



Political Reforms in the Domestic Service Sector – Aims and Impact

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Activities like cooking, cleaning, laundering, ironing, shopping, gardening etc. used to be considered as part of the reproductive sphere, the counterpart of the so called productive or market sphere. But this perspective is changing. It has become quite common to refer to these activities as the ‘domestic service sector’, thereby pointing to the widely noticed trend of replacing unpaid work with market substitutes. This paper deals with the political reforms that shape this process of ‘domestic outsourcing’ (Bittmann / Matheson / Meagher 1999: 249). Concentrating on reforms in Germany, I will analyze the varying means by which political interventions have tried to create additional employment and improve working conditions in this sector during the last 10 years. As I will argue, even though the reforms partly follow a sensible approach, the employment effects have been modest so far and are highly overestimated. The findings of our own research and evaluation projects at the IAT suggest that the high expectations raised by the political discussion do not take into account two central obstacles to the creation of regular employment in this sector: on the demand side, the low acceptance of prices that considerably exceed those on the informal market and, on the supply side, the difficulties in recruiting suitable employees, due to the fact that the knowledge and skills which are required in domestic services are not as low as is often assumed.

1. The political regulation of the domestic services market – some general remarks

Before elaborating on the details of political reforms, I will begin with a short delineation of the general significance of political regulation in this area. Even though we refer to household activities as a service industry, this doesn’t imply that there is a free game of Supply and Demand, free of state control and legislation. Basically, the state assumes two functions which influence the quantity and the quality of employment in this sector:

Firstly and most elementary, states *constitute* the market, that is they define the legal boundaries and the size of the market. They can do this by acting as an employer on their own, through the provision of public services absorbing some of the services formerly provided by the family, thereby confining the scope of market activities (either *de jure* or *de facto*). And they can do this by regulating supply and demand in the remaining areas, for example by restricting market access or by stimulating demand, thereby influencing the volume of traded services.

And secondly, states *structure* the market, that is they frame the contractual relations in this market, which in turn has implications for the working conditions. It is useful to distinguish between

three different basic models of contractual relationship (for a similar typology see Labruyere 1996: 4):

Model 1: *a sales contract* between a domestic worker and the households demanding his or her service; in this case, the household act as a ‘customer’ and the domestic worker as a self-employed person. This bilateral relation (Model 1) can also be enlarged to a trilateral relation, with an intermediary agency acting as a broker between the two sides without changing the nature of the contract (Model 1a)

Model 2: *a contract of employment* between the domestic worker and the household demanding his or her services. In this case, the household acts as an employer and the domestic worker as an dependent employee. This bilateral relation (Model 2) can be enlarged to a trilateral relation, with an intermediary agency acting as a broker between the two sides without changing the nature of the contract (Model 2a).

Model 3: *a combination of both*, that is a contract of employment between a domestic worker and the service company employing him, and a sales contract between the company and the household demanding the service. In this case, the third party becomes the center of the contractual relationship.

Table 1: Models of contractual relations in domestic services

	<i>Two parties</i>	<i>Three parties</i>
<i>Sales contract</i>	Model 1	Model 1a
<i>Employment contract</i>	Model 2	Model 2a
<i>Employment contract + sales contract</i>		Model 3

Of course, these are only the basic legal alternatives and there are many hybrid forms to be found in real life. This is also due to the fact that an important share of the domestic services market is part of the informal economy, where written contracts have virtually no meaning. However, most of the employment relationships that can be found in the informal market resemble one of these variants. As to the link between contractual relation and working conditions, there are no direct and lineal implications. But the type of contract defines who is responsible for the compliance

with laws determining the level of social security and with other laws related to working conditions, and this may have consequences as I will argue in the following.

2. Political reforms in the domestic service sector– aims and means

The following analysis addresses the question why, by what means and to what extent political reforms have affected the quantity and quality of employment in this sector. I will concentrate on reforms in Germany, since this has been the main focus of the research and evaluation projects at the IAT (see Weinkopf 1997, Bittner/Strauf/Weinkopf 1999, Bittner/Weinkopf 2000, Bittner/Weinkopf 2002). But I will also point out the parallels with reforms in other European countries.

