200 per year for Eastern Germany.

[23] The former German Democratic Republic did not have unemployment insurance. Special regulations in the Unification Treaty, however, ensured eligibility for unemployment benefits and most ALMP measures of essentially every East German becoming unemployed during the years directly after Unification.

[24] § 174 AFG, § 341 SGB III.

[25] § 171 AFG, §§ 347-349 SGB III.

5.1 Unemployment Benefits

Persons who have contributed sufficiently to the UI can receive unemployment benefits (*Arbeitslosengeld*, UB) for a limited period of time in case of unemployment. A legal entitlement to UB can be acquired if the jobseeker has contributed to the UI for at least twelve months within an entitlement qualification period of three years before the beginning of the unemployment spell. For seasonally employed individuals the minimum contribution period is reduced to six months.[26] After exhaustion of UB, a new claim can be acquired if sufficient months of contributory employment have been accumulated in the meantime. Since 1994, UB claimants receive 67 per cent of their previous average net earnings from insured employment if they have at least one dependent child, and 60 per cent without children.[27] Before, the replacement rates had been 68 per cent and 63 per cent, respectively. UB recipients can earn additional labour income without losing their UB claim if they work less than 15 hours per week. But, except for a small allowance of 20 per cent of the UB payment or at least € 165, it will reduce the benefit payment accordingly.[28]

Table 4: Maximum duration of unemployment benefit entitlement

Year	Age	Cont.	ME	Age	Cont.	ME	Age	Cont.	ME	Age	Cont.	ME	Age	Cont.	ME
1990-1996	≤41	24	10	≥42	36	16	≥44	44	19	≥49	52	23	≥54	64	28
1997	≤44	24	10	≥45	36	16	≥47	44	19	≥52	52	23	≥57	64	28
1998-2005	≤44	24	12	≥45	36	18	≥47	44	22	≥52	52	26	≥57	64	32
2006-	≤54	24	12	≥55	36	18	-	-	-	-	-	-	-	-	-

Note: Age in years, contribution period (Cont.) and corresponding maximum duration of entitlement (ME) in months.

The minimum duration of UB entitlement is six months. The maximum duration increases stepwise with the total duration of insured employment within an extended entitlement qualification period of seven years, and age.[29] Table 4 lists the maximum duration of UB entitlement (*ME*) with the corresponding age limits (*Age*) and minimum contribution periods (*Cont.*) for the years since German Unification. In 1997 UB entitlement had been reduced for the age group 42-56 by raising all age limits by three years. With the introduction of SGB III in 1998, UB entitlement has increased for all age groups. Yet, as one part of the complete reform of the German UI system and becoming effective in February 2006, UB entitlement will be made considerably less generous in order to lower the cost of unemployment directly and to reduce moral hazard in the UI by stimulating job search efforts of UB recipients. The minimum contribution period will

[26] § 104 AFG, §§ 123-124 SGB III.
[27] § 111 AFG, § 129 SGB III.
[28] § 115 AFG, § 141 SGB III.
[29] § 106 AFG, § 127 SGB III.

be twelve months for all employees including seasonal workers and the entitlement qualification period will be reduced to two years. In addition, the extended entitlement qualification period will be shortened from seven to only three years and the maximum duration of UB entitlement will be reduced substantially for the age group above 44.[30]

In addition to previous contribution and age, participation in ALMP measures can have direct implications for the duration of UB entitlement as well. On the one hand, wages received during participation in employment programmes (see Section 6.1.3) had been subject to UI contributions until 2003 and had therefore counted in the same way as regular non-subsidised employment for the accumulation of UB claims. On the other hand, receipt of income support during BA supported training (so-called maintenance allowance, MA) affects UB entitlement. Under the AFG legislation, times of receipt of MA had counted in the same way as insured employment, thus contributing to the accumulation of UB claims.[31] After introduction of SGB III, months in receipt of MA were no longer counted as equivalent to months of contributory employment; they now only extended the entitlement qualification period by up to two years (§ 124 SGB III). Since 2003, however, receipt of MA reduces the total duration of UB entitlement by half of the duration of the programme and, since 2004, it no longer extends the entitlement qualification period. Overall, the 2004 reform has almost eliminated incentives to participate in employment or training programmes for the sole purpose of accumulating UB claims.

To be able to claim UB, jobseekers must register as unemployed at the LEA.[32] A caseworker then conducts an initial interview with the jobseeker to check eligibility for UB, to inform him about the services provided by the LEA, and to outline the obligations associated with receipt of benefits. The latter include independent job search, availability for job placement, take-up of any job that is acceptable, as well as willingness to participate in all activation measures proposed by the caseworker.[33] Since introduction of the Job-AQTIV legislation in 2002, qualitative profiling which assesses individual strengths and barriers to employment is used to classify jobseekers into job-ready, counselling and intensive service clients immediately upon registration with the LEA (Mosley, 2005).[34] Based on this assessment a placement strategy is developed and written down in a so-called jobseeker's agreement (*Eingliederungsvereinbarung*) which is signed by the caseworker and the jobseeker. It sets out both the services provided by the LEA, and the

[30] §§ 124, 127, 434j SGB III in the version of January 1, 2004.
[31] § 107 AFG in conjunction with § 104 AFG.
[32] Since July 2003 jobseekers are obliged to register as searching for a job with the LEA right after notification of their dismissal in order to facilitate quick placement into a new job (§ 37b SGB III).
[33] §§ 100-103 AFG, §§ 117-119 SGB III.
[34] See also Adema, Gray and Kahl (2003) for further details.

obligations of the jobseeker regarding independent job search and participation in activation measures (§§ 6, 35 SGB III).

After the initial interview, the caseworker can schedule a meeting at any time to check compliance with benefit conditions, i.e. the jobseeker's agreement, or to discuss new job offers available, potential benefits of participating in labour market programmes, or adjustment of their job placement strategy. Attendance is compulsory for UB claimants.[35] In case of non-compliance with benefit conditions, the UB payment can be suspended for up to twelve weeks. The total UB claim is reduced accordingly. Repeated offences accumulating to a total sanction period of 24 weeks cease the UB entitlement completely.[36] With the Job-AQTIV legislation and Hartz I, job search monitoring has been intensified and benefit sanctions have become stricter but also more flexible. For example on the one hand, Hartz I has shifted the burden of proof from the LEA to the jobseeker. On the other hand, sanction periods are now different for different kinds of offences (§ 144 SGB III). Also, in contrast to the past, they are more rigorously enforced. As a result, the number of sanctions that actually have been imposed has almost tripled from 57,000 in 2002 to 153,000 in 2003 (BMWA, 2004).

5.2 Other Forms of Income Support during Unemployment

Until the end of 2004, German social insurance had discriminated between former recipients of UB and people who had not contributed sufficiently to the UI.[37] Unemployed individuals who had exhausted their UB claim could receive unemployment assistance (*Arbeitslosenhilfe*, UA). Like UB, UA was proportional to previous earnings but with lower replacement rates than UB (57 per cent with and 53 per cent without dependent children). Also, benefit conditions and sanctions regarding registration, independent job search, take up and acceptability of employment as well as participation in activation measures had been essentially the same as for UB.[38] In contrast, people who had never been eligible for UB could only qualify for social assistance (*Sozialhilfe*, SocA) which was a monthly flat-rate payment unrelated to previous earnings and, in general, considerably lower than UA.[39] Both UA and SocA had been means tested and paid from tax revenue. Also, the duration of the UA/SocA claim had been potentially unlimited. As long as the individual had satisfied all benefit conditions, UA/SocA had been paid until reaching retirement age. Like UB, UA had been administered by the BA though funding had come

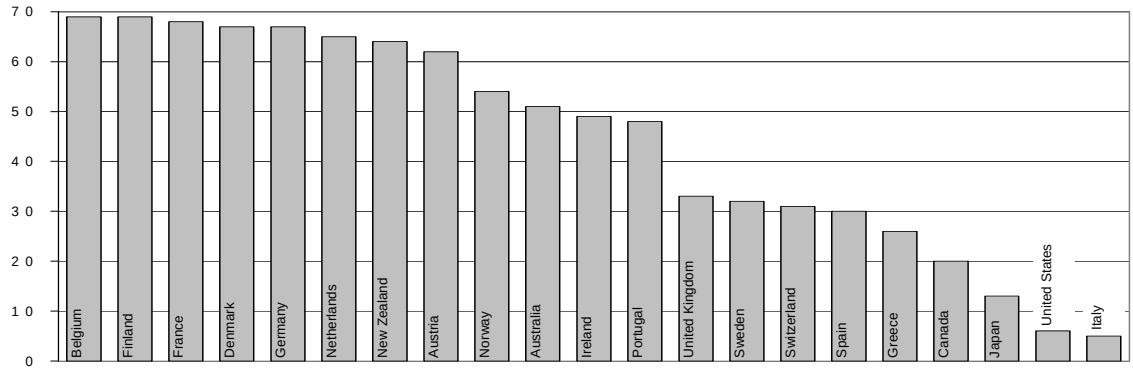
[35] § 132 AFG, § 309 SGB III. From 1994 to 1997 a meeting had to be scheduled at least every three months.
[36] § 119-119a AFG in conjunction with § 103 AFG, § 144 SGB III.
[37] Similar system are still existing in several OECD countries, e.g. in Austria, France and the Netherlands.
[38] The legislation relevant for UA can be found in §§ 134-141 AFG, §§ 190-206 SGB III.
[39] In cases were UA had been lower than the regular SocA rate, UA had been supplemented by SocA.

from the Federal Government and not the UI, while SocA had been administered by the local authorities (municipalities and counties). Besides the amount of benefits, the most important difference between recipients of UA and SocA had concerned eligibility for ALMP measures. While the ALMP measures provided by the AFG/SGB III legislation had been open to UA claimants, recipients of SocA had had access only in exceptional cases.[40]

Box 1: How Generous is the German System?

In order to get an impression of how generous the German UI system was before the recent reforms compared to other OECD countries, Figure 4 shows the average replacement rates over 60 months of unemployment for 21 OECD countries in 2002. The replacement rates have been constructed by the OECD as a proxy measure for the general generosity of UI systems and take into account the different forms of benefits that are available (UB and UA but without SocA), the corresponding nominal replacement rates for different household types and earnings levels as well as the duration of benefit entitlement (OECD, 2004*a*). According to this measure, Germany had one of the most generous UI systems besides Belgium, Finland, France and Denmark. With 67 per cent the average replacement rate was far above the OECD average of 41 per cent. After the introduction of UB II in 2005 and even more after the substantial cut of UB entitlement which will become effective in 2006, the positioning of Germany in this comparison will be much closer to the OECD average.

Figure 4: Average replacement rates for 21 OECD countries in 2002



Note: Replacement rates in per cent. Average over 60 months of unemployment, four family types and two earnings levels. See OECD (2004*a*) for details on the construction of the replacement rates.
Source: OECD (2004*a*).

With the Hartz IV reform, one of the most important parts of the reform of German social policy has become effective on January 1, 2005. Both UA and SocA have been abolished. Instead, a common financial basis has been established for all individuals who cannot provide for themselves and do not receive income support from any other social security institution. In

[40] However, the local authorities offered a variety of work opportunities to SocA claimants, see Section 6.3.

this respect, Germany is converging to the majority of OECD countries. The legal basis for the new regulations is Social Code II (*Sozialgesetzbuch II*, SGB II). Needy individuals who are capable of working but do not qualify for regular UB receive so-called unemployment benefits II (*Arbeitslosengeld II*, UB II) as well as additional allowances for accommodation and heating costs. Their dependants who are living in the same household and who are not capable of working receive so-called social benefits (*Sozialgeld*) which are somewhat lower than UB II. Similar to former social assistance, both forms of benefits are means tested and paid monthly at flat rates which are independent of previous earnings and UI contribution.[41]

The most important objective of the Hartz IV reform is to reduce the number of welfare dependent individuals by reintegrating those capable of working into the labour market independent of their UI status. For this purpose, the LEAs together with the local authorities which had administered SocA, have set up new so-called *Job-Centers* which provide employment services to all jobseekers as one-stop centers (§ 9 SGB III).[42] In this respect, Germany is following the example of the United Kingdom, the United States and Australia which have established one-stop centers already several years ago.[43] Provision of services is based on individual need for assistance and independent of the form of benefit being received. In particular, individuals who have not contributed sufficiently to the UI are no longer excluded from the instruments of ALMP provided by SGB III. Moreover, SGB II has introduced additional measures which have been designed specifically for welfare recipients and their particular barriers to employment like e.g. debt, abuse of alcohol or other drugs, etc. (§ 16 SGB II). Within the Job-Centers, the LEAs are responsible for all activation measures (SGB II and III) as well as payment of UB II and social benefits. Funding for these services is provided out of the federal budget. The local authorities, on the other hand, are responsible for reimbursement of accommodation, heating and one-time costs for e.g. initial furnishing and clothes, child care services, as well as debt, socio-psychological and drug counselling (§ 6 SGB II).

