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‘THEY WON’T WORK!’ - EFFICACY OF AN ACTIVE LABOR MARKET POLICY FROM THE PERSPECTIVE OF PSYCHOLOGY

Marco Meissner

ABSTRACT

In March 2000 the European Council decided to implement a development plan for the European Community, the Lisbon Agenda, ‘aimed at making the European Union (EU) the most competitive economy in the world and achieving full employment by 2010’. One of the goals defined was to raise the overall employment rate in the EU to 70% by the year 2010. All signing member states were ‘expected to invest in education and training and to conduct an active policy for employment’.

In accordance to this Chancellor Gerhard Schroeder proposed the Agenda 2010, clearly named after the deadline for the Lisbon Strategy targets which proposed several concrete measures to modernize the German social system and labor market in order to secure Germany’s position on the world market. One of the measures that were realized was the so called Hartz reform, named after Peter Hartz, then Volkswagen’s personnel director who proposed substantial changes in the ways unemployment should be dealt with. In January 2005 the German government implemented what has since been called Hartz IV – an active labor market policy for Germany. This policy, which has been in effect for 4 years, has been highly debated from the very beginning and initial conclusions can now be made about its performance.

While some economic research seems to point to the failure of active labor market policy in Germany so far, new propositions still seem to ignore important mechanisms that might be a reason for its lack of success and acceptance in society. For the first time a psychological approach has been chosen to analyze the underlying dynamics of these reforms and the planned study will try to shed some light on specific aspects a labor market policy should consider from a psychologist point of view. A Questionnaire was handed out to 27 Hartz IV recipients. The intention was to undertake primary research in an explorative manner to gain new insights into the ways governments and citizens affect each other. The author will argue by this sample that without paying attention to basic psychological mechanisms, labor market policies and the unemployed will share a common fate – they won’t work!

Efficacy of an Active Labor Market Policy from the Perspective of Psychology
1. INTRODUCTION

Numerous theories from social and personal psychology suggest that the method with which „active labor market policy“ (ALMP) is applied so far, is in danger of failing. Research from various fields such as motivation, reactance, group behavior and health psychology amongst others point out that a punitive approach to force people back into labor by applying sheer economic pressure and half-hearted efforts of support and integration is more likely to ignore the actual needs of people willing to work, thus rendering millions of unemployed in their own words ‘disencouraged’, ‘frustrated,’ and ‘cornered’, creating high-risk groups for permanent unemployment, poverty, mental and physical problems and anti-social attitudes and behavior.

While some economic research seems to point to the failure of active labor market policy in Germany so far, new propositions still seem to ignore important mechanisms that might be a reason for its lack of success and acceptance in society (Sesselmeier, Yollu-Tok 2007). For the first time a psychological approach has been chosen to take a look at the underlying dynamics of these reforms and the planned study will try to shed some light on specific aspects a labor market policy should consider from a psychologist point of view. A Questionnaire was handed out to 27 Hartz IV recipients. The intention was to undertake primary research in an explorative manner to gain new insights into the ways governments and citizens affect each other. The author will argue by this sample that without paying attention to basic psychological mechanisms, labor market policies and the unemployed will share a common fate – they won’t work!

This project was initiated for the course of ‘Challenges of Globalization’ held at the University of Koblenz-Landau by Prof. Dr. Nigel Boyle which the author attended. He will draw on an array of independently published research findings from different disciplines to underpin the hypotheses that

1. ALMP so far has not succeeded in what it was intended to achieve i.e. bringing people back onto the labor market
2. Economic pressure has deleterious effects on social cohesion and individual well-being.

Then, with results from a small regional sample of N=27 that were questioned with a specially assembled questionnaire, it will further be postulated that
3. ALMP so far has psychological effects on an individual level that are counter-productive to its designated goals.