Throughout Europe, the *objectives* of recent political reforms in the domestic service sector have been quite similar: They primarily aim at promoting regular employment and at improving working conditions in this sector. There are several other aims linked to that main objective, particularly providing families and the elderly with affordable domestic help and combating informal work, and sometimes the reforms center on specific target groups like the long-term unemployed.

Types of financial incentives

The most important means to achieve these objectives have been financial incentives, either as direct payments or tax concessions, in order to reduce the costs of legal employment subject to social insurance. It is useful to rely on the three forms of contractual relationships outlined above in order to highlight important differences between the many varieties of financial subsidies: They are granted to different parties of the contractual relationship, thereby promoting one of the three forms of contractual relationships. For instance, one of the best-known subsidies that has been introduced in a European country in the 1990's is the 'chèque emploi-service' in France which is granted to the demand-side, encouraging households to act as employers ('particulier-employeur') (Causse / Fournier / Labruiere 1998). The cheque facilitates the administrative tasks and entitles the employer to a tax credit amounting to 50% of his expenses up to a limit of FF 45.000 per year (Le Feuvre 2001: 16). Another subsidy, the AGED ('Allocation de garde d'enfant à domicile - AGED), is a direct payment to families with children below the age of six, allowing them to engage a nanny. Hence, the employment relationships promoted by these subsidies come close to Model 2. By contrast, the law on 'HomeService' ('lov om hjemmeservice')

that was introduced in Denmark in 1994 encourages the creation of professional service companies. These companies are obliged to apply for a license, entitling them to a state subsidy equivalent to 50% of the expenditures for every ‚productive‘ working hour, i.e. every working hour sold to a customer. Hence, the contractual relationships promoted by this reform are similar to Model 3. But applying for a licence is also open to self-employed domestic workers, and an assessment of the employment effects of the reform revealed that the majority of domestic service firms covered by the scheme are very small, consisting mostly of one or two people, approaching the dominant form of contractual relations to Model 2 (EIRR 2000: 27, Plougman / Buhl 1998). The dutch programme SVP (‘Schoonmaakdiensten voor Particulieren’), introduced in 1998, restricts access to financial subsidies from the state to companies employing long-term unemployed (Tijedens 2001:20), thereby implementing Model 3.

Table 2: Types of financial subsidies

Supply-side		Demand-side
Domestic Worker	Company	Household
	NL: SVP	F: Chèque Emploi-Service; AGED
DK: HomeService		

Political reforms in Germany during the 1990’s - the first experiments

Political reforms in Germany have eventually resulted in the implementation of every model, one after another. In 1990, the federal government introduced a tax deduction scheme for households employing a domestic worker, thereby promoting contractual relationships similar to model 2. In the beginning, this scheme was restricted to families with at least two children under the age of 10 or a person in need of care, but it was extended to all households in 1997 (Weinkopf 2003a: 135). At the same time the government introduced a service voucher (‚Haushaltsscheck‘) following the french model, designated to reduce the administrative burden. Unlike in France, though, the scheme only covered employment relationships with wages higher than DM 630 (~ € 325). The reason for this is a particular regulation in Germany that exempts jobs with wages up until a certain level (termed ‚geringfügige Beschäftigung‘) from social insurance contributions - and understandably the government wanted to restrict its subsidies to jobs subject to social insurance. Therefore only a minority of the households could benefit from this scheme, since the experi-

ences to date both in France and Germany have shown, that the majority of the households cannot afford and often do not need more than 3-4 hours of paid domestic work per week (Bittner/Weinkopf 2002: 18). Not surprisingly then, the reform contributed only to a modest increase in regular employment, from ca. 34.000 in 1997 to 39.800 by the year 2000 (for details see Bittner/Weinkopf 2002: 19, Schupp 2002: 51).