The LEA assigns each welfare dependent individual capable of working a caseworker who should be responsible for no more than 75 clients.[44] In accordance with the new principle of 'supporting and demanding' (*Fördern und Fordern*) and similar to UB claimants, the jobseeker

[41] §§ 19-28 SGB II. For individuals who have exhausted their regular UB claim, the UB II payment is higher than the regular rate for the first two years of receipt of UB II.

[42] As an experiment, the German Federal Government has also admitted 69 local authorities to opt for exclusive provision of employment services to recipients of UB II or social benefits. See Box 2 and §§ 6a-c SGB II.

[43] The United Kingdom has established one-stop centers already in in the late 1980s. Australia and the United States followed in 1997 and 1998, respectively.

[44] At the moment, this target can only be fulfilled for youth below age 25. Before the restructuring of the BA in 2004, caseworkers had been responsible for up to 800 clients so that it will take some time until the target of 75 clients can be reached (Winkler, 2004).

and his caseworker sign a jobseeker's agreement (*Eingliederungsvereinbarung*) which has a duration of six months and states both the services that will be provided to the jobseeker, and his obligations regarding independent job search and participation in employment, training or other ALMP programmes (§ 15 SGB II). Recipients of UB II or social benefits have to take all measures to end their dependence on social welfare. In particular, they have to take any acceptable job or work opportunity that is offered to them, and they must participate actively in any measure proposed by the caseworker to improve their chances for successful labour market integration (§ 2 SGB II). In this respect, benefit conditions are very similar to those for regular UB. In case of non-compliance with benefit conditions, benefits will be cut by 10 to more than 30 percent. To encourage recipients of UB II or social benefits to take up employment, work incentives have been extended considerably compared to both UA and SocA. In the past, people had had almost no incentive to take up a low-paid or part-time job because the additional income earned would reduce their benefits by the same amount (except for a small allowable deduction) so that they could hardly improve their economic situation by working. On the one hand, recipients of UB II can receive a monthly bonus (so-called *Einstiegsgeld*) for up to 24 months when taking up insured employment or becoming self-employed (§ 29 SGB II). On the other hand, up to monthly gross earnings of € 1,500 only part of additional income earned is deducted from the benefit payment (§ 30 SGB II).

Box 2: Opting Municipalities and Counties

In order to test alternative approaches for the labour market integration of UB II recipients, the Federal Government has admitted 69 local authorities to opt for provision of all employment services - i.e. including those which are in the responsibility of the LEAs - on their own. The BA has to provide all necessary data and documents. In return, the opting municipalities and counties report to BA all details necessary for the labour market statistics and evaluation research of the BA. The opting authorities can still contract-out services to the LEAs or agree on other forms of cooperation with the LEAs.

6 Active Labour Market Policy

6.1 The Instruments of German ALMP

Active labour market policy has a long tradition in Germany and among OECD countries, expenditure on ALMP is one of the highest (see Figure 2). The first ALMP measures have been

established by the AFG already in 1969, and some of them are still used today. However, their specific design and the intensity of their use changed considerably over the years depending on the situation in the labour market. With the dramatic rise in unemployment after German Unification in 1990, ALMP has become one of the most important economic policy instruments of the German Federal Government. In contrast to passive payment of income support during unemployment, ALMP measures aim at improving individual labour market outcomes by increasing the employability of the individual, e.g. through training, and by improving individual access to the labour market (OECD, 1993). The instruments traditionally used in German ALMP can be categorised into counselling and job placement services, labour market training, subsidised employment, support of self-employment, and other measures.

6.1.1 Counselling and Job Placement Services

The LEAs provide extensive counselling and job placement services to all individuals searching for a job or an apprenticeship. These include provision of information and advice regarding career options and employment prospects, the situation in the labour market, job and apprenticeship vacancies, as well as the availability of ALMP measures.[45] One way of providing these services is through an extensive electronic information system that is accessible from both inside and outside the LEAs. In the LEAs, jobseekers have access to computers that can be used for the search for vacancies in both the BA databases and the internet, for accessing other information systems of the BA, as well as for writing applications. Until 1994 there had existed a placement monopoly of the BA. Other institutions could conduct job placement only in exceptional cases by order of the BA. In 1994 private placement services have been permitted but until 2002 a license from the BA was needed. In the course of the reform of German labour market policy since 2002, opportunities for private job placement have been extended considerably (see Section 4.2). Moreover, with the aim of achievement of an improved image and a higher market share of notified vacancies, placement services for employers have also improved. Besides an improved data base on job openings and better controlling data on the matching process, the LEAs have established integrated service teams which seek and maintain contact with key employers in the region (Mosley, 2005).

6.1.2 Labour Market Training

Training has always been one of the most important measures of German ALMP. Germany belongs to the OECD countries with the highest expenditure on labour market training measured

[45] § 13-32 AFG, §§ 29-43 SGB III.

as a percentage of GDP after Denmark and the Netherlands, and it makes up the largest fraction of total expenditure on ALMP (see Table A.1 in the Appendix). The BA supports labour market training by providing income support during participation and by bearing the direct cost of the programme such as course fees and study material, as well as additional expenses for child care, transportation and accommodation. The training programmes differ largely in their human capital augmenting nature. Five groups of programmes can be distinguished: (i) short training, (ii) basic vocational training, (iii) further vocational training, (iv) retraining, and (v) German language courses. During the first years after enaction of the AFG in 1969 when unemployment was low, BA supported training was used to constantly increase the skills of the labour force with the aim of fostering economic growth as well as facilitating fast adjustment of employees' skills to changing requirements of employers. With rising unemployment after the oil price shocks in the 1970s the focus shifted towards measures aimed at eliminating skill deficits of unemployed individuals. This was particularly the case in Eastern Germany directly after Unification. With the rapid transformation from a centrally planned to a market economy the East German labour force faced a completely changed demand for skills in the labour market. As a consequence, training became one of the most important ALMP instruments during East German transition.

Short training has a duration of no more than twelve weeks and pursues different objectives. It has existed under varying labels in Germany. Until the end of 1992 the BA supported so-called 'measures to improve the placement prospects' of jobseekers (*Massnahmen zur Verbesserung der Vermittlungsaussichten*, § 41a AFG) which had a maximum duration of nine weeks. From 1993 to March 1997 similar courses continued to exist as one form of further vocational training. In April 1997 short training has been reestablished as a separate instrument under the label of so-called 'training measures' (*Trainingsmassnahmen*, TM).[46] Four types of short training can be distinguished. Firstly, there are courses that inform participants about the services available from the LEA. The second type provides an initial assessment of the jobseeker's interests, skills, employment prospects and aptitude for specific jobs or training programmes.[47] In the third type of courses, basic job search assistance is given in the form of learning how to locate job vacancies and how to prepare resumes, as well as by practising job interviews. Finally, there are courses that prepare jobseekers whose skills only need minor adjustment for specific jobs, or they provide the skills necessary to successfully complete vocational training. Similar types of training exist in most OECD countries.

[46] § 53a AFG, § 48 SGB III.
[47] In 2002 courses of this type have been renamed from TM into *Massnahmen der Eignungsfeststellung*.

Basic vocational training: In some special cases regular vocational training in the German apprenticeship system which provides a first professional degree is supported by the BA. Trainees who need separate accommodation in order to be able to reach their training institution and whose apprenticeship pay is insufficient to cover these additional expenses can receive income support from the BA if adequate financial support from their parents is not available.[48] The objective of this measure is to ensure equality in the opportunity to obtain a first professional degree for children of economically disadvantaged families. The duration of basic vocational training varies between two and three years.

Further vocational training (FVT) aims at adjusting the skills of jobseekers to changing requirements in their field of profession. It is the second training measure besides short training that is used in many OECD countries. The programmes included in FVT are very heterogeneous with respect to their human capital augmenting nature. While some courses are very similar to short training, others even award a formal professional degree.[49] Thus, in contrast to most other OECD countries, the human capital investment these courses represent can be quite substantial. This is also reflected in the duration of FVT. While in most OECD countries training programmes have a duration of no more than six months with the majority of courses being much shorter,[50] even FVT that does not award a formal professional degree can have a duration of up to one year or even longer if this is necessary to serve the purpose of the programme. Programmes which award a professional degree, on the other hand, can have durations of up to two and in extreme cases up to three years.[51] Most programmes are full-time courses but part-time, and in very rare cases distance learning courses are also supported. In addition to pure classroom training, FVT can include on-the-job training. This is frequently the case in courses that award a professional degree since on-the-job training is compulsory in the German apprenticeship system with only very few exceptions. With the introduction of SGB III, the maximum amount of on-the-job training has been limited to 50 per cent of the total programme duration in general and 75 per cent in exceptional cases (§ 89 SGB III). FVT can be supported by the BA through payment of a maintenance allowance (*Unterhaltsgeld*, MA) during participation and by bearing the cost of the programme as well as part of the additional expenses for child care, accommodation and transportation. Table A.2 in the Appendix summarizes the

[48] So-called *Berufsausbildungsbeihilfe*; §§ 40-40c AFG, §§ 59-75 SGB III.

[49] §§ 41, 43 AFG, § 87 SGB III.

[50] For example in Sweden, courses have a mean duration of four months (EEO, 2002). Training courses in Switzerland last, on average, only about two months (Gerfin and Lechner, 2002). In Denmark, short and intensive training with a duration of only up to six weeks is provided (EEO, 1997).

[51] § 10 Anordnung des Verwaltungsrates der Bundesanstalt über die individuelle Förderung der beruflichen Fortbildung und Umschulung (AFuU), § 92 SGB III.

eligibility criteria for BA support of FVT. Complementary to this individual support, the BA also supports institutions providing FVT in order to ensure an adequate supply of training programmes.[52]

Retraining aims at enabling jobseekers who have been trained for and worked in a field of profession that has become obsolete due to structural change, to work in a different field with better employment prospects by awarding a new professional degree.[53] It is an instrument unique to German ALMP. In most cases, retraining is conducted as a full-time course that also includes a considerable amount of on-the-job training. The training received is completely equivalent to that obtained during regular vocational training in the German apprenticeship system. Analogous to FVT, the BA not only bears the cost of the programme (including part of the additional expenses for child care, accommodation and transportation) but also pays MA during participation. With a mean duration of almost two years (Lechner, Miquel and Wunsch, 2004), retraining constitutes a substantial human capital investment and BA support of these programmes represents a state intervention in the labour market to an extent unknown in other OECD countries. Some OECD countries like e.g. the United States, Canada, Australia and Sweden, do have retraining that prepares for working in a different profession, yet the extent of the human capital investment involved is far below German retraining.

German language courses: Until the end of 2004, the BA also supported German language courses for certain groups of immigrants. For up to six months, income support was granted to participants who had an employment record in their home country and were willing to take up employment in Germany. In addition, the BA paid the direct cost of the course as well as expenses for transportation.[54] Language courses that aim at facilitating or improving both the societal and the labour market integration of immigrants are common in many OECD countries with a notable amount of immigration (e.g. the United States, Canada, Australia, Switzerland).

6.1.3 Subsidised Employment

Subsidised employment is an important instrument of ALMP in many OECD countries. In Germany, contrarily to e.g. Belgium, Ireland and Spain, this measure is less important than labour market training in terms of expenditure (see Table A.1). There exist two forms of subsidised employment in Germany: temporary wage subsidies and employment programmes. *Temporary wage subsidies* can be either direct or indirect. Most *direct* temporary wage subsidies aim at

[52] §§ 50-52 AFG, §§ 248-251 SGB III.
[53] § 47 AFG, § 87 SGB III.
[54] §§ 62a-62c AFG, §§ 418-420 SGB III.

reintegrating unemployed individuals with reduced productivity by providing incentives for firms to employ these jobseekers. The wage subsidy compensates employers for the reduced work capacity during the first months in a new job. The target group for this measure are persons with barriers to employment like e.g. long-term unemployed individuals, elderly people and disabled persons. Usually, the subsidy is paid during the first six months in the new job, in exceptional cases extensions to a total of up to twelve months are possible. This instrument has existed under different labels and varying but similar designs in Germany.[55] Another form of direct temporary wage subsidy exists since 2002 and has become known under the label of *job rotation*. It is, in fact, a hybrid between support of further vocational training and subsidised temporary employment of unemployed individuals. Employers who send an employee to a full-time training course can receive a wage subsidy from the BA if they employ an unemployed person as replacement for the duration of the course. The subsidy compensates for both the employer's cost of the training course, and the potentially reduced work capacity of the replacement worker.[56]

Indirect temporary wage subsidies, on the other hand, are paid to employees. Short-time work (*Kurzarbeit*, STW) compensations aim to prevent layoffs due to temporary, unanticipated reductions in a firm's labour demand. Employees in STW work significantly less than their contractually agreed working hours. They receive income support from the BA to supplement their reduced labour income. STW was extensively used in Eastern Germany in the first years after Unification. There, until 1992, STW compensations were also paid if the working hours were reduced to zero and even if it was clear that the reduction in labour demand was permanent.[57] Another form of indirect wage subsidies has been designed specifically for workers in the construction industry. Construction workers who cannot be laid off temporarily due to dismissal protection regulations are compensated for income losses due to seasonal or weather-related lack of work.[58] The last form of indirect wage subsidy had existed from 1996 to 2004. The so-called employee assistance (*Arbeitnehmerhilfe*) had been designed to encourage UA recipients to take up temporary employment in the regular labour market in order to maintain their employability and their attachment to the labour market. Eligible individuals had been granted income support during regular but temporary employment of no more than three months.[59] From 1998 to 2002 this measure had also been available to recipients of UB (§ 421b SGB III).

