

## **Evaluation of the Hartz-Reforms in Placement Services**

The new PES service model, the customer service center (“Kundenzentrum”), is the central element in the reorganisation of placement services in the German Federal Employment Agency (PES). Both services for employers and for unemployed jobseekers have been improved. However, new programs designed to enlist private firms in providing placement services, for example, temporary work agencies for the unemployed (the so-called Personnel-Service-Agencies) and placement vouchers that pay private firms a bonus for placing the unemployed, are, in their current form, neither effective nor efficient. This is the main finding of the interim report of an evaluation study on “The Hartz-Reforms in Placement Services” conducted on behalf of the Federal Ministry of Labor and Social Affairs by the Social Science Research Center Berlin (WZB) and infas Institute for applied social science.

### **The New Customer Service Center**

The new model employment service agency was evaluated for the first time in ten employment service district agencies in the fall of 2004 and the spring of 2005. In addition, a representative survey of all agencies was conducted in the spring of 2005 and process and controlling data of the PES were analysed. The evaluation concludes that the new customer service model contributes to a more effective work organisation that improves the quality of services for both jobseekers and employers. Noteworthy in particular are the following:

- Jobseekers’ requests and questions are now pre-filtered in an Entry Zone and in the Service Center (call center); a large percentage of customer concerns can be handled there and dealt with immediately.
- Scheduled appointments with jobseekers make possible uninterrupted counselling and prevent longer waiting periods.
- Job counselling has been given a new structure, focussing on carefully analysing the needs of customers.

The improvement is most apparent in the case of the so-called new customers (new cases of unemployment) who are given an appointment shortly after registering. As a rule, the first counselling session takes 30 minutes. Most of the first employment agencies operating on the basis of the new customer service center model have succeeded in relieving their placement counsellors of tasks which have little to do with their actual mission so that more than 50% of their working time is spent in counselling and discussing job placement possibilities, one of the goals of the Hartz-Reforms.

The new customer service center also introduces changes to improve the services for employers. A defined contingent of at least 20% of all placement counsellors’ working time resources are allocated to services for employers and, therefore, can no longer be displaced by services for the unemployed. As a second step, quality standards for employer placement services have been introduced and a continuous monitoring and controlling developed.

Two quality standards have proven to be particularly important: an agreement with the employer about the maximum number of jobseekers to be referred, and contacting the applicant in advance in order to ascertain whether he or she is actually willing to accept the job. This way, employers don't have to deal with a large number of unsuitable or unmotivated applicants. Compliance with these standards is, however, still inconsistent.

The overall assessment of the development of employer services since the adoption of the Hartz Reforms has clearly been positive, according to responses to a written survey. Half of all PES district agencies responding reported a qualitative improvement in employer-related placement services compared to the previous year. This positive trend was facilitated by a marked improvement of the counsellor/customer ratio, i.e. the number of customers assisted per placement counsellor. The number of placement counsellors has increased by 28% since 2002, so that the ratio of counsellor/unemployed improved to an average of 400 jobseekers per counsellor bis mid-2005, despite higher levels of unemployment.

In the current phase of the evaluation until the final report in June 2006, we investigate whether these process improvements are sustained over a longer period and whether they actually result in faster placement of the unemployed and a greater acceptance on the part of the employers.

There are, however, a few aspects of the implementation of the new PES service model that should be viewed critically:

Basically correct in the new management philosophy of the PES is the differentiation of services offered according to the jobseeker's needs and according to the policy goals of the Federal Employment Agency. The implementation of this strategy in the new IT-based service management system (the so-called "Handlungsprogramme" or service guidelines) is, however, not unproblematic.

There is an initial profiling stage, now being called „assessment“, in which the unemployed are sorted into four customer groups based on their distance from the labour market. The customer group to which jobseekers are assigned determines what specific reintegration services (employment and training schemes, job search assistance etc.) can be offered and the frequency of contact. The computer-based service management program is supposed to enable tailor-made solutions and efficient implementation of services. The service guidelines also standardize interaction between placement counsellors and clients, which is both an aide to placement counsellors in clarifying available options but also constrains and their choices according to PES goals and priorities. It is, however, still not clear whether the four customer groups are sufficiently differentiated and whether the profiling procedure reliably classifies individual jobseekers.