These experiences, among other things, gave reason to other experiments at the regional and local level. Since the mid-1990s, many federal states and communities backed up companies and non-profit organizations acting as employers for domestic workers. At the end of the 1990s there were up to 100 of these professional service providers. By spreading the working hours of one employee over several households, they were able both to meet the demands of those households that only needed domestic help for a few hours per week *and* to offer their employees full time employment or at least an employment exceeding the ‘geringfügige Beschäftigung’. And as we know from a recent survey on working time preferences carried out in several European countries (Bielinski/Bosch/Wagner 2002) this is what a majority of employees, including women, prefer. Apart from that, there are reasons to believe that the chances of producing acceptable working conditions and of minimizing abuse will be greater if the available public financial support is channeled towards professional service providers rather than towards private households seeking to hire workers themselves. Companies are obliged to report and document many of their activities and to provide opportunities for workforce representation, while the regulations governing personal privacy act against the establishment of effective controls in private households. The isolation of domestic workers further aggravates the situation. Binding employment contracts, dismissal protection, regulation through collective agreements and health and safety issues at work can easily be ignored. It can be assumed that many people are even ignorant of the minimum regulations in this area as to register employees for statutory accident insurance. These theoretical considerations have been confirmed by our research. It consisted of a survey covering 84 professional service companies throughout Germany, and an in-depth-analysis of three service companies in North Rhine Westphalia, assessing the conditions for their success or failure in attracting customers and examining the working conditions in these companies. The results were that most of the employees, many of them with previous experiences as employees in private households, were appreciating

- that they were receiving their wages on a regular basis, even during their holidays and in case of illness;

- that they had the management backing them up in case of conflicts between the employee and the private household;
- and, above all, that they had social insurance (Bittner/Weinkopf 2002: 137f.).

But these advantages come at a considerably higher price than those paid on the informal market. The price differential covers non-wage costs, such as social security contributions, and the granting of other benefits, such as paid holidays and sick pay, as well as overhead costs for the management and wages for ‚unproductive‘ working hours in case of insufficient incoming orders¹. According to the IAT-survey, even with the financial support from the state the average price charged to the customers was about 12 € in West Germany and 9 € in East Germany in 1998, and that was much more than what could be earned on the informal market, where prices could be as low as 5 € and even below, depending on the legal status of the employee (for details see Bittner/Strauf/Weinkopf 1999).

It therefore hardly comes as a surprise that the employment effects of these experiments were modest: At peak time, the number of regular jobs in service companies ranged between 1000 and 2000 nationwide. This is remarkable against the backdrop of the difficult conditions for creating such jobs. The willingness to pay higher prices than those prevalent on the informal market remains low and it therefore has to be considered as quite an achievement that the companies were able to generate at least some regular jobs. But it is a sobering experience if you compare the results with the expectations raised in the political discussion and also with the existing employment in the sector. Drawing on recent surveys the number of households employing a domestic help, either with or without paying social insurance, was estimated as high as 4,35 millions (for an overview see Bittner/Weinkopf 2002: 39, Schupp 2002: 58ff), and participants in the political discussion deemed it possible to create more than one million additional jobs in the domestic service sector (for an overview see Bittner/Weinkopf 2002: 154, for a more recent contribution to the debate see Zimmermann 2003).

¹ Experiences to date show that even with sufficient incoming orders the percentage of ‚productive‘ working hours is unlikely to be higher than 70% of the working time, the remaining time being spent on commuting to and from work, sick leave, holiday, and qualification. (Weinkopf 2003a: 138).

But the problems *on the demand side* are not the only ones hampering the creation of additional employment. There is another bottleneck *at the supply side*, and this one is frequently ignored: Services to private households are often regarded as an area in which new employment opportunities for low-skill workers can be opened up. But the recruitment of suitable employees encounters several difficulties. First of all, domestic work remains a demanding work in terms of physical fitness. Many of the employees interviewed confessed that there is a big difference between doing domestic work for only a few hours per week and doing it full time, and this was something even the service companies were not able to change. Hence, not every low-skilled unemployed person can perform this kind of work. And secondly, the required skills are not as low as often assumed. Even if it is true that the level of technical skills required for such jobs tends to be low, a relatively high level of social skills is required. All approaches to promoting employment in this area require the services to be provided in individual households on a decentralized basis. Therefore, workers must be able to react flexibly to customer expectations and to work with minimum supervision. This also turned out to be one of the reasons for difficulties in the recruitment of suitable staff.