[55] *Einarbeitungszuschuss* (§ 49 AFG), *Eingliederungsbeihilfe* (§ 54 AFG). *Eingliederungszuschuss* (§§ 218-224 SGB III), *Einstellungszuschuss bei Neugründung* (§§ 225-228 SGB III), *Eingliederungsvertrag* (§§ 54a-c AFG, §§ 229-234 SGB III) which has been abolished in 2002.
[56] §§ 229-234 SGB III.
[57] §§ 63-73 AFG, §§ 169-182 SGB III.
[58] §§ 74-89 AFG, §§ 209-216 SGB III.
[59] § 134b AFG, § 56 SGB III.

In times of high and persistent unemployment *employment programmes* are an important measure to maintain the employability of unemployed and especially long-term unemployed individuals, as well as to preserve social stability in regions with particularly high rates of unemployment. Usually, a variety of non-market jobs that are in the interest of the public is provided. The oldest form of employment programmes in Germany are so-called job creation schemes (*Arbeitsbeschaffungsmassnahmen*, ABM). Until 2003, the BA supported providers of ABM by subsidising between 30 and 100 per cent of the salaries of ABM-employees.[60] The specific rate depended on the situation in the local labour market as well as the jobseeker's 'need' for support as measured by the severeness of his barriers to employment. Normally, the maximum duration of ABM was one year but it could be extended to a total of up to three years in exceptional cases. Until 2001, eligibility was limited to jobseekers with an unemployment record of at least six months within the year prior to assignment to ABM.[61] The Job-AQTIV legislation abolished this requirement. In accordance with the new objectives of German labour market policy (see Section 3), LEA staff should be able to use ABM early in the unemployment spell if this seemed appropriate to increase the jobseeker's chances for finding a job.

In order to facilitate creation of new jobs in economically weak regions and to compensate substantial layoffs which have strong adverse impacts on the local labour market, so-called structural adjustment measures (*Strukturanpassungsmassnahmen*, SAM) have been introduced with SGB III in 1998.[62] In contrast to ABM, SAM are targeted at individuals with particularly bad employment prospects, and they are much more restricted with respect to the kind of jobs that can be supported. SAM providers receive a fixed monthly subsidy for each participant. The duration of SAM is normally no longer than three years but it can be extended to a total of up to four years. Since 2002 durations of up to five years are possible for individuals of age 55 and older.[63] Since 2002, the BA also subsidises so-called job creating infrastructure measures (*Beschäftigung schaffende Infrastrukturmassnahmen*, BSI). The objective of this instrument is to support projects that improve the local infrastructure and create new jobs in the regular labour market. In order to ensure creation of additional jobs, the number of employees assigned

[60] Since 2002 the BA also had the possibility to pay a fixed monthly subsidy that is differentiated by education level (§ 265a SGB III).

[61] §§ 91-99 AFG, § 9 Anordnung des Verwaltungsrates der Bundesanstalt für Arbeit über die Förderung von allgemeinen Massnahmen zur Arbeitsbeschaffung aus Mitteln der Bundesanstalt, §§ 260-271 SGB III. Until 1997, there had also existed a special form of ABM for unemployed individuals above age 50 with less restrictive eligibility criteria and longer durations (§ 97 AFG).

[62] In fact, SAM replaced two other forms of employment programmes introduced specifically for Eastern Germany in 1993 (so-called *Produktiver Lohnkostenzuschuss Ost*, § 249h AFG) and for Western Germany in 1994 (so-called *Produktive Arbeitsförderung*, § 249s AFG).

[63] §§ 272-279 SGB III.

by the LEA must not exceed 35 per cent of all BSI employees and the total subsidy should not exceed 25 per cent of the total cost of the project (§ 279a SGB III).

In the course of the reform of German labour market policy, employment programmes have been reformed completely as well in 2004. Under the label of ABM, SAM and ABM have been integrated into one, considerably simplified instrument. BSI, on the other hand, have been extended to measures that improve the environment. The new ABM aim at improving the employability of unemployed individuals in regions with high unemployment. Providers receive a fixed monthly subsidy for each employee which is differentiated by education level of the participant. The maximum duration of the new ABM is two years for employees below age 55, and three years otherwise. Another important innovation has been the exemption of employment in ABM from social insurance contributions (§ 27 SGB III). In the past, participation in ABM had counted as contributory employment for UB entitlement (see Section 5). From the point of view of the BA, the new legislation makes support of ABM much more incentive compatible since it prevents abuse of ABM for the sole purpose of accumulating UB claims.

6.1.4 Support of Self-Employment

In Germany, there exist different instruments to encourage unemployed individuals to start their own enterprise and become self-employed. Firstly, so-called bridging allowances (*Überbrückungsgeld*) can be granted by the BA to formerly unemployed individuals for the first six months while starting their own enterprise. The allowance is composed of an amount equal to the UB or UA payment the individual has or would have received during unemployment and a fixed payment for social insurance contributions. Since 2004, individuals who end or prevent their unemployment by becoming self-employed have a legal claim for bridging allowances.[64] Secondly, since 1997, owners of an enterprise not older than two years with no more that five employees can receive a wage subsidy from the BA when employing a jobseeker who has been unemployed or in some ALMP measure for at least three months and who could not find a job otherwise. The BA subsidises 50 per cent of the salary of the newly employed for up to twelve months.[65] Finally, in 2003 another instrument to encourage self-employment has been introduced which is complementary to bridging allowances. Recipients of income support during unemployment and participants in ABM or SAM that end their unemployment by starting their own small enterprise with expected yearly earnings of no more than € 25,000 have a legal claim for a fixed monthly payment from the BA (*Existenzgründungszuschuss*, ExGZ). The support can be granted for up

[64] § 55a AFG, § 57 SGB III.
[65] So-called *Einstellungszuschuss bei Neugründung*, see § 55b AFG, §§ 225-228 SGB III.

to three years but decreases each year.[66] In contrast to bridging allowances, ExGZ recipients are subject to public pension insurance contributions. Self-employment of formerly unemployed is also supported in several other OECD countries, e.g. in Denmark, the Netherlands, Sweden and Switzerland.

6.1.5 Other ALMP Measures

In addition to the instruments discussed above, there exist several other ALMP measures with very specific objectives. On the one hand, there are supplementary instruments that are designed to encourage unemployed individuals to take up employment by reducing the costs associated with job search and take-up of a new job, and by increasing mobility.[67] The BA provides financial assistance for covering transportation or moving expenses, as well as expenses for special equipment (e.g. special clothes) needed in the new job. In addition, the BA provides grants to bridge the time between take-up of the new job and the first salary payment. Until 1997 the BA had also reimbursed part of the application cost during job search.[68]

On the other hand, there are measures specifically targeted at certain groups of people. These exist in addition to special - usually less restrictive or more generous - regulations for the standard measures discussed above that are applied to persons with special barriers to employment like e.g. long-term unemployed individuals, youth, elderly people and the disabled. One instrument targeted the long-term unemployed had been so-called *Beschäftigungshilfen für Langzeitarbeitslose* which had existed from 1989 to 2002. It was a direct wage subsidy paid by the BA to firms which employed jobseekers who had been unemployed for at least one year. Depending on the duration of previous unemployment, between 40 and 80 per cent of the employee's salary were subsidised. Moreover, in the period 2003 to 2004, the German Federal Government supported another 100,000 individuals above age 25 who had been unemployed for more than six months by paying a monthly case-based compensation for the provision of work opportunities by the municipalities. This programme has been replaced by the measures provided under the new SGB II legislation at the beginning of 2005 (see Section 5.2).

In the period 1999 to 2004, the German Federal Government had also launched several programmes providing both specific measures and additional funding for integrating youth below

[66] The payment amounts to € 600, 360 and 240 for year 1, 2 and 3, respectively; see § 421l SGB III. Until the end of 2003, support was restricted to one-person or pure family businesses (so-called *Ich-AG* or *Familien-AG*).

[67] Another group of supplementary ALMP measures are programmes that are supported with funds from the European Social Fund (ESF). These are targeted at individuals usually not eligible for BA support and include vocational training, training while receiving STW compensations, and support of self-employment.

[68] § 53 AFG, §§ 53-55 SGB III. Since 2003 these services are also provided to individuals threatened with unemployment which take up a new job. This had also been the case under the AFG legislation.

age 25 into the labour market. The main objectives of these programmes had been extension of the supply of apprenticeships, provision of training and work opportunities for youth who have not found an apprenticeship as well as a significant reduction in the caseload of the caseworkers in the LEAs. Total expenditure on youth measures amounted to 0.1 per cent of German GDP in 2002 (see Table A.1).

For elderly individuals there exist early retirement schemes which seek to lower unemployment directly by reducing the labour supply of elderly individuals. Besides the traditional early retirement pensions which are not directly targeted at unemployed individuals, eligibility requirements for UB with respect to job search, acceptance of job offers and participation in ALMP measures are eased for individuals that are 58 or older.[69] Also, in response to the dramatic decline in labour demand in Eastern Germany in the early 1990s, § 249e AFG (later § 429 SGB III) had been enacted for individuals living in Eastern Germany who had become unemployed at the age of 55 or older between October 3, 1990 and December 31, 1991 and who qualified for the maximum duration of UB entitlement. To reduce labour supply, this regulation released these individuals from the obligation to search for a job while receiving benefits from the BA. Instead of UB they received so-called pension transition allowances (*Altersübergangsgeld*). Today, total expenditure on early retirement is relatively low compared to other OECD countries like Denmark, Finland or Belgium (see Table A.1).

There are also measures specifically targeted at the disabled and other individuals with health problems. The services provided to this special group include all measures that are also available to other individuals but the eligibility requirements are less restrictive. In particular, individuals need not necessarily be unemployed in order to be eligible for ALMP measures. The BA also bears the additional costs arising from the disability or health problem. The objective of these measures is to maintain and improve the employability of this group of persons and to ensure their integration into the labour market.[70] Total expenditure is substantial compared to other OECD countries, and almost as high as for labour market training (see Table A.1).

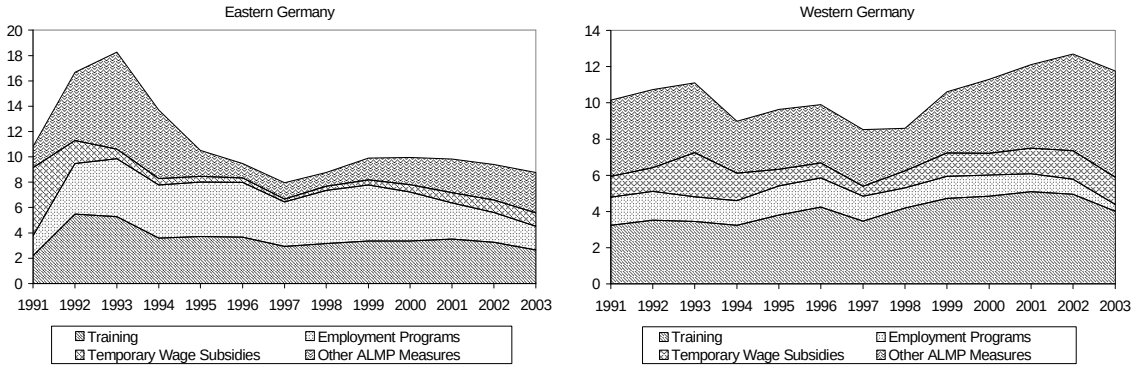
6.2 Use of ALMP Measures in Germany

Figure 5 shows the expenditure for ALMP and Tables 5 and 6 the number of participants in selected ALMP measures in Eastern and Western Germany for the years 1991 to 2003. Since 1991, the BA has spent between 35 and 67 per cent of its annual budget on ALMP with a disproportionately high share going to Eastern Germany which only makes up about one sixth

[69] § 150c AFG, § 428 SGB III.
[70] §§ 56-62 AFG, §§ 97-115 SGB III.

of the German labour force. The dramatic developments in Eastern Germany in the early 1990s required a very specific use of ALMP measures. On the one hand, the East German economy was contracting rapidly leading to substantial reductions in labour demand. To cope with the immediate strongly adverse effects of this, short-time work and early retirement schemes were used extensively. On the other hand, the skills of the labour force did not meet the requirements of a modern market economy, so that different kinds of training programmes were used on a large scale in order to eliminate these skill deficits. As unemployment kept rising and became very persistent, employment programs also became one of the most important ALMP measures.