2. ACTIVE LABOR MARKET POLICIES - EXAMPLE GERMANY

After Sweden, the UK and the US, Germany started to implement a series of policy changes and new programs to its labor market aiming at raising the efficiency of the existing procedures to help the unemployed find work. Similar to Blair’s New Deal and the Welfare-to-Work Program the German model was created to manage high and rising numbers of unemployed effectively. Basic amendments were the bringing together of welfare and unemployed benefits to a ‘flat-rate’ benefit at the lower end of Euros 351 pm for an unemployed single (in comparison: the old unemployment benefit was 53% of the monthly income last received). For housing, health insurance and children further flat rates are added, but any person living together with the dependent individual will be subject to financial

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analysis and deductions will be made accordingly. Every benefit recipient has to sign a contract of reintegration to the labor market. This contract prescribes the individual efforts the client has to make in order to find employment, if the criteria is not met the client is subject to financial sanctioning. The other part of the contract is signed by the local agency which commits to provide services related to employment acquisition. Optional and mandatory learning courses are also offered, most of which teach basic computer skills, job application procedures and basic working knowledge of professions such as a call-center agent or basic webpage programmer. These courses last from a few weeks to several months and are in most cases compulsory. Lack of attendance will be punished with financial sanctioning. Financial sanctioning means, that a percentage (starting with 10% or 15% depending on the severity of your breach of contract) is taken off the benefit payment. The local agency will have the necessary authority to cut all of the benefit payments back to zero, if a breach of contract occurs repeatedly. There are numerous regulations and by-laws surrounding these regulations but for the sake of brevity these will be omitted.

3. ALMP, ETHICS AND THE HUMAN PSYCHE

Mainstream theories dealing with reducing unemployment discuss macro-economic factors, changing demand for the qualification of workers and individual motivation issues as possible starting points for effective management of high unemployment rates.

Hartz IV as a typical ALMP is mainly concerned with cutting back social spending and motivating unemployed individuals back into work by keeping benefit payments to a minimum (below the threshold of relative poverty in Germany) and by creating an ‘uncomfortable’ situation which the unemployed are supposedly highly motivated to leave. Underlying is a specific concept of the human being and his behavior. The so called Rational Choice Theory postulates the ‘Homo Economicus’, who is controlling his environment on a purely rational efficiency theorem (Kirchgässner 2000). Conscious about input and output choices in life are made accordingly. The unemployed ‘Homo Economicus’ is expected to weigh gain in resources against loss in resources and to behave accordingly to maximize his resources and thus to show great effort of avoiding a situation negatively affecting his resources. On top of that is the implicit expectation, that the unemployed individual has the necessary means to re-enter the labor market by plain effort and a high number of job applications. Fiscal, monetary or qualification issues are not being affected by the elements of an ALMP.

As the main instruments of Hartz IV are constructed in order to tackle motivational problems it is to be expected, that exactly the motivational issues are suspected of being a major cause for unemployment. This has been discussed broadly by leading politicians (Chancellor Kohl 1993, Chancellor Schroeder 2001) and the media which resulted in a still prevalent dominating public prejudice as 66% of the German population believe, that the majority of Hartz IV recipients are not willing to work and that their situation is self-inflicted (Oschmiensky 2003). Solely focusing on these motivational aspects is not only a very one sided approach to labor market problems, there are also numerous empirical results contradicting this position (Research Center for Social Sciences Berlin e.V. 1999) and make the debate about the ‘lazy unemployed’ seem irresponsible with regard to possible effects as stigmatization and social sanctioning of the unemployed. If motivational aspects need to be addressed a strong tie to empirically based research about motivation should be a prerequisite. Countless works in fields such as pedagogy, organizational psychology and social sci-
ences propose that there are more effective and sustainable ways of motivating people than by economic pressure (Frey, B. 1997). Neither the Rational Choice model nor the assumption that financial pressure and sanctions are effective in motivating the general population in the desired form see any strong empirical evidence for support (Sesseltmier, Yolli-Tok 2007). Last but not least ethical questions should arise when downplaying the role of macro economic and labor–market-demand factors leaving all responsibility with the individual or when denying a minimum financial life support regardless of the possible consequences for citizens and society.

