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# Unemployment and ALMP in the German Labour Market

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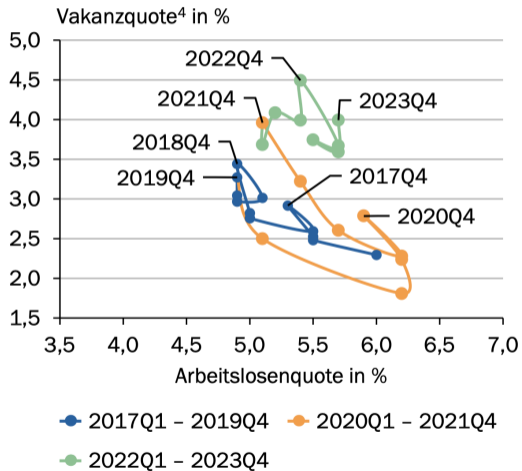
**IFAU Research meeting on active labor market policies**

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- 1 Key figures and current challenges
- 2 Reforming social welfare benefits and ALMPs for the long-term unemployed

- Germany's unemployment rate is one of the lowest in the EU
- In June 2024, 3.4% of the labor force unemployed
- Share of long-term unemployed : 35% in 2023
- With 6.2%, Germany has the lowest youth unemployment rate in the EU (compared to EU-27 average of 14.5%)
- Current economic growth potential estimated to be low (SVR, 2024)

## Recent shifts in the Beveridge Curve

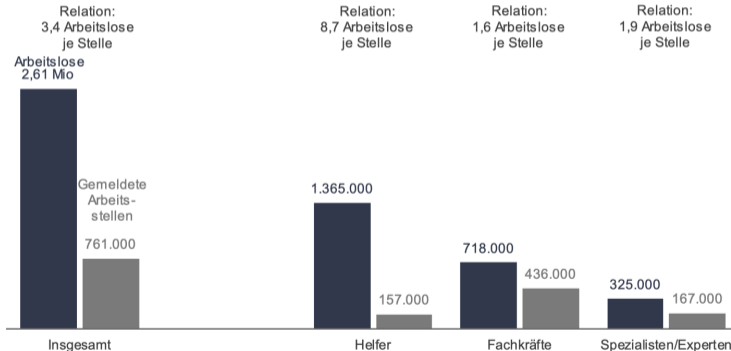


## Evidence of skill mismatch

- In 2023, 75% of vacancies were directed at university graduates or professionals with vocational training, while 55% of unemployed had not completed any professional training

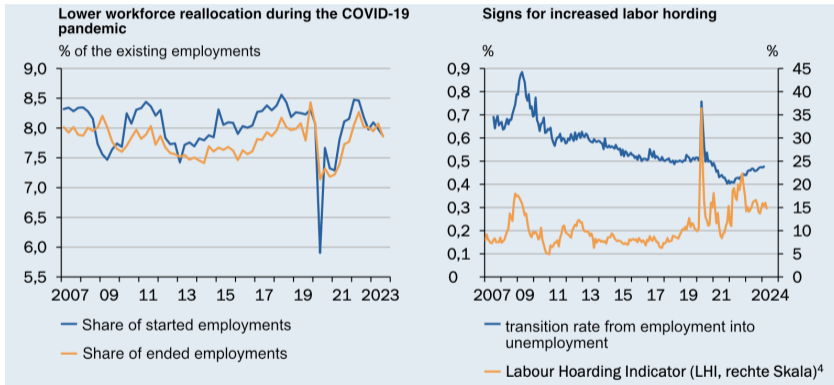
### Bestand an Arbeitslosen und gemeldeter Arbeitsstellen sowie Relation nach Anforderungsniveaus

2023



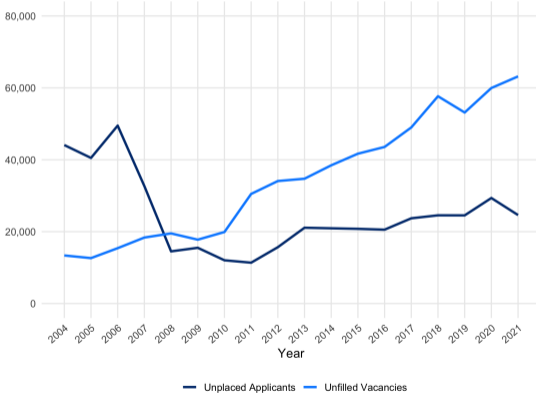
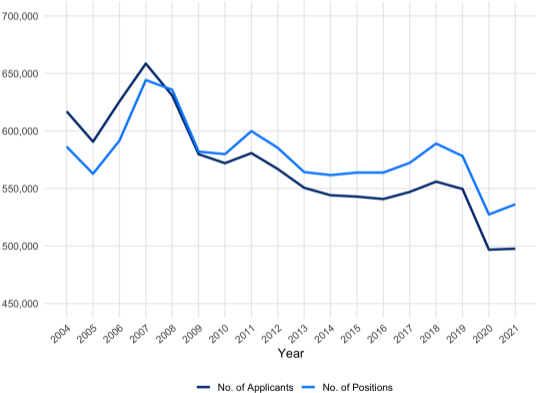
## Open vacancies for skilled labor coincide with increased labor hoarding

- Generous short time work scheme during pandemic → low labor market reallocation



Labor hoarding indicators remain high post-pandemic

# Challenges on the German Apprenticeship Market



- 1 Key figures and current challenges
- 2 Reforming social welfare benefits and ALMPs for the long-term unemployed



## Background: Hartz IV

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- **Introduced in 2005** as part of the broader **Hartz reforms** under SPD-led government
- Aim: To modernize the German labor market and reduce unemployment.
- **Key Components:**
  - Merged long-term unemployment benefits (Arbeitslosenhilfe) and social welfare (Sozialhilfe) into a single benefit: (Arbeitslosengeld II)
  - Recipients required to take reasonable job offers, including lower-paying jobs or jobs outside their occupation
  - Emphasis on active job-seeking, enforced by strict sanctions
- Impact highly controversial; credited with reducing unemployment but criticized for creating large low-wage sector
- Constitutional Court ruling 2019: sanctioning practice deemed unconstitutional

## The Citizen's Benefit Act ("Bürgergeld") in 2023

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- The German basic income support for jobseekers, "Citizen's Benefit" replaces former Hartz IV with an increase of the **level of social benefits** & drastic reduction in possibility of job centers to impose **sanctions**



- Introduction of a grace period (usually one year), with higher value of **exempted assets**



- Measures targeted at **skills development of the unemployed**
  - Priority of job placements abolished
  - More generous **funding for (re)training**

## Some first evaluation results

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- Challenge: no obvious control group
- Enzo Weber (07/2024) constructs control group using individuals who are unemployed, but (just) not eligible for Citizen's Act benefits
- Main finding: **job finding rate** reduces by about 6%
- This effect builds upon the effect of pre-reform reduction in sanctioning practice (after Constitutional Court ruling 2019)
  - Total reduction in job finding to due increased generosity about 8%
- No available evidence yet on job quality and skill acquisition

## Summary

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- Current state of German labor market characterized by low unemployment and high vacancy rate
- Increasing challenges regarding the supply of skilled labor
- The recent Citizen Benefit Act raises social benefit levels and reduces sanctioning while increasing focus on training
- Some early evidence that reform reduced job finding rate
- Key question to be answered: does it improve skill acquisition & long-run employment outcomes?
- Generosity of Citizen Benefit Act led to pushback in public debate  
→ Current policy discussions about "reforming the reform"

Thank you

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