Figure 5: Expenditure on ALMP 1991-2003 in billion €



Source: BA (1992a-2004a).

In 1991, almost half of East German ALMP expenditure was devoted to short-time work (STW). In order to instantaneously reduce the tension in the labour market due to the rapid and dramatic decline in labour demand in that year, more than 1.6 million people were directly absorbed into STW. The main objective of STW in that year was to delay the transition into unemployment in order to prevent the official unemployment rate from skyrocketing. Another 0.8 million individuals were referred to labour market training (FVT). Among them, 25 per cent participated in short training according to §41a AFG. In addition, 0.2 million individuals were assigned to job creation schemes (ABM). In 1992, the number of recipients of STW compensations declined considerably while use of ABM and training was extended significantly. Also, substantial expenditure was devoted towards payment of pension transition allowances (included in 'Other ALMP Measures' in Figure 5) in the period 1992 to 1994.

In 1993, the pattern of ALMP provision in Eastern Germany began to stabilise. Due to abolishment of short training according to § 41a AFG, inflows into training declined sharply to less than 0.3 million. Since then, the number has decreased further with substantial reductions in

Table 5: Participants in selected ALMP measures in Eastern Germany 1991-2003

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Labour market training[a,d]	760	774	263	268	237	250	155	236	183	214	188	183	92
Thereof %:													
§41a	24.6	16.7	-	-	-	-	-	-	-	-	-	-	-
Women	59.7	65.9	60.1	62.7	66.2	63.6	56.8	54.2	51.9	52.8	50	48.1	42.4
No professional	NA	NA	NA	NA	13.1	12.4	11.0	11.9	12.6	15.9	13.8	13.7	14.1
Age < 25	NA	NA	NA	NA	9.3	8.0	9.0	10.6	12.6	13.6	13.8	14.8	20.7
Non-German	NA	NA	NA	NA	0.4	0.4	0.6	1.3	1.1	1.9	2.1	2.2	3.3
Long-term unemployed	NA	NA	NA	NA	32.9	29.2	27.7	27.1	24.6	27.6	29.8	32.2	26.1
Training measures[a]	-	-	-	-	-	-	-	NA	167	191	227	332	376
German language courses[a]	1	9	16	18	15	19	19	NA	12	13	12	11	10
Short-time work[b]	1616	370	181	97	71	71	49	34	27	24	27	45	35
Job creation schemes[b]	183	388	237	192	206	191	154	151	168	153	123	92	70
Thereof %:													
Women	35.5	41.2	48.1	60.4	65	65.4	63.6	60.9	58.3	56.2	54.5	51.1	45.7
Age > 50	NA	NA	NA	NA	NA	NA	31.8	34.4	33.9	37.9	42.3	46.7	45.7
Age < 25[c]	2.2	4.4	4.6	4.7	4.9	4.2	4.5	5.3	4.8	5.2	5.7	5.4	8.6
Long-term unemployed	NA	NA	NA	NA	NA	NA	76.6	86.8	88.7	85.6	84.6	78.3	60.0
Health problems	NA	NA	NA	NA	NA	NA	5.8	8.6	8.9	11.1	12.2	16.3	18.6
Structural adjustment measures[b]	-	-	-	-	-	-	-	162	180	98	67	58	40
Thereof %:													
Women	-	-	-	-	-	-	-	50.0	47.8	50.0	50.7	48.3	45.0
Age > 50	-	-	-	-	-	-	-	17.9	17.2	24.5	32.8	43.1	57.5
Age < 25	-	-	-	-	-	-	-	NA	12.2	7.1	7.5	5.2	2.5
Long-term unemployed	-	-	-	-	-	-	-	NA	30.0	44.9	50.7	53.4	50.0
Health problems	-	-	-	-	-	-	-	NA	2.2	4.1	4.5	5.2	7.5
Job creating infrastructure measures[b]	-	-	-	-	-	-	-	-	-	-	-	-	4
Temporary wage subsidies[a,e]	133	113	31	19	20	17	11	NA	65	91	99	116	107
Support of self-employment[b]	NA	NA	NA	NA	NA	NA	NA	NA	32	30	31	34	72
Pension transition allowances[b]	189	516	639	524	341	186	58	NA	NA	NA	NA	NA	NA

Note: [a]Inflows in thousand. [b]Average number of participants in thousand. [c]From 1991 to 1997 youth below age 25 without a professional degree. [d]Includes § 41a measures, further vocational training, retraining. [e]Without short-time work. NA: not available.
Source: BA (1992a-2004a).

1997 and 2003. In these two years, ALMP expenditure had been cut significantly. Since 1998, FVT and retraining are increasingly replaced by short training (training measures; TM) which are much shorter (one month on average) and therefore less costly than FVT and retraining. TM inflows have increased from 167,000 in 1999 to 376,000 in 2003. Corresponding to their share among the unemployed, women have always made up a substantial part of training participants in Eastern Germany (42-66 per cent). The same is true for long-term unemployed individuals (25-33 per cent). In accordance with the objectives of labour market training, another important group of participants are individuals without any professional degree. The fact that their proportion (11-16 per cent) is much smaller than in Western Germany (31-41 per cent), just reflects the difference in the structure of unemployment in the two parts of Germany (see Tables 2 and 3). The proportion of young people below age 25 has increased over time from 9 per cent in 1995 to 21 per cent in 2003.

While STW lost its importance after 1993, employment programmes (ABM and later SAM) remained an important instrument of ALMP in Eastern Germany even though the number of participants declined from 237,000 in 1993 to 110,000 in 2003. ABM have been used extensively for long-term unemployed individuals (60-89 per cent) and individuals above age 50 (32-47 per cent). For SAM, the share of long-term unemployed individuals has always been lower but also substantial (30-53 per cent). SAM are increasingly used for elderly people above age 50. Their fraction among participants has more than tripled from 18 per cent in 1999 to almost 58 per cent in 2003 while that of individuals below age 25 has declined from 12 to 3 per cent. The share of female participants in ABM increased from 36 per cent in 1991 to 65 per cent in 1996 but then declined to 46 per cent in 2003. For SAM, it has been relatively stable between 45 and 50 per cent. Temporary wage subsidies had been used extensively during East German transition in the early 1990s but then lost importance until 1998 when the introduction of SGB III and the new measures it provided reversed this trend. Support of self-employment had only played a minor role in Eastern Germany before 2003. In that year, additional opportunities for support of self-employment have been introduced and the number of recipients more than doubled from about 30,000 per annum in the period 1999-2002 to 72,000 in 2003.

As can be seen from Figure 5, the structure of ALMP expenditure has been relatively stable in Western Germany. Total expenditure was cut significantly in 1994, 1997 and 2003. From 1998 to 2002 it had increased steadily. Labour market training has always played an important role in Western Germany. In 1991, almost 0.6 million individuals participated in labour market training. The development of the number of participants over time is very similar to that in Eastern

Table 6: Participants in selected ALMP measures in Western Germany 1991-2003

	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
Labour market training[a,d]	550	551	340	298	392	369	266	372	307	338	261	273	154
Thereof %:													
§41a	9.6	8.5	-	-	-	-	-	-	-	-	-	-	-
Women	42.5	43.2	38.8	42.3	43.4	43.6	43.6	45.7	46.3	47.0	47.9	47.6	48.1
No professional	30.5	31.9	27.4	35.9	39.5	39.6	36.5	35.2	37.1	40.5	40.6	39.2	33.1
Age < 25	16.0	14.9	15.9	12.4	11.2	11.1	11.7	11.3	12.4	10.9	10.7	12.1	16.9
Non-German	5.1	5.8	6.5	7.7	9.4	10.6	10.5	12.1	13.0	13.9	14.2	13.9	12.3
Long-term unemployed	12.5	11.3	9.1	21.1	24.0	20.1	21.4	18.5	18.2	21.0	19.9	20.9	17.5
Training measures[a]	-	-	-	-	-	-	-	NA	265	286	339	545	694
German language courses[a]	124	108	113	110	103	81	69	NA	43	47	43	42	33
Short-time work[b]	145	283	767	275	128	206	133	81	92	62	96	162	160
Job creation schemes[b]	83	78	51	57	70	70	59	59	66	51	43	33	23
Thereof %:													
Women	39.8	39.7	39.2	35.1	37.1	37.1	39.0	37.3	37.9	37.3	37.2	36.4	34.8
Age > 50	16.9	17.9	17.6	19.3	18.6	18.6	16.9	16.9	18.2	19.6	20.9	21.2	21.7
Age < 25[c]	18.1	17.9	19.6	19.3	17.1	15.7	18.6	20.3	19.7	19.6	20.9	21.2	26.1
Long-term unemployed	56.6	56.4	56.9	63.2	67.1	68.6	74.6	79.7	83.3	74.5	69.8	63.6	47.8
Health problems	15.7	16.7	15.7	15.8	15.7	15.7	15.3	16.9	18.2	23.5	25.6	24.2	21.7
Structural adjustment measures[b]	-	-	-	-	-	-	-	12	15	12	9	10	8
Thereof %:													
Women	-	-	-	-	-	-	-	41.7	46.7	41.7	33.3	40.0	37.5
Age > 50	-	-	-	-	-	-	-	16.7	20.0	25.0	33.3	30.0	25.0
Age < 25	-	-	-	-	-	-	-	8.3	13.3	8.3	11.1	10.0	12.5
Long-term unemployed	-	-	-	-	-	-	-	50.0	46.7	58.3	66.7	50.0	50.0
Health problems	-	-	-	-	-	-	-	8.3	6.7	8.3	22.2	20.0	12.5
Job creating infrastructure measures[b]	-	-	-	-	-	-	-	-	-	-	-	-	1
Temporary wage subsidies[a,e]	52	31	10	9	10	10	9	NA	131	121	102	115	96
Support of self-employment[b]	NA	NA	NA	NA	NA	NA	NA	NA	66	62	64	89	178

Note: [a]Inflows in thousand. [b]Average number of participants in thousand. [c]From 1991 to 1997 youth below age 25 without a professional degree. [d]Includes § 41a measures, further vocational training, retraining. [e]Without short-time work. NA: not available.
Source: BA (1992a-2004a).

Germany. There was a sharp decline in 1993 to about 339,000 participants due to abolishment of short § 41a measures. Until 2002, the number dropped further to 273,000 participants and declined considerably to only 160,000 participants in 2003. This development was more than an offset by an increasing number of participants in TM which more than doubled from 265,000 in 1999 to 694,000 in 2003. As already mentioned, in contrast to Eastern Germany, a large fraction of West German training participants does not have any professional degree (31-41 per cent). The number of women and youth below age 25 among training participants corresponds more or less to their proportion of the unemployed. The fraction of long-term unemployed individuals is significantly lower (18-24 per cent) compared to both their share among the unemployed, and Eastern Germany. Another difference to Eastern Germany is the relatively large share of non-Germans among training participants (5-14 per cent).

Employment programmes have only played a minor role in Western Germany. The number of participants in ABM has declined from 83,000 in 1991 to 33,000 in 2003. SAM, on the other hand, only has between 8,000 and 15,000 participants per year. There are also substantial differences with respect to the structure of participants. Compared to Eastern Germany, youth below age 25 and individuals with health problems make up a much larger fraction of participants in ABM and SAM. On the other hand, women and elderly people below age 50 have significantly lower participation rates than in Eastern Germany. The share of long-term unemployed individuals is lower for ABM and higher for SAM. Like in Eastern Germany, temporary wage subsidies have gained importance in 1998. Also, the number of recipients of support of self-employment has tripled from 89,000 in 2002 to 178,000 in 2003. STW had been used extensively in 1993 in response to rising unemployment in that year. Finally, Figure 5 indicates that a substantial part of West German ALMP expenditure has been devoted to 'Other ALMP Measures'. The most important part of these are measures specifically targeted at the disabled and other individuals with health problems. In Eastern Germany, this instrument only plays a minor role.