4. APPLYING PSYCHOLOGY TO HARTZ IV

It is obvious that anything that has a strong impact on the lives of individuals will have an impact and leave an imprint on that individual and its psyche. Hence it is consequent to ask for the psychological impact of laws and regulations issued by governing bodies, such as the laws surrounding the ‘Arbeitslosengeld II’, the national benefit fund for unemployed and people of lowest income. As explained above, economic pressure and coercive measures are chosen to motivate unemployed individuals to join the labor market as quickly as possible, whether they are in any way suitable for the current employment market or not. Omitting other factors at work in determining the unemployment and reentry-rate on the labor market the focus on the individual responsibility leads to measures that are frustrating and stressful for affected individuals and counterproductive from a governmental, societal and individual point of view. For years now social science has been exploring the interrelationship between social disintegration and what Heitmeyer (2008) calls the syndrome of ‘group focused enmity’ which can be perceived in heightened rates of racism, sexism and xenophobia. Evidence that has been collected over the past few years offers interesting insights about the links that experienced social disintegration and factors such as unemployment or social exclusion share in common.

Brainstorming about possible consequences for individuals and a society from a psychological perspective, the following kind of general assumptions would arise:

- It could probably be expected to find a
  - general dislike of the reforms
  - critique regarding the socio-economic situation of affected individuals
  - critique regarding activating measures
  - perceived pressure, lack of control,
  - heightened prevalence of physical and mental health problems
  - lower performance and sense of self-efficacy plus a lack of trust in own abilities
  - lower motivation
  - high level of reactance (aggression, activation).

A few of these assumptions will be picked up now and examined for possible references in research findings of several disciplines.

5. RESEARCH ON THE ACCEPTANCE AND PERCEPTION OF HARTZ IV REFORMS

In their paper ‘The Subjective Perception of Gain and Loss in Welfare Payments as seen by Recipients of the Arbeitslosengeld II’, Achatz and Wenzig (2008) sum up the results of several empirical studies evaluating social consequences, acceptance, and perceptions of Hartz IV from the beneficiaries’ point of view. In a nation-wide survey (IAB – Survey http://scholarship.claremont.edu/urceu/vol2009/iss1/9
2005) out of 20,832 participants

- 79% stated that they expect no or hardly any positive outcome of the new reform regarding their integration on the labor market
- 38% perceived a threat or a factual devaluation of their socio-economic status

Further analysis for controlling variables showed that the more often people entered phases of unemployment the more intense was the perceived devaluation of socio-economic status and the smaller the hope of reintegration was on the labor market.

They also found that acceptance of new labor market reforms grew with the degree of perceived service and consulting by the job center officials. The report "Koblenz from the Bottom" (Wolf 2007) sums up results of his survey having interviewed 288 unemployed in the city of Koblenz. The results are stated here regarding questions about the practice of the local job center.

Concerning the quality of the service and consultation of the job center agents

- 32.3% of all participants rated the overall performance with an D or an F ("mangelhaft bis unzweckmäßig")
- 21.9% gave a D for supportive and friendly service
- 30.7% did not feel they had been taken seriously as a person
- 30.9% stated being treated condescendingly
- 27.7% felt implicitly blamed for their unemployment
- and 36% thought the consultation was incompetent.

Further answers stated that the majority of people did not feel that their interests and abilities were individually assessed and that there seemed to be no service like the chance for participation in qualifying measures or consultation, only requirements and sanctions. Another interesting fact may be that during the three weeks of data collection complaints were filed against 49.1% of the benefit decisions, half of which were granted.

Sesselineier and Yollu-Tok (2007) present an analysis of reform acceptance and motivation for labor-market-integration from an economist point of view and come to the conclusion that the given task of reducing the number of unemployed was not met by the reforms and thus the Hartz laws failed although people were highly motivated to work. This happened as people did not accept the activation strategies applied, namely the "Working Opportunities with Additional Expenses Compensation" and were not motivated through financial sanctioning, as the underlying mechanisms postulated by the Hartz commission were too crude to influence human behavior into the planned direction.

