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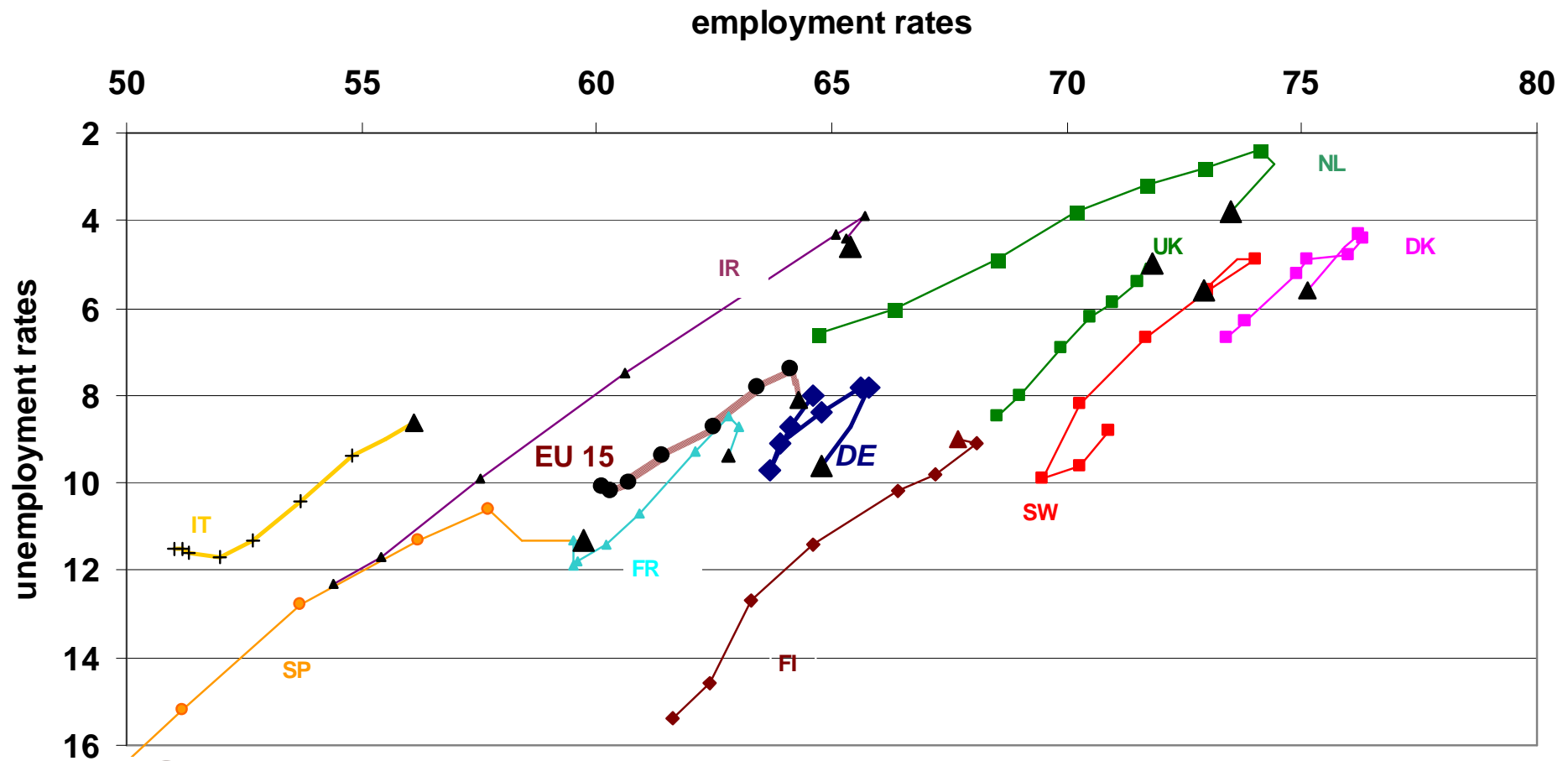
Rash Reforms – Persisting Problems

Reforms of labour market policies and the change of the (un)employment regime in Germany

Copenhagen, February 23-24, 2006



Employment and unemployment rates of selected EU-15 countries (1995–2003)