6.3 Referral to Activation Measures

With the exception of counselling and job placement services, participation in ALMP measures is generally defined by receipt of some form of financial assistance from the BA, and jobseekers must apply for this support. For most ALMP measures, there is no legal entitlement to BA support and it is the caseworker in the LEA who decides whether or not an applicant who is eligible will receive financial assistance as well as in which specific measure applicants could participate. In practice, the caseworker usually decides in consultation with the potential participant what

measure - given eligibility - would be appropriate based on an assessment of the individual's employment prospects, strengths and weaknesses. Caseworkers have a considerable amount of discretion in their decision. In contrast, some OECD countries use statistical classification methods to assist caseworkers in their decision. Targeting systems like the Frontline Decision Support System in the United States, assign jobseekers based on expected programme impacts. Profiling systems, on the other hand, classify jobseekers by their need for services as defined by some criterion like the risk of becoming long-term unemployed. Statistical profiling is used e.g. in the United States, Australia, the Netherlands and Australia. See Frölich, Lechner and Steiger (2003) for details. Germany has tested a combination of qualitative and statistical profiling in a pilot project (see Rudolph and Müntnich, 2001).

Before introduction of the Job-AQTIV legislation in 2002, legislators both under the AFG and SGB III had given only few directives for referral of applicants to specific measures. According to § 33 AFG which referred to all training programmes, caseworkers had to use their discretion in accordance with the objectives of the AFG and the specific aims of the programmes. When making their decision they had to consider the situation and development of the labour market, and they had to act based on the principle of economic efficiency. The caseworker had to take into account the aptitude of the applicant for specific jobs and his chances for completing the training successfully (§ 36 AFG). In contrast, for ABM preferential access had to be given to jobseekers with multiple barriers to employment like long-term unemployed or disabled individuals, elderly people above age 50 or youth below age 25 without any professional degree.[71] Under the SGB III legislation, ALMP measures have to be applied in accordance with their specific objectives in order to not only temporarily avoid payment of income support during unemployment (§ 5 SGB III). Until 2001, caseworkers had to base their decisions on the principle of economic efficiency and they had to choose the combination of services that seemed most promising for a specific individual when considering his skills and his chances for successful integration into the labour market. If certain ALMP measures required a choice between different applicants, priority had to be given to those individuals with the best chances for integration.[72] On the other hand, individuals especially in need of assistance such as long-term unemployed or disabled individuals, elderly people with barriers to employment, and individuals returning to the labour market had to be represented in appropriate numbers among participants in ALMP measures (§ 7 SGB III). Women had to be supported proportionately to their fraction of the unemployed (§ 8 SGB III).

[71] § 2 Anordnung des Verwaltungsrates der Bundesanstalt für Arbeit über die Förderung von allgemeinen Massnahmen zur Arbeitsbeschaffung aus Mitteln der Bundesanstalt.

[72] Note that this regulation legalises the practice of cream-skimming.

The Job-AQTIV legislation has been the beginning of a paradigm change also with respect to the referral process. While still following the principle of economic efficiency and also taking into account the situation in the local labour market, assignment to programmes is now based on individual need for services which is determined on the basis of a newly established qualitative profiling scheme. Based on an assessment of the jobseeker's qualification, mobility, flexibility, motivation, behaviour, specific barriers to employment and an evaluation of the risk of becoming long-term unemployed, individuals are classified into job-ready, counselling and intensive service clients. The different profiling criteria as well as the exact classification of jobseekers are summarised in Tables 7 and 8. Special target groups as formerly defined by § 7 SGB III, are no longer mentioned. At the same time, eligibility for some ALMP measures which had been restricted to special groups of people in the past (e.g. JCS to individuals with an unemployment record of at least six months), has been extended in order to ensure that ALMP measures can be used as seems appropriate to improve the employment prospects of a specific jobseeker and not be constrained by overly restrictive eligibility criteria.

Table 7: Profiling criteria

Criterion	Description
Qualification	Educational attainment and its market relevance, job specific knowledge and skills, work experience, experience in management of personnel, language skills, extracurricular activities
Mobility, flexibility	Regional and national mobility, market relevance and variety of desired employments, working time, desired pay
Motivation, behaviour	Individual job search efforts, application behaviour and documents, own initiative, willingness to participate in training, appearance
Barriers to employment	Health problems, drug abuse, indebtedness etc.
Long-term unemployment	At risk of staying unemployed for at least one year

Source: Rudolph (2003).

Table 8: Classification of jobseekers

Class	Description	Proposed services
Job-ready	Fully employable, no barriers to employment	No services required
Counselling: activate	Minor barriers to employment	Measures to increase mobility or flexibility, basic job search assistance, minor adjustment of skills through short training
Counselling: support	Substantial deficits with respect to qualification	Intensive training, measures to increase mobility or flexibility
Intensive service	Severe or multiple barriers to employment, high risk of becoming long-term unemployed	Employment programmes, measures to support social integration

Source: BA (2004*b*).

6.4 Econometric Evidence on the Effectiveness of German ALMP

In Germany, the first attempts to analyse the effects of ALMP measures on the labour market outcomes of their participants had been undertaken in the late 1970s. At that time, researchers of the Institute for Employment Research (*Institut für Arbeitsmarkt- und Berufsforschung*, IAB) of the BA had started to investigate how formerly unemployed participants in BA supported training succeeded in finding employment after completion of the programme (Hofbauer, 1977, 1979). However, such simple before-after comparisons are not useful for answering the question whether the fact that a participant has found a job is attributable to the programme.[73] Rather, to detect the true effect of a programme, the labour market outcomes of participants have to be compared with the outcomes these individuals would have realised, had they not participated.

Hofbauer (1981) and Hofbauer and Dadzio (1984, 1987) were the first who tried to overcome this criticism by comparing the outcomes of participants after the programme to that of a control group. The control groups used in these studies were constructed in a very simple manner from the pool of nonparticipants by conditioning on very few characteristics such as employment status, age and educational attainment. The key assumption underlying control group designs is that participants and controls do not differ systematically in ways important for the evaluation analysis. Yet, since in Germany assignment to ALMP measures has never been random but highly selective based on many different characteristics (see Section 6.3), controlling only for a few characteristics when using nonparticipants as controls is most likely not sufficient to appropriately account for selectivity.[74] This was also the conclusion of Kasparek and Koop (1991) who critically surveyed the early evaluation studies of the IAB. As a result, researchers in the IAB started to discuss how the evaluation of ALMP in Germany could be improved (e.g. Blaschke, Plath and Nagel, 1992).

Until the early 1990s research on the effectiveness of German ALMP had been conducted almost exclusively by researchers from the IAB. This changed with the dramatic developments in the East German labour market following Unification. The BA responded to the rapid rise in unemployment in Eastern Germany by extensive use of ALMP measures (see Section 6.2). Its total expenditure on ALMP more than doubled from € 10 billion in 1990 to € 21 billion in 1991 and increased further to € 29 billion in 1993. Such high expenditure immediately raised the interest of the public and also the scientific community in how effectively these funds were

[73] Another though more recent study flawed by this problem is Blaschke and Nagel (1995).

[74] The problem of constructing appropriate control groups if assignment to programmes is not random is called the fundamental problem of evaluation in econometrics. See Angrist and Krueger (1999); Heckman, LaLonde and Smith (1999) for more details on this problem and potential solutions.

used. As a result, researchers started to make serious attempts to uncover the effects of German ALMP in the mid 1990s. Since then, a considerable number of microeconometric studies have been conducted which try to estimate the effects of German ALMP measures on the labour market outcomes of their participants by explicitly accounting for selectivity in assignment to programmes.

Until relatively recently, the only data availably to conduct evaluation research were the German Socioeconomic Panel (GSOEP) which is available for both Eastern and Western Germany, and the Labour Market Monitor (LMM) for Eastern Germany and the state of Saxony-Anhalt. These are panel data sets based on questionnaires filled in by a representative number of German households which provide data on personal and socioeconomic characteristics as well as retrospective information on employment histories and participation in labour market programmes on an individual basis. Yet, these data sets have two drawbacks with respect to their usefulness for evaluation research which limit the relevance of the evaluation studies that are based on these data. On the one hand, these surveys do not ask questions that allow for the identification of different types of BA supported training or ABM.[75] But, as has been discussed in Section 6.1.2, especially training programmes are very heterogeneous with respect to their human capital augmenting nature which suggests substantial effect heterogeneity of these programmes. However, the GSOEP and LMM data do not allow to account for this heterogeneity. The second drawback is the small sample sizes for participants in ALMP measures obtained from these data which limits the scope for subgroup analyses considerably.

The lack of appropriate data for good evaluation studies has been criticised vigorously by German researchers at the beginning of the new millennium (e.g. Fitzenberger and Hujer, 2002; Lechner, 2002). Since then the IAB has made considerable efforts in providing adequate data. IAB researches have now built up a large and very informative administrative database that allows to take into account treatment effect heterogeneity with respect to several dimensions. Yet, these data have been made available to the scientific community only relatively recently so that to date, only very few studies based on the new data exist. However, in 2003 and 2004, several new evaluation projects have been initiated by both the IAB and the Federal Government, and first results will be available in 2005.

Tables A.3 to A.5 in the Appendix summarise the data and methodology used in the studies that exist to date, as well as their findings. Most studies investigate individual employment and earnings effects of BA supported training in Eastern Germany and find negative or insignificant

[75] Differentiation is only possible with respect to duration and on-the-job versus off-the-job training.

effects (Table A.3). Yet, there are also studies which report positive findings (e.g. Pannenberg and Helberger, 1997; Fitzenberger and Prey, 1997; Prey, 1999). Since all but two studies are based on the GSOEP or the LMM with very small sample sizes, the apparent lack of robustness is not a surprise: The authors use different parametric models to estimate the effects and the results are very sensitive to the specific methodology applied, especially given the small numbers of observations available. Hujer, Thomsen and Zeiss (2004*c*) and Speckesser (2004) use new administrative data and find negative locking-in effects of FVT but no effects in the longer run. The latter is mainly due to lack of sufficient data to measure long-run effects.

For Western Germany (Table A.4) the picture is different. The earlier studies based on the GSOEP find positive short-run effects on employment after participation in training while, for the same reason as East German studies, the long-run effects are usually insignificant. Lechner, Miquel and Wunsch (2004) use informative administrative data to estimate the employment effects of FVT and retraining. It is the first study that has sufficient data to analyse the long-run effects of different types of BA supported training for more than seven years after the beginning of the programme. They find substantial negative locking-in effects of these programmes but positive effects in the longer run, especially for retraining. Speckesser (2004) who uses the same database but with a shorter time horizon (only up to three years after programme start), also finds negative locking-in effects for FVT but no effects in the longer run which is mainly due to strongly decreasing sample sizes close to the end of the observation period.

The evidence for ABM (Table A.5) which, in most cases, have been analysed for Eastern Germany only, is mainly negative regardless of the methodology applied and the data used. Only Caliendo, Hujer and Thomsen (2004) and Hujer, Caliendo and Thomsen (2004*b*) who use new and informative administrative data find positive employment effects for some groups of people (individuals with health limitations or barriers to employment, East German women in ABM conducted in social services).

Given the large scale of use of ALMP especially in Eastern Germany, macroeconomic studies that account for potential substitution and spill-over effects of large training and employment programmes, are very important for an overall assessment of ALMP. Microeconometric evaluation studies that focus on individual effects for participants may provide a strongly biased picture of the overall effectiveness of ALMP measures. Table A.6 summarises the macroeconomic studies that have been conducted for Germany so far. The evidence is mixed and depends on the specific outcome variable used. Pannenberg and Schwarze (1996) find small negative effects of FVT on regional wages in Eastern Germany. Steiner et al. (1998) for FVT and ABM in

Eastern Germany, and Schmid, Speckesser and Hilbert (2000) for FVT, ABM and temporary wage subsidies in Western Germany cannot find any significant effects on total outflows from unemployment. The evidence presented by Hagen and Steiner (2000), on the other hand, suggests that FVT and ABM overall increased unemployment. Also, with the exception of FVT in Western Germany, training and employment programmes do not seem to be able to reduce the total jobseeker rate (unemployed and participant in ALMP in per cent of the dependent labour force) according to Hujer et al. (2004*a*). In contrast, Blien et al. (2003) find positive effects of FVT, ABM and SAM on regional growth in employment for Eastern Germany. Finally, Büttner and Prey (1998), and Prey (1999) present ambiguous results for the effects of FVT and ABM on matching efficiency in Western Germany. Overall the evidence seems to be quite disappointing. Despite the high expenditure on ALMP in Germany, training and employment programmes do not seem to have improved the situation in the labour market on the macro level. Rather, it seems that after the economic shock of German Unification, ALMP measures have been used to prevent an escalation of the situation during the East German transition process.

