

Abstract

This thesis examines the effects of the so-called Hartz IV reform on the German labour market development, with special emphasis on unemployment reduction. To determine the causal link, a variety of tools are used, namely macroeconomic studies, worker flow analysis, surveys and comparison with competing arguments. Preponderance of evidence suggests, that Hartz IV played a significant role in unemployment rate reduction in the period following its implementation. Size of this effects is hard to discern exactly, but an estimate in the range of 1,5-2 percentage points should be quite accurate. Contrary to popular belief, this reduction did not occur to the detriment of general job quality, such as by splitting of old jobs or by dilution of their working hours. Furthermore, the issue of relative poverty is investigated. The thesis concludes that the increase in relative poverty was not caused primarily by Hartz IV, nor is it a good measure of actual living standard. The increase seems to be to a large degree driven by demographic changes, mainly the decreasing size of German households.