These experiences have to be taken into consideration when assessing proposals for present and future reforms. In the last part of my presentation, I will take a look on the very recent reforms implementing the recommendations of the Hartz Commission and analyze their compliance with these demands.

The proposals of the Hartz-Commission

The law implementing the recommendations of the Hartz Commission² came into effect in April this year. The most important modification concerning employment in the domestic service sector is that so called 'minijobs' in private households worth up to € 400 per month are taxed only an all-inclusive rate of 12% and are free from any other taxes or contributions to social insurance. Before that, the limit was € 325, and the all-inclusive rate for the employer was 22%. Combined to that, the households get a tax credit amounting to 10% of their expenses (up to a limit of € 510 per year). As already mentioned these jobs come with almost no social insurance. The employees are not provided with health and unemployment insurance, and their contributions to the pension scheme will not even add up to a pension that exceeds the public welfare benefit. That is to say, the core of the reform consists of a financial subsidy that encourages private households to act as employers, but this time only for part-time jobs not covered by social insurance. It is now in the responsibility of the employees themselves to arrange for social protection in the case of illness, unemployment and age, hence the employment relationship is situated somewhere between model 1 and model 2. On the other hand, the scheme extends its financial subsidies to professional service companies, granting households a tax credit amounting to 20% of their expenses for services provided by these companies (up to a limit of € 600 per year). But this advantage is almost completely absorbed by the disadvantage of having to pay a sales tax of 16% in addition to the full social insurance contributions of both employers and employees. The price charged to the customer therefore is bound to be substantially higher in the case of the service company than it is in the case of the 'minijob'. Certainly, due to the tax credit and the reduced social insurance contributions, there is no big difference left between a 'minijob' and informal work, so households may be encouraged to register their previously non-registered employees. But there is little in it for the employees themselves and this probably explains why a few month after introducing

² The so called 'Hartz-Kommission', named after its chair Peter Hartz, was originally expected to develop proposals for the reform of the Federal Employment Agency, but finally came up with recommendations for the reform of the German employment policy. Its recommendations, presented shortly before the elections in September 2002, were widely discussed and had a very strong impact on a series of laws following the reelection of the government. The laws themselves were therefore also termed Hartz I, II, III and IV. The most important law for the domestic service sector is 'Hartz II' ('Zweites Gesetz für moderne Dienstleistungen am Arbeitsmarkt' vom 23.12.2002).

the law there are only a few more registered jobs in private households than before, that is around 33.500 compared to around 27.000 in 2002 (for details see the official statistics in Bundesknapp-schaft 2003). Again, there is no evidence that this reform will contribute to the alleged one mil-lion new jobs in private households. And even if it will, the resulting jobs do not differ substan-tially from jobs in the informal labour market. The only winner seems to be the government, since this reform is much cheaper compared to former experiments, as it transfers the responsibil-ity and costs for social protection to the individual employee.

3. Summary and Conclusion

Political reforms in the domestic service sector in Germany have shifted from model 2 to model 3 and finally (back) to model 1 of the typology outlined above, and this shift has implications for the working conditions promoted by state regulation: Whereas the first financial subsidies were restricted to jobs covered by social insurance, this is no longer true for the subsidies introduced recently following the proposals of the Hartz Commission. By passing the responsibility for social protection to the employee, they contribute to an individualization of the risks associated with working life – illness, unemployment, age. The majority of domestic workers being women, this reform reflects and reinforces the norm of the ‘male-breadwinner’ family, where the job of the male spouse is the main source of income and social security for all family members (Ost-ner/Lewis 1995: 184f). In our point of view, this shift points in the wrong direction; instead, our research confirms the assumption that a professionalization of the domestic service industry via service companies is best suited to address bottlenecks both on the demand side and on the supply side of the market, that is to raise the acceptance for decent prices and to overcome difficulties in recruiting employees. However, this would mean to adopt a long term perspective and to moder-ate expectations concerning employment effects in the short run.

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