7 Summary and Conclusions

The German labour market still has not recovered from the economic consequences of Unification in 1990. Unemployment is still high and has become very persistent. Also, the East and the West German labour market still differ in many respects. Especially for Eastern Germany which had an unemployment rate of more 20 per cent in 2003 with high incidence of long-term unemployment, the situation is still worrying.

Traditionally, German labour market policy is characterised by relatively generous benefit payments during unemployment and extensive use of ALMP in times of high unemployment. Germany is among the OECD countries with the highest expenditure on labour market policy measured as a percentage of GDP. Labour market training has always been the most important activation measure and the human capital investment associated with publicly supported training programmes can be substantial. In terms of expenditure, measures specifically targeted at the disabled are also important. In Eastern Germany, employment programmes play an important role for maintaining the employability of jobseekers. Despite substantial expenditure on ALMP, to date relatively little is known about its effectiveness. Most of the econometric evaluation studies conducted in the past are flawed by insufficient data in terms of sample sizes and available information to appropriately control for selectivity in programme participation. First results based on new and very informative data suggest, however, that training programmes

have substantial lock-in effects in the short run but positive employment effects in the long run. For employment programmes positive effects have been found for some groups of participants. Additional results based on the new data are expected to be available in 2005.

In response to exploding cost of unemployment and continuing public pressure to solve the unemployment problem, the Federal Government has started the largest social policy reform in the history of the Federal Republic in 2002. The objectives of this reform are, firstly, the reduction of individuals dependent on the UI and social welfare through intensification of job-search monitoring and placement efforts by the public employment service as well as extension of the activation principles anchored in German UI to welfare recipients. For this purpose, one-stop centers for the provision of employment services to all jobseekers independent of their UI status have been set up. Secondly, transparency with respect to how UI funds are spent has been increased. Thirdly, with the aim of more preemptive and more flexible use of ALMP, provision of labour market services has been decentralised and is now based on the jobseeker's individual need for assistance as determined by qualitative profiling which assesses individual strengths and barriers to employment, also taking into account the situation in the local labour market. Finally, in order to lower the cost of unemployment and to reduce moral hazard, German UI has been made considerable less generous but also more incentive compatible. Work incentives for UI claimants and recipients of social welfare have been increased while sanctions in case of non-compliance with benefit conditions have been tightened. Overall, the reform of the German UI system and labour market policy is an important step in the right direction to solve Germany's unemployment problem as well as the fiscal problems coming with it.

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Appendix

Table A.1: Expenditure on ALMP for 21 OECD countries as a percentage of GDP 2002

Country	PES and adminis-tration	Labour market training	Youth measures	Subsidized employment	Measures for the disabled	Early retire-ment
Australia[a]	0.20	0.03	0.08	0.10	0.05	-
Austria	0.14	0.21	0.02	0.10	0.06	0.13
Belgium	0.21	0.30	0.01	0.60	0.13	0.45
Canada[a]	0.20	0.15	0.02	0.03	0.02	-
Denmark	0.12	0.86	0.10	0.17	0.34	1.67
Finland	0.12	0.30	0.17	0.33	0.08	0.53
France	0.18	0.23	0.40	0.35	0.09	0.17
Germany	0.23	0.32	0.10	0.22	0.30	0.03
Greece[b]	0.06	0.21	0.10	0.08	0.01	-
Ireland[c]	0.24	0.15	0.18	0.53	0.03	0.07
Italy	-	0.05	0.20	0.32	-	0.10
Japan[a]	0.18	0.04	0.01	0.06	0.01	-
Netherlands	0.28	0.60	0.04	0.33	0.59	-
New Zealand[a]	0.12	0.14	0.15	0.08	0.05	-
Norway	0.13	0.05	0.01	0.01	0.67	-
Portugal	0.11	0.15	0.22	0.09	0.04	0.21
Spain	0.09	0.22	0.06	0.45	0.03	-
Sweden	0.37	0.29	0.02	0.21	0.50	0.01
Switzerland	0.11	0.13	0.01	0.13	0.15	-
United Kingdom[d]	0.17	0.02	0.13	0.03	0.02	-
United States[a]	0.04	0.03	0.02	0.01	0.03	-

Note: Fiscal year [a]2001-02, [b]1998, [c]2001, [d]2002-03. PES: public employment service.
Source: OECD (2004*b*).

Table A.2: Eligibility for BA support of FVT and retraining

Period	Form of support and eligibility
1990-1993	(a) *General requirements*: formal professional degree and at least three years of work experience, or if no degree, at least six years of work experience (§ 42 AFG). (b) *Necessity requirement*: programme is necessary (i) to reintegrate an unemployed individual into the labour market, (ii) to prevent impending unemployment, or (iii) to provide the individual with a first professional degree (§ 44 AFG). (c) *Contribution requirement*: (i) contribution to UI for at least two years within the last three years before the programme, or (ii) receipt of UB or UA (§ 46 AFG). If (a)-(c) met: MA = 73% of previous average net earnings from insured employment for individuals with at least one dependent child and 65% without children (§ 44 AFG), programme costs. If (a) and (c) met: MA = 58% and granted as a loan only (§ 44 AFG), programme costs. If (a), (bi) and (cii) met: MA = UB or UA (§ 46 AFG), programme costs. If (a) and (b) met: only programme costs are borne (§ 46 AFG).
1994-1997	(a) *General requirements*: formal professional degree or at least three years of work experience (§ 42 AFG). (b) *Necessity requirement*: programme is necessary (i) to reintegrate an unemployed individual into the labour market, (ii) to prevent impending unemployment, or (iii) to provide the individual with a first professional degree (§ 42a AFG). (c) *Contribution requirement*: (i) contribution to UI for at least two years within the last three years before the programme, or receipt of (ii) UB or (iii) UA (§ 46 AFG). If (a)-(c) met: MA = UB (§ 44 AFG), programme costs. If (a), (bi) and (ciii) met: MA = UA (§ 46 AFG), programme costs. If (a) and (b) met: only programme costs are borne (§ 46 AFG).
1998-1999	(a) *Necessity requirement*: programme is necessary to reintegrate an unemployed individual into the labour market, to prevent impending unemployment, or to provide the individual with a first professional degree (§ 77 SBG III). (b) *Contribution requirement*: (bi) Contribution to UI for at least twelve months within the last three years before the programme, or eligibility for (bii) UB or (biii) UA (§ 78 SGB III). If (a) and (bi) or (bii) met: MA = UB, programme costs. If (a) and (biii) met: MA = UA, programme costs (§§ 157-158 SGB III). If only (a) met: programme costs only (§ 80 SGB III).
2000-2002	(a) *Necessity requirement*: programme is necessary to reintegrate an unemployed individual into the labour market, to prevent impending unemployment, or to provide the individual with a first professional degree (§ 77 SGB III). (b) *Contribution requirement*: Contribution to UI for at least twelve months within the last three years before the programme, or eligibility for UB or UA (§ 78 SGB III). If (a) and (b) met: MA = UB, programme costs (§ 157 SGB III). If only (a) met: programme costs only (§ 80 SGB III).
2003-2004	(a) *Necessity requirement*: programme is necessary to reintegrate an unemployed individual into the labour market, to prevent impending unemployment, or to provide the individual with a first professional degree (§ 77 SGB III). (b) *Contribution requirement*: (bi) Contribution to UI for at least twelve months within the last three years before the programme, or eligibility for (bii) UB or (biii) UA (§ 78 SGB III). If (a) and (bi) or (bii) met: MA = UB, programme costs. Receipt of MA by UB eligibles reduces the total duration of UB entitlement by half of duration of FVT (§ 128 SGB III). If (a) and (biii) met: MA = UA, programme costs (§§ 157-158 SGB III). If only (a) met: programme costs only (§ 80 SGB III).
2005-	*Necessity requirement*: programme is necessary to reintegrate an unemployed individual into the labour market, to prevent impending unemployment, or to provide the individual with a first professional degree. If this is met, programme costs are borne (§ 77 SGB III). MA abolished and replaced by UB § 124a SGB III), so eligibility criteria for UB apply. However, the total duration of UB entitlement is reduced by only half of the duration of FVT (§ 128 SGB III).

Table A.3: Microeconometric evaluation studies for FEA supported training in Eastern Germany

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Hübler (1994)	LMM-East 1990-1992 T = 1276 N = 4679	On-the-job and off-the-job training without distinguishing between FEA supported and non-supported training	(i) Simultaneous Probit-MLE for training and job search activity (ii) selection model for different combinations of training and job search activity	((i) Job search probability (ii) hours worked	(i) + (ii) total effect -, conditional on job search activity 0
Pannenberg (1995)	GSOEP-East 1990-1992 (i) T = 76, N = 2017 (ii) T = 29, N = 509	Off-the-job training with and without receipt of MA	(i) Discrete hazard rate model that controls for observed heterogeneity (ii) linear fixed-effects panel estimation	(i) Hazard rate from UE or STW to employment (ii) wages for different programmes: (a) < 3 months (b) 3-6 months (c) > 6 months (d) with receipt of MA	(ia) - (ib) - (ic) 0 (id) - (iia+b) + (iic) 0 (iid) 0
Pannenberg and Helberger (1997)	GSOEP-East 1990-1992 T = 148 (i) N = 7117 (ii) N = 510	FEA supported FVT and retraining	(i) Discrete hazard rate model that controls for observed heterogeneity (ii) linear fixed-effects panel estimation	(i) Employment probability (ii) wages (a) total effect (b) courses < 6 months (c) courses ≥ 6 months	(ia) + (ib) + (ic) - (ii) +
Fitzenberger and Prey (1997)	LMM-East 1990-1992 N = 8681 (i) T = 270 (ii) T = 307 (on average per wave)	(i) On-the-job and (ii) off-the-job training without distinguishing between FEA supported and non-supported training	Static simultaneous random-effects probit-MLE; include pre-program dummies in the outcome equation to control for selectivity	Employment probability: short-term (period directly after end of programme; st) and long-term (all periods after end of programme; lt) effects	(i) st: +, lt: - (ii) st: +, lt: +

Table A.3: Microeconometric evaluation studies for FEA supported training in Eastern Germany (*continued*)

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Hübler (1997)	LMM-East 1990-1994 (i) N = 2886 (iic) N = 2886 (iid) N = 620	FEA supported FVT and retraining	(i) Multinomial logit-MLE (ii) random-effects probit-MLE with and without pre-programme test-based control group selection, short-term (participation in previous wave; st) and long-term (participation two waves ago; lt) effects, for men and women	(i) Employment status after training in 1994: (a) probability of being unemployed and (b) probability of being not employed as compared to the probability of being employed after training (ii) probability of becoming employed in 1993 or 1994 using (c) full sample or (d) pre-programme test-based control group selection (20% with lowest distance)	(ia) + (ib) + (iic) st: -, lt: + (iid) st: -, lt: 0, Men: st: -, lt: + Women: st: -, lt: -
Staat (1997)	GSOEP-East 1992-1994 T = 326 C = 804	FEA supported training with receipt of MA	Ordered probit, IV estimation with the predicted probability of participation (based on probit estimates) as instrument	(i) Job search duration (ii) employment duration (iii) wages	(i) 0 (ii) age 45-54, women: +, age 25-34: -, others: 0 (iii) age 45-54: -, others: 0
Fitzenberger and Prey (1998)	LMM-East 1990-1994 Men: T = 136 N = 3862 Women: T = 282 N = 3637	FEA supported training with receipt of MA	(a) Static and (b) dynamic simultaneous random-effects probit/tobit-MLE; for 1990-1994 and 1993-1994; include pre-programme dummies in the outcome equation to control for selectivity: short-term (period directly after end of programme; st) and long-term (all periods after end of programme; lt) effects (c) propensity score matching: short-term (1st period after end of programme; st) medium-term (2nd period) and long-term (3rd period; lt) effects	(i) Employment probability (ii) wages	Men: (ai) st: -, lt: - (aii) st: -, lt: - (bi) st: 0, lt: 0 (bii) st: -, lt: 0 (ci) st: -, mt: -, lt: 0 (cii) st: 0, mt: -, lt: 0 Women: (ai) st: -, lt: - (aii) st: -, lt: 0 (bi) st: +, lt: + (bii) st: -, lt: 0 (ci) - all periods (cii) 0 all periods

Table A.3: Microeconometric evaluation studies for FEA supported training in Eastern Germany (*continued*)