Furthermore, the service guidelines focus reintegration activities mainly on the middle customer segment of "customers needing counselling". So-called "market clients", i.e. those with good employment prospects, on the contrary, receive only limited assistance, as they will in all likelihood find work on their own without help from the PES. The same also applies to the forth category of „support clients" who hardly have any chance of being integrated into the regular labour market. This means that persons who have the greatest problems in the labour market are excluded from most reintegration measures – apart from a few exceptions (e.g. the increasingly rare job-creation measures). This business strategy, which appears to have been reinforced by the introduction in 2005 of a penalty payment ("Aussteuerungsbetrag") in the amount of circa €10,000 that

the PES must pay from its budget to the Federal Government for persons entering long-term unemployment, is questionable from the perspective of social policy.<sup>1</sup> In the current project phase, the actual effects of the new service strategy on access to reintegration measures (e.g. employment and training schemes) will be investigated empirically.

Regarding services for employers, the PES now primarily targets larger companies with a high employment potential in order to increase the number of vacancies reported to the PES and its market share. This kind of narrow focus on placement is problematic. A modern employment service agency should have a concept for integrating placement and counselling services in an overall strategy. At the moment, smaller and medium-sized companies with a large employment potential and a greater need for counselling are being relatively neglected. The results from a representative survey of employers, however, show that it is particularly small companies that need special services from the PES such as screening and preselection of applicants. Moreover, medium size and smaller firms may be more likely to recruit in a markets segment that the PES serves.

### **„Activating“ the Unemployed**

In the course of the Hartz-Reforms, there were various changes in the rules for benefit recipients designed to activate the unemployed and to thus speed up the placement process. The results in this area have been modest:

#### *Early Unemployment Registration*

The new early registration requirement obligates employees – under threat of a sanction – to register as jobseekers immediately as soon as they have received their notice of dismissal. The objective is to more efficiently use the time span before the beginning of unemployment (the so-called “action time”), to achieve a direct placement without any intervening spell of unemployment („job-to-job-placement“). This concept – without question very plausible in theory – turns out to be problematic in the praxis of the ten PES offices examined. When signing on and during the “action time”, placement activities do take place, but vacancies usually need to be filled short-term. Moreover, there is a lack of cooperation on the part of jobseekers side (e.g. failure to keep appointments). The main shortcoming of the regulation is the lack of a requirement of cooperation by the current employer, for example, granting time off or leave for interviews. In addition, the obligatory early registration leads to an increased, often unnecessary workload in the agencies. For example, many companies end up rehiring their temporary employees on a permanent basis or extend their temporary contract. In addition, the legislation was poorly formulated, which led to numerous appeals and legal challenges that impeded the imposition of sanctions for late registration. Since no impact analysis of early registration has been carried out so far, it is not possible to say whether there is a positive impact on placement rates that would justify the increased administrative burden.

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<sup>1</sup> More precisely, the penalty has to be paid when unemployed individuals exhaust their unemployment insurance benefit without finding a new job and receive the means-tested unemployment benefit II, which is finance solely by the Federal Government. The penalty payment was supposed to give the PES an incentive to invest more in reintegration services for persons with poor labour market prospects but may actually have the opposite effect for jobseekers deemed to have no realistic chance. This is at the moment speculative since there is not yet reliable data available.

### *More Flexibility in Sanctions and Reversal of the Burden of Proof*

The new regulation on suspension of unemployment benefits is supposed to make enforcement of sanctions easier and therefore to reinforce the incentive for the unemployed to actively seek new employment. In place of the old general twelve week suspension, there now is a three week suspension of benefits for first offence, if a job offer is refused or if the jobseeker refuses to participate in or breaks off a reintegration measure, a six weeks suspension for the second, and a twelve week suspension for the third offence. In addition, since 2005 a failure to actively search for work can result in a suspension period of two weeks. The reversal of the burden of proof is supposed to increase the pressure on the unemployed to search for employment and to comply with the procedures of the PES, while at the same time reducing the administrative burden in imposing sanctions.

These legal changes in sanction regulations have led to a marked increase in the imposition of benefit sanctions due to refusal of job offers. After an interim high of almost 5% in the sanction rate in the middle of 2003, which was more due to an internal activation campaign in the PES than to changes in regulations, the sanction rate for refusing an acceptable job offer declined to an annual rate of 2.5% of the benefit recipients by the end of 2004. (Prior to the reforms in the last quarter of 2002, the respective rate was only about 1.8%.) The rate of appeals and legal challenges to sanctions imposed has, after an initial decline, returned to a normal rate of 30% or 4% of the sanctions imposed respectively, so that these indicators show no evidence that it has become easier to impose sanctions.

The effects of the legal changes in the regulations on benefit sanctions remain marginal overall. In the view of PES staff in the agencies investigated, sanctions play only a limited role in activation of the unemployed. As a test for motivation and willingness to work, short-term „training“ programs play the major role. Moreover, according to the philosophy and quality standards for employer-oriented placement services in the new model PES agencies, job referrals may no longer be misused to test the willingness to work. Therefore the imposition of sanctions due to refusal of a job offer could, in the future, be seen as an indicator for poor performance in providing placement services to employers. In the current project phase until June 2006, the effect of the imposition of sanctions on the labor market behavior of the unemployed is being investigated with econometric methods.

