

# **Labour Market Reform and Labour Mobility within Cities: Have the Hartz Reforms Succeeded?**

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## **ABSTRACT**

Recent research has pinpointed cities as a hub of employment dynamism within Europe; their successful outcomes attributable to their scale, networks and advanced service functions. These characteristics are said to have afforded city workers higher earnings and greater opportunity to appropriate productivity gains through job mobility.

This paper explores the employment benefits city workers are afforded within Germany, and more particularly the impact of a comprehensive set of reforms initiated between 2003–2005, known as the Hartz reforms. These reforms aimed to reduce unemployment by increasing the dynamism of the German labour market, by accelerating labour market flows and facilitating efficient job matching. Among other things the reforms involved the tightening of eligibility criteria for employment benefits, the introduction of personal service agencies and the re-orientation of training (including the introduction of training vouchers).

However, the German unemployment rate has not come down so far. Does that mean the reforms have not affected labour market outcomes in Germany? Since it is early days to draw any definite conclusions we focus on how the deregulations have affected labour market outcomes within cities, in which – given their dynamism – we expect the effects to mature first.

Drawing on the German Socio-Economic Panel (SOEP), a longitudinal dataset of 21,000 individuals (in 2005) for the years 1985–2005, we provide descriptive analysis of employment outcomes pre and post Hartz reforms, focusing on the question of whether these reforms have exploited the advantages afforded by cities. We also model the determinants of inter-regional urban migration within cities, to see whether the Hartz reforms have resulted in a ‘freeing up’ of the German labour market. Finally we compare the resulting mobility patterns and their determinants to the deregulated labour markets of United States, United Kingdom and Australia (using Panel Survey of Income Dynamics, British Household Panel Survey, and the survey of Household Income and Labour Dynamics Australia respectively). We ask if city outcomes and mobility patterns have converged between the countries in recent years or whether they remain antithetical. Germany’s Rhineland background as opposed to the Anglo-

Saxon background of the other three countries might have prevented Germany from taking too drastic measures to deregulate its labour market.

**Key Words: urban labour markets, labour market reform and flexibility, job mobility**