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Hübler (1998)	LMM-East 1990-1994 T = 206 N = 2886	FEA supported FVT and retraining	Pre-programme test-based control group selection; (i)+(iii) Random-effects for continuous endogenous variables (ii) random-effects probit-MLE	(i) Log net income (ii) employment probability (iii) probability of searching for a job	(i) - (ii) - (iii) 0
Kraus, Puhani and Steiner (1999)	LMM-East 1990-1994 Participation equation: T = 553 N = 3503 Outcome equation: T = 1744	FEA supported FVT and retraining	Discrete hazard rate model that controls for observed heterogeneity; for men (m) and women (w) separately; test for the presence of unobserved heterogeneity	(i) Probability of finding stable employment (still employed 12 months after end of programme) (ii) probability of becoming non-employed after training (not employed for at least one month in the 12 month-period after end of programme) (a) 1990-1992 (b) 1992-1994	On-the-job: (ai) m: -, w: - (aii) m: -, w: - (bi) m: -, w: + (bii) m: -, w: - Off-the-job: (ai) m: -, w: - (aii) m: -, w: - (bi) m: +, w: + (bii) m: -, w: -
Lechner (1999)	GSOEP-East 1990-1994 T = 131	Off-the-job training without distinguishing between FEA supported and non-supported training	Matching based on a balancing score obtained from a probit-MLE (three different specifications); with and without mismatch correction	(i) Difference in the rate of registered unemployment up to 24 months after the beginning of the programme (ii) difference in the rate of full-time employment up to 24 months after the beginning of the programme (iii) difference in gross monthly earnings 1, 2, 3 years after programme	(i) short-term +, then 0 (ii) short-term -, then 0 (iii) 0

Table A.3: Microeconometric evaluation studies for FEA supported training in Eastern Germany (*continued*)

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Prey (1999)	LMM-East 1990-1994 T = 42 N = 11438	FEA supported training with receipt of MA	Dynamic simultaneous random-effects probit/tobit-MLE; include pre-programme dummies in the outcome equation to control for selectivity	(i) Employment probability (ii) wages (a) off-the-job (b) on-the job short-term (period directly after end of programme; st) and long-term (all periods after end of programme; lt) effects	Men: (ia) st: +, lt: + (ib) st: +, lt: - (iia) st: -, lt: 0 (iib) st: 0, lt: 0 Women: (ia) st: +, lt: + (ib) st: -, lt: 0 (iia) st: -, lt: + (iib) st: -, lt: 0
Bergemann et al. (2000)	LMM-SA 1992-1998 T = 1116 N = 4683	FVT without distinguishing between FEA supported and non-supported training	Multiple treatments but not compared with each other; two-step procedure: (1) nearest neighbour matching without replacement based on the propensity score obtained from binomial probit-MLEs for each treatment (2) conditional difference-in differences applied to the matched sample	Difference in the employment rate up to 36 months after the treatment (i) first treatment (ii) second treatment (a) start Dec. 90 (b) start Dec. 92 (c) start Dec. 94 (d) start Dec. 96	(ia-c) - (iib) 0 months 1-14, 23-36; + months 15-22 (iic) 0 month 1-7, 31; + months 8-30, 32-36; young men without participation in ABM: + months 17-18, 22-25 and 0 otherwise; young women without participation in ABM: + (iid) 0
Fitzenberger and Prey (2000)	LMM-East 1990-1994 Men: T = 146 N = 2414 Women: T = 325 N = 2409	FEA supported training with receipt of MA	Static simultaneous random-effects probit/tobit-MLE, include pre-programme dummies in the outcome equations to control for selectivity (regression-based difference-in-differences estimator)	(i) Employment probability (ii) wages	Men: (i) 0 (ii) + in 2 of 6 specifications, 0 otherwise Women: (i,ii): + in 1 of 6 specifications, 0 otherwise

Table A.3: Microeconometric evaluation studies for FEA supported training in Eastern Germany (*continued*)

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Hujer and Wellner (2000)	GSOEP-East 1990-1994 T = 231 N = 1632 (individuals)	FEA supported training with receipt of MA 1990-1993	Two-step procedure: (1) Matching based on the propensity score obtained from an unbalanced panel probit-GMM for the participation probability (2) discrete hazard rate model applied to the matched sample	Hazard rate from unemployment to employment: (i) short-term ($\leq$ 3 months) (ii) medium-term (4-6 months) (iii) long-term ($\geq$ 7 months) course unemployment spell begins one month, 2-12 months or more than 12 months after end of the programme	0 for all types of courses and time horizons
Lechner (2000)	GSOEP-East 1990-1996 T = 116	FEA supported training with receipt of MA and training during STW Jul. 90 - Mar. 93	Matching based on a balancing score obtained from a probit-MLE; with and without mismatch correction	(i) Difference in the rate of registered unemployment (ii) acuumulated effect for months in unemployment (iii) accumulated effect for months in employment both up to 40 months after the beginning of the treatment	(i) + until month 6, then 0 (ii) + but decreasing for months 3, 6, 9, 12, 18, 0 for months 24, 30, 36 (mismatch corrected: + for months 3, 6, 9, 12, 24, 0 otherwise) (iii) - but increasing for months 3, 6, 9, 0 thereafter (mismatch corrected: 0 for all months)

Table A.3: Microeconometric evaluation studies for FEA supported training in Eastern Germany (*continued*)

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Bergemann, Fitzenberger and Speckesser (2004)	LMM-SA 1992-1999 T = 1215 cases N = 5165 individuals	FVT without distinguishing between FEA supported and non-supported training	Multiple treatments but not compared with each other; two-step procedure: (1) matching based on the propensity score obtained from binary probit-MLEs for each treatment sequence (2a) conditional difference-in differences estimator applied to the matched sample (2b) dynamic conditional difference-in differences estimator applied to the matched sample	(a) unconditional employment rate (ba) employment rate conditional on nonemployment in the previous month, (bb) employment rate conditional on employment in the previous month (i) FVT first programme (ii) sequence FVT-FVT (iii) sequence FVT-ABM up to 36 months after beginning of the programme for start dates Dec. 90, 92, 94, 96	(ai) - (bai) 0 (bbi) 90: 0, others: + (baii) 0 (bbii) 0 (baiii) 0 (bbiii) 0
Hujer, Thomsen and Zeiss (2004*c*)	Administrative data from social insurance records, FVT participant data and jobseeker data 2000-2002 T = 579 N = 35771	FEA supported FVT and retraining	Bivariate duration model: mixed proportional hazard model with unobserved heterogeneity	Hazard rate from FVT into regular employment (i) time invariant effect (ii) time varying effect for short (1-3 months, s), medium-term (4-6 months, m) and long ($\geq$ 7 months, l) programmes (ii1) during programme participation (ii2) after the programme	(i) - (ii1) s: 0, m: -, l: - (ii2) s: 0, m: 0, l: -

Table A.3: Microeconometric evaluation studies for FEA supported training in Eastern Germany (*continued*)

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Speckesser (2004)	Administrative data from social insurance records, the benefit payment register and training participant data 1975-1997 T = 678 C = 30052	FEA supported further training 1993-1994	Matching based on the propensity score obtained from a probit-MLE for programme participation: non-parametric regression based on a Gaussian kernel weighting the predicted propensity scores	Difference in the employment rate up to 37 months after the beginning of the treatment; for three subsamples stratified by unemployment duration: (i) 1-3 months (ii) 4-6 months (iii) $\geq$ 7 months; separately for 1993 and 1994; separately for age $\leq$ 35 and age $>$ 35	- for the first months, then 0, (i) for group $\leq$ 35 in 1993 - for all months

Note: Only studies that have been published or that are from 2004 and not yet published. T: sample size of the treatment group, C: sample size of the control group, N: total sample size. LMM: Labor Market Monitor. GSOEP: German Socioeconomic Panel. SA: Saxony-Anhalt. UE: unemployment. MLE: maximum likelihood estimation. OLS: ordinary least squares. IV: instrumental variables. GMM: generalised method of moments. + significantly positive, - significantly negative, 0 not significant at the 10% significance level if this or t-values are reported, otherwise at the significance level reported by the authors.

Table A.4: Microeconometric evaluation studies for FEA supported training in Western Germany

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Pannenberg (1995)	GSOEP-West 1984-1991 T = 26 N = 715	Off-the-job training with and without receipt of MA	Discrete hazard rate model that controls for observed heterogeneity	Hazard rate from UE to employment for different programmes (a) $<$ 6 months (b) 6-12 months (c) $>$ 12 months (d) with receipt of MA	(a) 0 (b) + (c) - (d) 0
Staat (1997)	GSOEP-West 1984-1994 T = 312 C = 1548	FEA supported training with receipt of MA	Ordered probit, IV estimation with the predicted probability of participation (based on probit estimates) as instrument	(i) Job search duration (ii) employment duration (iii) wages	(i) age 45-54, no professional degree, women: -, others: 0 (ii) no professional degree: +, others: 0 (iii) women: +, others: 0
Hujer, Maurer and Wellner (1999*a*)	GSOEP-West 1984-1994 T = 431 C = 1404	FVT without distinguishing between FEA supported and non-supported training	Two-step procedure: (1) matching based on the propensity score obtained from an unbalanced random-effects probit-MLE for the participation probability, all variables that were significant in the participation probit, as well as additional variables capturing the employment history and the situation in the local labour market (2) semiparametric discrete hazard rate model with gamma distributed unobserved heterogeneity applied to the matched sample	Hazard rate from unemployment to employment: (i) on-the-job training (ii) off-the-job training (a) short course ($<$ 3 months) (b) long course ($\geq$ 3 months) unemployment spell begins within one year (st) or after one year (lt) after the end of the programme	(ia) st: 0, lt: 0 (ib) st: 0, lt: 0 (iia) st: +, lt: 0 (iib) st: +, lt: 0

Table A.4: Microeconometric evaluation studies for FEA supported training in Western Germany (*continued*)

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Hujer, Maurer and Wellner (1999*b*)	GSOEP-West 1984-1994 T = 162 C = 1851 (individuals) T = 89 C = 177 (after matching)	FEA supported training with receipt of MA	Two-step procedure: (1) matching based on the propensity score obtained from an unbalanced panel probit-GMM for the participation probability as well as additional variables capturing the employment history (2) semiparametric discrete hazard rate model with gamma distributed unobserved heterogeneity applied to the matched sample	Hazard rate from unemployment to employment: (i) short-term ($\leq$ 3 months) (ii) medium-term (4-6 months) (iii) long-term ($\geq$ 7 months) course unemployment spell begins one month (st), 2-24 months (mt) or more than 24 (lt) months after the end of the programme	(i) st: +, mt: 0, lt: 0 (ii) st: +, mt: +, lt: 0 (iii) st: 0, mt: 0, lt: -
Hujer, Maurer and Wellner (1999*c*)	GSOEP-West 1984-1994 N = 14233 (pooled data)	FVT without distinguishing between FEA supported and non-supported training	Semiparametric discrete hazard rate model with gamma distributed unobserved heterogeneity; use propensity score obtained from an unbalanced random-effects probit-MLE for programme participation as instrument for actual participation; assume homogeneous treatment effect	Hazard rate from unemployment to employment: unemployment spell begins within one year (st) or 13-36 months (lt) after the end of the programme	st: +, lt: 0
Prey (1999)	GSOEP-West 1984-1995 T = 42 N = 511	FEA supported training with receipt of MA	Dynamic simultaneous random-effects probit/tobit-MLE; balanced panel; include pre-programme dummies in the outcome equation to control for selectivity	(i) Employment probability (ii) wages short-term (period directly after end of programme; st) and long-term (all periods after end of programme; lt) effects	(i) st: +, lt: 0 (ii) st: +, lt: 0

Table A.4: Microeconometric evaluation studies for FEA supported training in Western Germany (*continued*)

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Klose and Bender (2000)	Administrative data from social insurance records, the benefit payment register and training participant data 1975-1990 T = C = 985 (after matching)	FEA supported FVT and retraining with receipt of MA	Control group selection based on eligibility and a hierarchical (pairwise) matching approach; discrete piecewise-constant exponential hazard rate model	(i) Hazard rate from program into first employment (ii) Hazard rate from first employment into non-employment (iii) Hazard rate from first employment into non-employment of the form (a) receipt of income support (b) not in the data and then receipt of income support (c) not in the data and then employment	((i) + (ii) + (iiia) 0 (iiib) + (iiic) 0
Lechner, Miquel and Wunsch (2004)	Administrative data from social insurance records, the benefit payment register and training participant data 1975-1997 T = 1587 C = 9197	FEA supported FVT and retraining	Matching based on the propensity score obtained from a multinomial probit simulated MLE as well as additional variables	(i) employment rate (ii) unemployment rate (iii) earnings (iv) stable employment (v) stable earnings (vi) accumulated employment effects (vii) accumulated earnings effects 1-100 months after the start of the programme	(i), (iii-v) - lock-in effects for all programmes, ST + versus nonparticipation after 7 months, RT + versus all other programmes after 40 months (ii) all programmes + or 0 versus nonparticipation, RT - versus all other pro-grammes after 35 months (vi-vii) RT - versus all other programmes, ST + versus all other programmes and nonparticipation

Table A.4: Microeconometric evaluation studies for FEA supported training in Western Germany (*continued*)

Author(s)	Data and sample size	Form(s) of training	Methodology	Outcome variable(s)	Results
Speckesser (2004)	Administrative data from social insurance records, the benefit payment register and training participant data 1975-1997 T = 536 C = 54178	FEA supported further training 1993-1994	Matching based on the propensity score obtained from a probit-MLE for programme participation: non-parametric regression based on a Gaussian kernel weighting the predicted propensity scores	Difference in the employment rate up to 37 months after the beginning of the treatment; for three subsamples stratified by unemployment duration: (i) 1-3 months (ii) 4-6 months (iii) $\geq$7 months; separately for 1993 and 1994, and for age $\leq$ 35 and age $>$ 35	- for the first months, then 0, (i) for group $>$ 35 in 1993 - for all months

Note: Only studies that have been published or that are from 2004 and not yet published. T: sample size of the treatment group, C: sample size of the control group, N: total sample size. GSOEP: German Socioeconomic Panel. UE: unemployment. MLE: maximum likelihood estimation. IV: instrumental variables. GMM: generalised method of moments. + significantly positive, - significantly negative, 0 not significant at the 10% significance level if this or t-values are reported, otherwise at the significance level reported by the authors.