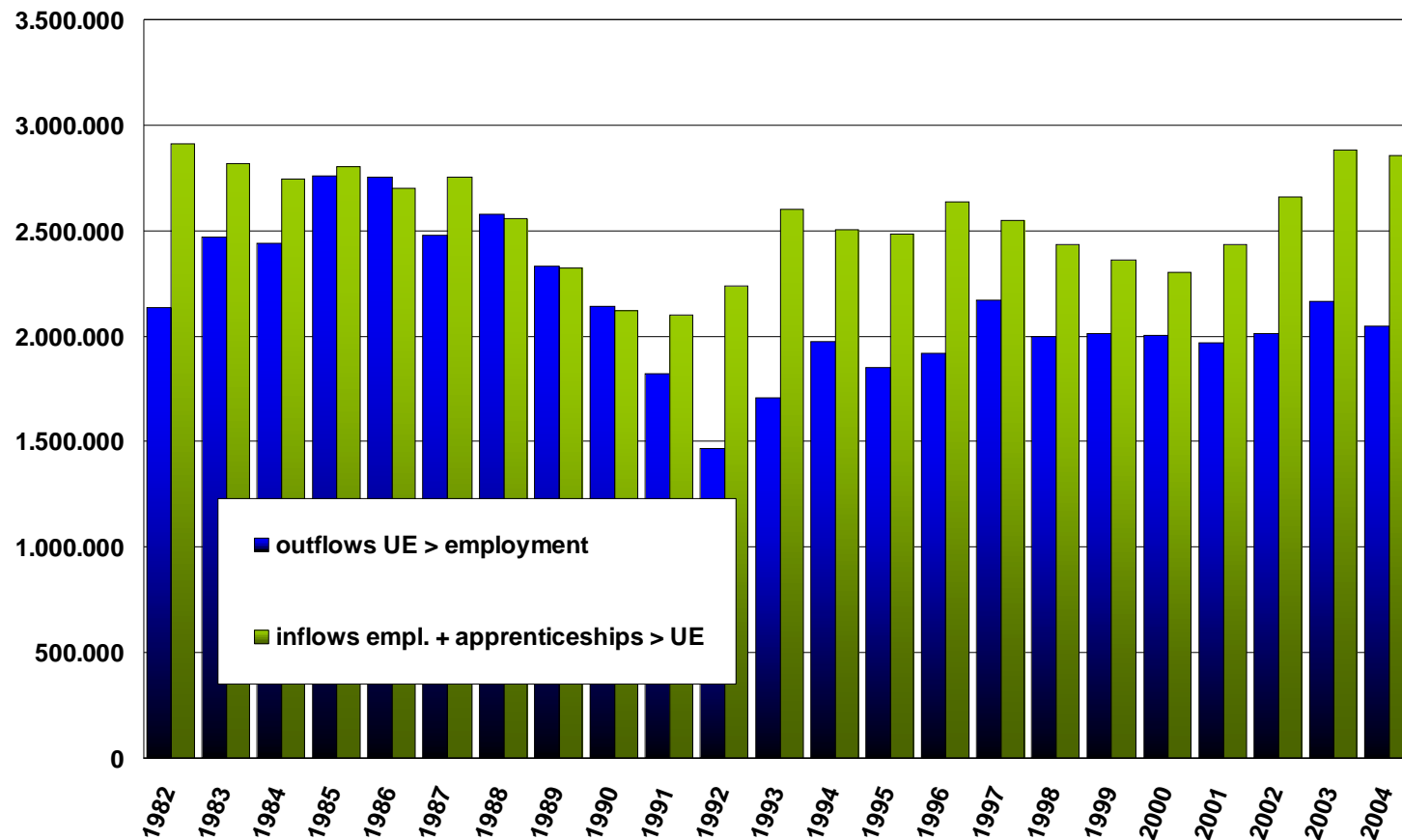
Source: Employment in Europe 2004



Employment and unemployment rates compared

- Germany's relative European position with regard to employment and unemployment rates is not dramatically bad.
- However, many countries have been improving while Germany is not moving.