6. HEALTH REPORTS AND STATISTICS GERMANY (BKK)

Various reports (WHO Report 2001, EC Mental Health Report 2006, BKK 2007) show that the unemployed population is a high-risk group for developing mental illnesses with an increased likelihood of 3.5 as compared to the employed population depression being one of the major diagnoses. The unemployed also suffer from a higher risk of falling to drug addiction, with a strong negative correlation between level of job qualification and risk for addiction. It has also been shown that the unemployed show 64% more days of inability to work due to sickness than people in work, and four times as many than privately insured people (in Germany, only people above a certain income may choose to use private
health insurance, all others have to be under the insurance tied to the government). As to prevent the claim, that the unemployed take sick leave 'because they are lazy' it should be added that this group shows a heightened prevalence of sicknesses which is less relevant for explaining sick leave of people in work as for example, diseases of the nervous system which need strong evidence until diagnosed. They also show twice as many days of sick leave due to new metastasis in comparison with legally insured in work, three times higher then the privately insured (BKK 2007). Obviously the author does not try to suggest any causal links to the ALMP reforms. Rather the intention is to raise attention to this high risk group for mental and physical illnesses. In this light, nevertheless, it may seem somewhat questionable to withdraw to measures that apply more economic and regulatory pressure on affected individuals.

In the now following part I will outline basic psychological theories that will be used to argue that the activating elements of ALMP might not be suitable to motivate people into work. They will be much more likely to be perceived as violating and threatening and thus become responsible for effects on individuals and society.

7. THEORETICAL FRAMEWORK

Quality of Life

The idea of Quality of Life evolved over a long span of time into a concept that found great interest in politics, social sciences, medicine and psychology. Wiendieck (1970) was the first to draft a psychometrical scale in order to elaborate and capture the concept with regards to its meaning into gerontological psychology. Montada et al. (1983) further developed a scale for general and area specific life satisfaction. Henrich (2000) developed several measures for general life satisfaction and several clinically relevant sub-dimensions. The importance of this idea is best described with its adoption into the WHO definition of health (WHO 1952). In 1997, Meier proposed the following dimensions for this multidimensional construct:

1. Psychological (i.e. fear, depression, well being)
2. Physical (i.e. health status, complaints, disease and treatment related symptoms)
3. Ability to function: Ability to fulfill activities which are connected to the person’s social role (Self-care, mobility, profession, household, spare time)
4. Social (The number, value and maintenance of relationships to family and friends)

‘General life satisfaction’ and ‘specifically work related life satisfaction’ (for the individuals receiving income support) will be of interest in the present study.

Reactance

The theory of reactance was developed by Brehm (1966, 1972) and states that people strive to maintain their personal freedom. If they feel, that their freedom is threatened or compromised psychological reactance develops and defines a state of unpleasant arousal which aims at defending and reinstating that freedom. This can lead to a heightened activity in the direction of regaining that freedom, in a higher valuation of the behaviors related to the lost freedom, or in anger against the perceived cause of the freedom lost (Merz 1983).

The strength of the reactance is dependent on the
1. subjective importance of freedom,
2. amount of freedom under threat or being taken, and
3. degree of force used to take freedom

Possible ways of avoidance are cognitive restructuring, direct action, or aggression (Bre...
resulted which gave ideas for the formulation of hypotheses. A questionnaire was designed using scales that have been developed in the context of testing for the theoretical constructs introduced above. Items for reactance (Merz 1983), life satisfaction (general and specifically work related, Montada et al. 1983), and perceived self efficacy (Schwarzer & Jerusalem 1999) could be adopted; items to measure for motivation to find work were taken from a questionnaire testing for current state of motivation in learning situations and quiz challenges (Rheinberg, F., Vollmeyer, R., Burns, B.D. 2001) and were adapted to meet the needs of this project. Questionnaires were handed out to this group and an additional self-help group. Further contact was established by one of the members to an educational institution catering for Hartz IV recipients and offering coaching and mandatory courses. In total a group of N=27 was questioned. Participants were informed about the aim of the study beforehand, but were given information about the measured constructs only after testing to avoid effects on the data. Due to organizational problems for the testing of reactance only 21 recipients were queried. The sample of Hartz IV recipients that will be presented here was tested for a diagnostic evaluation of peculiarities regarding the constructs explained above. Mean for Age was 44 years with two thirds of the group being 35 or older and only one third held the equivalent of a passed SAT.