Table A.5: Microeconometric evaluation studies for job creation schemes in Germany

Author(s)	Data and sample size	Methodology	Outcome variable(s)	Results
Steiner and Kraus (1995)	LMM-East 1990-1992 T = 590 N = 2362	Discrete hazard rate model with multiple destination states and unobserved heterogeneity; multinomial logit	Hazard rate from ABM into regular employment	Men: - months 1-8, 13-14, 16-17, 20-21; + months 9-10, 18-19; 0 months 11-12, 15; Women: - all months
Hübler (1997)	LMM-East 1990-1994 (i) N = 2886 (iic) N = 2886 (iid) N = 620	(i) Multinomial logit-MLE (ii) random-effects probit-MLE with and without pre-programme test-based control group selection, short-term (participation in previous wave; st) and long-term (participation two waves ago; lt) effects, for men and women	(i) Employment status after training in 1994: (a) probability of being unemployed and (b) probability of being not employed as compared to the probability of being employed after training (ii) probability of becoming employed in 1993 or 1994 using (c) full sample or (d) pre-programme test-based control group selection (20% with lowest distance)	(ia) 90-91: 0, 92-93: + (ib) 0 (iic) st: +, lt: + (iid) st: -, lt: - Men: st: -, lt: - Women: st: 0, lt: 0
Bergemann et al. (2000)	LMM-SA 1992-1998 T = 766 N = 4683	Multiple treatments but not compared with each other; two-step procedure: (1) nearest neighbour matching without replacement based on the propensity score obtained from binomial probit-MLEs for each treatment (2) conditional difference-in differences applied to the matched sample	Difference in the employment rate up to 36 months after the treatment (i) first treatment (ii) second treatment (a) start Dec. 90 (b) start Dec. 92 (c) start Dec. 94 (d) start Dec. 96	(ia) 0 (ib) - months 1-29, then 0 (ic) - months 1-22, then 0 (iib) 0 months 1-18, then + (iic) 0 months 1-10, then + (iid) 0 months 1-12, + months 13-16, then 0
Kraus, Puhani and Steiner (2000)	LMM-East 1990-1994 Participation equation: T = 553 N = 3503 Outcome equation: T = 718	Discrete hazard rate model that controls for observed heterogeneity; for men and women separately; test for the presence of unobserved heterogeneity	(i) probability of finding stable employment (still employed 12 months after end of programme) (ii) probability of becoming non-employed after training (not employed for at least one month in the 12 month-period after end of programme) (a) Jan. 89 - Aug. 92 (b) Sep. 92 - Nov. 94	- for all outcomes, periods, men and women

Table A.5: Microeconometric evaluation studies for job creation schemes in Germany (*continued*)

Author(s)	Data and sample size	Methodology	Outcome variable(s)	Results
Eichler and Lechner (2002)	LMM-SA 1992-1997 T = 1123 N = 12565	Two-step procedure: (1) matching based on the propensity score obtained from a probit-MLE (2) difference-in differences applied to the matched sample	Probability of becoming (i) unemployed, (ii) employed, and (iii) of leaving the labour force; 1, 2, 3 periods (time of interview) after the programme	(i) mean, men: -/-/0; women: -/-/- (ii) mean, women: +/0/0; men: 0/0/0 (iii) mean: 0/+/na; men, women: 0/0/0
Caliendo, Hujer and Thomsen (2004)	Administrative data from social insurance records, ABM participant data and jobseeker data 2000-2002 T = 11151 C = 219622	Matching based on the propensity score obtained from a logit-MLE; account for treatment effect heterogeneity with respect to regions (East and West Germany), gender, labour market conditions, and specific target groups (no professional degree, barriers to employment, individuals having participated in rehabilitation measures, certain age groups)	Employment probability up to 34 months after start of the programme	East: -, for some target groups insignificant in the longer run; West: -, 0 after about 2 years, + in the longer run for individuals with health limitations or barriers to employment
Hujer, Caliendo and Thomsen (2004*b*)	Administrative data from social insurance records, ABM participant data and jobseeker data 2000-2002 T = 11376 C = 232399	Matching based on the propensity scores obtained from binary probit-MLEs for each treatment (defined by industry sector of the ABM) and for men and women separately; account for treatment effect heterogeneity with respect to regions (East and West Germany), gender, age and unemployment duration	Success probability based on the labour market status: registered unemployed (failure), registered as jobseeker but not as unemployed (success upper bound), not registered as jobseeker (success lower bound) 24 months after programme start; estimate separate effects for ABM in (a) agriculture, (b) contruction+industry, (c) office+services, (d) social services, (e) other	Lower bounds - in most cases, 0 for some subgroups of participants; upper bounds 0 in most cases, + for east German women in social services, no subgroup (age , UE duration) with + upper bound

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Table A.6: Macroeconomic evaluation studies for German active labour market policies

Author(s)	Data and sample size	Methodology	Programme	Outcome variable(s)	Results
Pannenberg and Schwarze (1996)	GSOEP-East 1992-1994 linked with the labour market statistics (regional UE, participation in FVT, employment) of the 35 East German labour office districts N = 2135	Estimate an extended wage curve using (i) pooled OLS with fixed regional effects, (ii) FGLS with random individual and fixed regional effects	FVT	Log of monthly gross wage	(i,ii) small negative effect on regional wages
Büttner and Prey (1998)	Data on registered employment from the social insurance records; labour market statistics (registered vacancies, registered UE, participants in FVT and ABM) of the 74 West German planning regions 1986-1993 N = 444-592	Disequilibrium approach, estimate static and dynamic CES function using (i) LSDV, (ii) LSDV with instrumenting the FVT and ABM accommodation ratios, (iii) GMM, (iv) nonlinear 2SLS	FVT ABM	Matching efficiency	FVT: 0 all specifications ABM: + all specifications
Steiner et al. (1998)	Labour market statistics (outflows from FVT) of the 35 East German labour office districts Jan. 92 - Jan. 97 (i) N = 1883 (ii) N = 1537	Pooled time-series cross-section analysis, augmented matching function	FVT ABM	Outflows from UE (i) Jan. 92 - Dec. 93 (ii) Jan. 94 - Jan. 97 for FVT up to 12 months after end of the programme	FVT: (i) 0 for months 0-3, 5-6, 10-12; - for months 4, 7, 9; + for month 8 (ii) 0 months 0-2, 5-6, 8-12; - months 4, 7; + month 3 ABM: (i,ii) 0
Prey (1999)	Labour market and regional statistics of the 74 planning regions West Germany 1986-1993 N = 444-592	Disequilibrium approach, estimate static and dynamic CES function using (i) OLS, (ii) LSDV, (iii) LSDV with instruments, (iv) LSDV with fitted values, (v) nonlinear 2SLS	FVT ABM	Matching efficiency	Mean effect: FVT: (i-ii) -, others 0 ABM: (i) +, others - Men: FVT: (ii,v) 0, (iii-iv) - ABM: (ii,v) 0, others - Women: FVT: (ii-iv) +, (v) 0 ABM: (iv) -, others 0

Table A.6: Macroeconomic evaluation studies for German active labour market policies (*continued*)

Author(s)	Data and sample size	Methodology	Programme	Outcome variable(s)	Results
Hagen and Steiner (2000)	Labour market statistics (stocks of UE, vacancies and participants in FVT, ABM and SAM, inflows into UE) of the 35 East German and 142 West German labour market districts East: Jan. 92 - Oct. 99 N = 1258-2857 West: Jan. 89 - Nov. 99 N = 8319-16779	Augmented matching function, pooled time-series cross-section analysis, fixed-effects model	ABM SAM FVT	Net effect (inflows versus outflows) on UE; effect of the no. of participants in the last 1-3 (short-term, st), 1-6 (medium-term, mt) 1-12 months (long-term, lt) East: (a) Jan. 93 - Oct. 99 (b) Jan. 93 - Dec. 95 (c) Jan. 96 - Oct. 99 West: (a) Jan. 90 - Nov. 99 (b) Jan. 90 - Dec. 95 (c) Jan. 96 - Nov. 99	East: ABM: + all periods and horizons SAM: st +, mt +, lt - all periods FVT: (a,c) st. -, mt +, lt +, (b) st 0, mt +, lt + West: ABM: (a) st + mt - lt 0; (b) st +, mt -, lt +; (c) + all horizons SAM: (a) + all horizons; (c) st 0, mt +, lt 0 FVT: (a,c) + all horizons, (b) st +, mt 0, lt +
Schmid, Speckesser and Hilbert (2000)	Labour market statistics of the 142 West German labour market districts 1994-1997 (i) N = 426 (ii) N = 142	(i) Pooled cross-section analysis, fixed- effects model (ii) augmented matching model, OLS	ABM FVT wage subsidies (WS)	(i) Long-term unemployment (LTU): (a) level of LTU in % of the civil labour force; (b) fraction of LTU in % of total UE (c) one-year change in LTU (1) UE > 6 months (2) UE > 24 months (ii): outflows from UE	ABM: (ia1) -, (ia2,b,c) 0, (ii) 0 FVT: (ia,b) -, (ic) 0,; (ii) - WS: (ia1) -, (ia2,b,c1) 0, (ic2) -, (ii) 0
Blien et al. (2003)	Labour market statistics of 112 East German local districts obtained from administrative data (social insurance records, benefit payment register) 1993-1999 N = 17364	Two-step procedure: (i) panel regression for growth in employment with regional fixed effects (ii) pooled cross-section analysis with the fixed effects from the panel regression as dependent variable	ABM/SAM FVT	Regional growth in employment (fixed effects from the panel regression)	ABM/SAM, FVT: +

Table A.6: Macroeconomic evaluation studies for German active labour market policies (*continued*)

Author(s)	Data and sample size	Methodology	Programme	Outcome variable(s)	Results
Hujer et al. (2004*a*)	Labour market statistics of 34 East German and 141 West German labour office districts obtained from administrative data (social insurance records, benefit payment register, ALMP participant data, jobseeker data) 1999-2001 East: N = 408 West: N = 1692	Pooled cross-section analysis, dynamic specification, (a) first-differenced GMM (b) system GMM, (c) LSDV	ABM SAM FVT	Jobseeker rate: total no. of jobseekers (UE + participants in ALMP) in % of the dependent labour force; (1-5) participation in current or the four preceding quarters (6) total effect	West (a, b): ABM: (1) -; (2) +; (3-5) 0; (6) 0 FVT: (1, 3, 5) -; (2) +; (4) 0; (6) - East (c): ABM: (1-5) 0; (6) 0 SAM: (1) -; (2) +; (3-5) 0; (6) 0 FVT: (1-5) 0; (6) 0

Note: Only studies that have been published or that are from 2004 and not yet published. T: sample size of the treatment group, C: sample size of the control group, N: total sample size. LMM: Labor Market Monitor. GSOEP: German Socioeconomic Panel. SA: Saxony-Anhalt. UE: unemployment. MLE: maximum likelihood estimation. OLS: ordinary least squares. IV: instrumental variables. GMM: generalised method of moments. LSDV: least square dummy variable estimator. 2SLS: two-stage least squares. FGLS: feasible generalised least squares. + significantly positive, - significantly negative, 0 not significant at the 10% significance level if this or t-values are reported, otherwise at the significance level reported by the authors.