### *Personnel-Service-Agencies*

The Personnel-Service-Agencies (PSA), temporary work agencies for the unemployed, did not fulfil the unrealistic claims made for them. The interim evaluation results suggest that they are neither effective nor efficient. This is due in good part to the limited role of temporary work in Germany, but also due to deficits in the design and implementation of the program.

Since April 2003, PES employment offices can commission Personnel-Service-Agencies (PSA) to act as temporary work agencies for the unemployed. The participants in this program receive a contract of employment for nine to twelve months with the PSA. The task of the PSA is to improve the chances for integrating the unemployed through temporary work placements and, in periods without a work assignment, to provide in-company training. The main objective, however, is to achieve permanent employment

quickly. The PSA receives a monthly lump sum of every participant (on a declining scale up to a maximum of nine months). If the PSA successfully places the participant in regular employment, it receives a placement bonus. The PES goal of 50,000 participants or circa 1% of unemployed was never reached, not to mention some of the even more exaggerated expectations around the time of the original proposal of the measure.

Our evaluation of the impact of PSA program participation as a bridge to regular employment shows that it did not have the expected impact. Based on a sample of participants and a matched group of non-participants drawn from process data of the PES and a supplementary telephone survey, a statistically sophisticated impact analysis was conducted. The results for the years 2003 and 2004 for the interim report are sobering. During the start-up phase in 2003, some positive tendencies could be observed. In the year 2004, however, PSA participants had a clearly lower probability of being re-integrated into regular work within the time period investigated. The control group of non-participants who were used for comparison had a decidedly higher probability of re-integration into work and was, on average, back into regular employment a month earlier. It should be noted, however, that periods in which PSA participants were on temporary work assignments during their participation in the PSA-program are not counted as regular employment..

A differentiated analysis shows that especially in the first two months after signing up with a PSA, the participants had a distinctively lower chance of entering regular employment than those in the control group. This so-called lock-in-effect declines in the following months. As of the ninth month, PSA participants finally have a higher chance of finding work than those in the control group. This panel survey is to be repeated in early 2006 and should clarify whether the initial negative effects of the PSA occupation will be compensated for over a longer period of time after the end of the program. Another aspect to be investigated is whether the regular employment attained by PSA participants last longer than in the control group. So far, for the period available, there is no indication of such a positive program effect.

Offering temporary work to the unemployed within a Personnel-Service-Agency is an expensive integration instrument. Using a PSA prolongs the transition into a regular employment by almost a month in comparison to the control group, at the same time the monthly costs for the program are far above the unemployment benefits that otherwise would have to be paid. In the way the Personnel-Service-Agencies operated until the middle of 2005, they were neither effective nor efficient.

In the second phase of the project, the reasons for the disappointing results of the PSA, particularly those for the lock-in effect observed (participation in the program diminishes the probability of finding regular employment), are to be examined more closely. In other countries, but also in Germany, temporary work programs for the unemployed have been positively evaluated. Moreover, evidence from case studies suggest that some PSAs have been successful. This indicates that the problem may be in way that the PSA-program is implemented. For example, in selecting providers it was initially underestimated that placing temporary workers require special qualities, experience and infrastructure than are different from those of firms that implement the classic PES employment and training schemes. Firms received contracts to operate a PSA that had broad experience in the training sector, and to some extent also with job placement, but with no experience in operating temporary work agencies. An obvious indication for this is the large variation in the success rate for hiring out temporary workers, i.e. the proportion of work time that PSA employees actually spend on assignments in businesses sup-

plied with temporary workers. In the survey of participants, almost a quarter of those questioned said that they had never had a temporary work assignment in a regular firm. For comparison: As a rule of thumb, commercial temp agencies need an assignment rate of about 95% to be economically viable.

In public temporary work programs for the unemployed, one assumes that fewer temporary assignments will be realised for this target group. That is why the private providers of these programs receive financial support from the PES. At the same time, a PSA is obligated to offer training programs during period in which participants are not on work assignments. According to statements made by surveyed participants, 50% of those questioned were offered only five days or less of training, only a quarter received training in their field of work and merely 12% said that the training measures actually improved their professional skills.