Hypotheses

The following hypotheses were starting points for the research project concluded by the author. Comparing the means with norm values or large samples the Hartz IV sample will show

1. significantly higher values for Reactance,
2. significantly lower values for general life satisfaction (gLS),
3. significantly lower values for specifically work related life satisfaction (sLS), and
4. significantly lower values for expected self efficacy (SE).

5. Analyzing three Aspects of the current state of motivation in regards to finding work, it was expected that Hartz IV recipients show a measurable negative impact of the length of benefit dependence on the perceived probability of success in finding work (PS), on anxiety and a positive impact on the challenge of finding work (CF)

It was expected that the factors age and education could moderate these effects. Results regarding this matter will not be presented, the available suggested literature is abundant. With regards to the interpretation of the findings this information has nevertheless been taken into account.

RESULTS

All scales were tested for reliability and showed a Cronbach’s alpha of >0.75 which met the requirements for reliability. According to the Kolmogorov-Smirnov-Test the results of all scales showed normal distribution, so further parametric testing seemed viable.

T-tests were used where applicable to find significant mean differences for the constructs of reactance, life satisfaction, and self efficacy; the individual results will be summed up below. Correlation analyses and regressions where performed where necessary to gain insights about dependencies between the tested variables and other factors that might play a role in affecting these. Significance quoted with.* have been tested on a p-value of <=.01
marked with an .istar the p-value was <=.05.

**Reactance**

High test scores signified a high level of reactance (range 1 to 6). A mean value of 3.58 was found in the literature presenting the test using a “relatively heterogenic” sample of N=173 (Merz 1983). The mean of 3.95 that was found in the sample presented here proved a difference that was highly significant (p=0.01).

**Life Satisfaction**

With the scale also ranging from 1 to 6, here a high test score equals a low level of life satisfaction. A mean value of 2.44 for gLS and 2.61 for sLS was found in Montada, Schmitt et al. (1986) using a sample with N=775. The means calculated from the Hartz IV Sample (gLS=4.12, sLS=3.78) differed both significantly.

**Expected Self Efficacy**

The scale measured from 1 to 4, high scores translate into high expected Self efficacy. The norm value given by the author of the test is 2.9, which proved not significantly different from the found value of 2.79. One significant correlation with ‘total number of months unemployed’ could be found but this was with a value of r=.529* in the opposite direction of the expectation. An ANOVA showed that the SE value of the age group 19-35 (N=8) was significantly higher then the value of the age group 50-59 (N=11).

**Motivation to Find Work**

As this specifically altered scale has not been used before there are no comparable norm values. The scale proofed to be reliable with a Cronbach’s alpha of 0.77. A significant correlation of -0.650** was found for ‘number of months Hartz IV was received’ and PS for the age group of 35 and above (r= -0.609** overall). No correlation could be found between SE and ‘number of months unemployed since 2005’ or ‘total number of months unemployed’. Correlations of challenge and anxiety were not significant

**DISCUSSION**

As expected in hypothesis 1, the measured reactance was significantly higher then the given norm value. In regards to the many regulations and limitations experienced by the unemployed dealing with their benefit situation this may not be surprising. The level of consent by the affected public as seen above has clearly triggered suspicions about the origins of the heightened reactance levels. Still, from this standing causal links cannot be linked to the Hartz IV regulations. Further research needs to probe for the subjectively compromised areas of freedom within the affected individuals. Laboratory experiments and field studies should be conducted to bring light to the strength of effects financial sanctioning has to benefit receivers.