While some of the reasons the poor placement figures lie with the selection of the providers, the way the instrument is set up should also be reviewed. Crucial for the success of integration measures is the question how the conflicting objectives between temporary work and finding permanent employment are balanced. The placement bonus must be high enough to be an incentive for a commercial temp agency to find a permanent employment for good staff rather than retaining them in their own business. In that respect, it is positive that recent changes give providers a greater incentive to quickly place PSA participants by increasing the relative weight of the placement bonus in comparison with the fixed monthly subsidies. Now the bonus will be set in a competitive tendering process and will not, as before, depend on the basic monthly payment. At the same time reducing the basic monthly payment also increases the incentive for the provider to place participants in permanent employment. Whether this and other program changes improve program performance will be investigated in the current phase of our evaluation until June 2006.

Finally, the hurry in which a completely new program was implemented led to a series of mistakes in the formulation of the contracts, which resulted in a number of abuses, particularly in the early stages. For example, if a jobseeker was hired on the 30<sup>th</sup> of a month and laid off again on the first of the following month, the agency received two monthly lump sums for that. After only a few months, the PSA in public opinion had a reputation for price dumping, bad quality, being taken advantage of and finally the insolvency of Maatwerk, the largest program provider with about 25% of the PSA business at the time. Numerous interviews in PES agencies and with PSA-providers show that the image of all providers suffered, even those that carried out the program professionally.

#### *The Placement Voucher (§ 421g SGB III)*

Since 2002 PES employment agencies can issue placement vouchers to jobseekers. This voucher gives the unemployed jobseeker the option of seeking the services of a private placement agency of his or her choice on the free market. The introduction of the placement voucher and the revocation of the license requirement for employment services are supposed to promote competition between public and the private placement agencies, which have been legal in Germany since 1994. Unemployed persons receiving unemployment benefit are entitled to receive a placement voucher after three months of unemployment (as of January 2005, after six weeks of unemployment). The voucher is valid for three months. The PES is obligated to pay a commission to the private em-

ployment service, if it has successfully places the jobseeker in a regular employment. A principal aim of the program is to reduce the duration of unemployment and benefit payment by referring clients to private service providers.

Since their introduction in the spring of 2002 until the end of 2004, 1.4 million vouchers were issued – more than half of them in eastern German. In 2004, about 5% of those entitled received a voucher each quarter. All in all, the number of issued vouchers that were actually cashed in was between 5% and 9% each quarter. In other words: in 91% to 95% of all cases, the placement voucher did not result in an employment that came about with the support of a private placement agency.

Our initial analyses show a differentiated picture of the instrument's impact in the years 2003 and 2004. In 2003, 2.3% more unemployed found regular work with a placement voucher than in a control group without the voucher. In 2004, however, there was a slightly negative tendency, although it is not significant statistically.

For particular groups the effect varied. Placement vouchers had a positive effect on the chances of being integrated into working life for jobseekers aged 35-45. On the other hand, for the group under 25, it was not a suitable instrument for promoting integration into the labor market. Women found work more easily with the voucher. For men there was a slightly negative effect. With the surveys and analyses, which are planned for the spring 2006, the WZB and infas expect to clarify how the voucher affects different target groups.

The data collected permits robust statements about it's the effectiveness of the placement voucher in promoting sustainable employment. Jobseekers in Eastern Germany who were integrated into the regular labor market through the use of placement vouchers, leave employment more quickly in comparison with a control group of persons who found work without a voucher. In Western Germany, on the other hand, the duration of employment does not differ significantly between those who found employment with a voucher and the control group. The significantly shorter length of employment in Eastern Germany after cashing in a placement voucher might be an indicator for wind-fall effects or even abuse of the program.

The positive aspects for jobseekers – entitlement to the voucher and freedom of choice in seeking out a private placement service – are offset by the lack of information available to them about the quality and competence of private placement services.

According to the results of the representative survey of more than 400 users of the placement voucher, almost all voucher holders (92%) contacted at least one private placement service. Most (77%) stated that they had looked without the support from the employment agency and about 64% found a suitable employment service with whom they signed placement contracts. When a contract was made with the private placement service, some could not provide serious job offers, some jobs were no longer vacant and some jobs were rejected by the jobseekers for a variety of reasons. In total, 35% of all voucher users said they had received at least one serious job offer from a private placement service. In only a quarter of these cases (9.4% of those surveyed) did the offer lead to employment and the voucher was cashed in. The satisfaction of the jobseekers with the private agencies varied greatly: While about 40% of the voucher holders who had used a placement service stated that they were very or quite satisfied with the placement service, 58% reported that they were not or not at all satisfied.

The quality standards for private placement services are neither adequate nor transparent. Particularly disadvantaged jobseekers run the risk of falling victim to dubious service providers. The potentials of the instrument could be used more effectively if the employment business implemented transparent quality standards and if the PES agencies were permitted to provide more information and counselling about available private placement services.