As for ‘General Life Satisfaction’ and ‘Specific Life Satisfaction-Work,’ significantly higher test scores which equal a significantly lower Life Satisfaction (Hypotheses 2 & 3) could be shown for Hartz IV dependents. Given the strong effects that poverty and unemployment as well as social stigmatization have on the four factors mentioned to form Life Satisfaction, this also comes as no surprise. Although the results for sLF cannot be interpreted as N=8 is too small a sample for generalized assumptions, the found difference nevertheless can inspire
further probing with bigger sample sizes, as this might be one way to narrow down the effect the ALMP regulations from the effect of unemployment in general on Life Satisfaction.

Analyses of the effects on expected Self Efficacy brought no interpretable results with regards to the hypothesis. Interestingly enough seems the difference in SE between the two age groupings. In the age group of unemployed under 35 years of age, a significant negative difference in expected Self Efficacy (as compared to values from older unemployed) was found. This could for example be explained by the relatively longer exposure of older unemployed to aversive situations (i.e. more hardship finding work etc.) affecting the four facet’s described above. Bigger samples are needed to validate any claims.

Results for the ‘Motivation to Find Work’ were mixed: Only for the factor of ‘probability of success in finding work’ was a significant correlation found i.e. with ‘number of months Hartz IV was received’. This may be caused by the sample size as well as by the multi dimensionality of the construct of motivation and the various moderating variables. Another reason might be that a majority (N=16) of the sample was part of self-help groups which spend a great deal of time with helping and supporting each other by committing to a positive outlook and high motivation. Nevertheless the found effect on ‘Probability of Success in Finding Work’ is interesting as it can be predicted to fall with an increasing amount of months that Hartz IV has been received. As for the factors “challenge of finding work” and “anxiety”, the theory proposes scenarios in which the perceived challenge is too high or too low and motivation is affected negatively. The found results either mean that the benefit recipients are motivated to find work or that the concept as such is moderated by more factors as have been considered in this study and the sample is too small to bring significant results. It might also be interesting to further differentiate between the motivation to find any work and the motivation to find personally accepted work.

A problem which yet has to be solved is the interpretation of found effects in respect to their origins: the effects benefit procedures will have are in many cases confounded with the effect that unemployment has. Only in those cases that work in subsidized work or receive benefits as income support rather than exclusive income a differentiation of these effects could be investigated, but again attention must be paid as having a low income may produce certain effects itself, which could possibly be confounded with the effects of benefit regulations. As the degree of relevance and reality of the deleterious factors is expected to play a significant role in explaining the strength of effects, laboratory experiments on the measured concepts will only be of limited validity. The multidimensional dependencies of these conceptions further pose difficulties in finding strong effects for a single factor. Despite the relatively small N=27 significant effects could be found. As there is not one typical Hartz IV recipient and the cases differ on many variables the sample size used is not adequate to investigate for further insights. A bigger sample is needed. In spite of all these limitations the found results seem to suggest that further, more elaborate research projects will yield valuable results that can assist in creating more efficient solutions for the unemployed parts of society.

9. CONCLUSION

Firstly it has to be pointed out that no causal link between the found effects and the way ALMPs work can be suggested. It is merely sought to inspire further research dealing with possible synergies between policies and society. Taken into account all the information presented above eventual failures in existing policies can be discovered and tackled. If one
accepts the different evidence shown one will probably want to take a closer look at the mechanisms with which ALMPs could possibly further shape those individuals that seem to be a high risk group for mental and physical abrasion and illness, for reactant behavior or aggression, for poverty, and for social stigmatization. The author must question the intentions of policy makers that opt to bring a risk group into even worse living conditions based on falsified assumptions about human behavior and economics. The author expresses his wish for further research into this interface of citizen and state. The results presented above do seem to promise a deeper understanding of the way policies affect people and society as a whole.

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