Flows between employment and unemployment (West Germany)

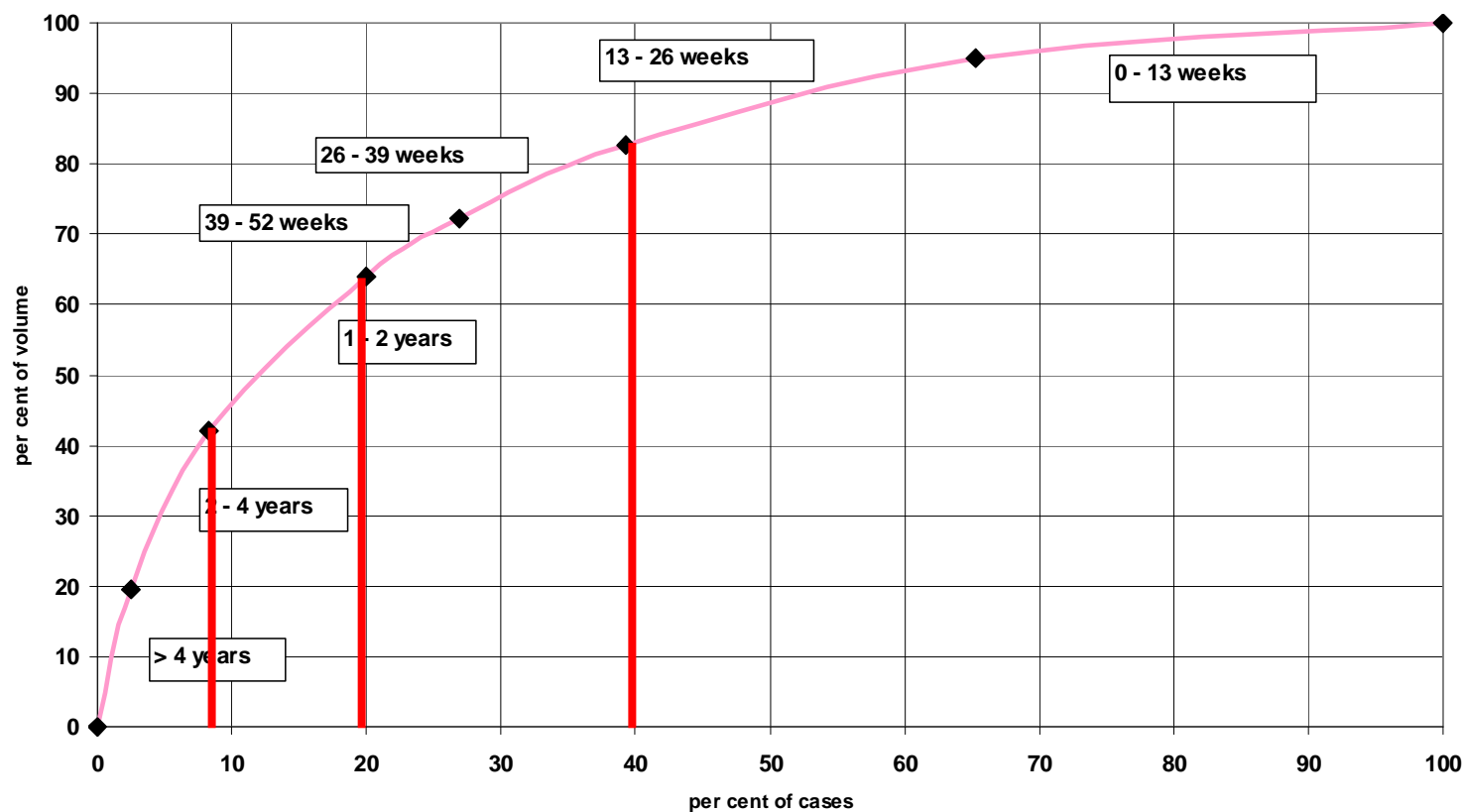


Source: Federal Employment Agency

Long-term unemployment flows (West Germany)

- Outflows from unemployment into employment have been stable around 2 million per year for the past ten years. They seem to hardly react on the business cycle.
- Inflows from employment into unemployment have outnumbered outflows since the beginning of the 1990ies.
- Some inflow surplus is always compensated by definite outflows into inactivity (retirement), but here the surplus has a magnitude that will result in unemployment piling up.

Individuals' unemployment spells completed in June 2000 by duration and contribution to macro volume

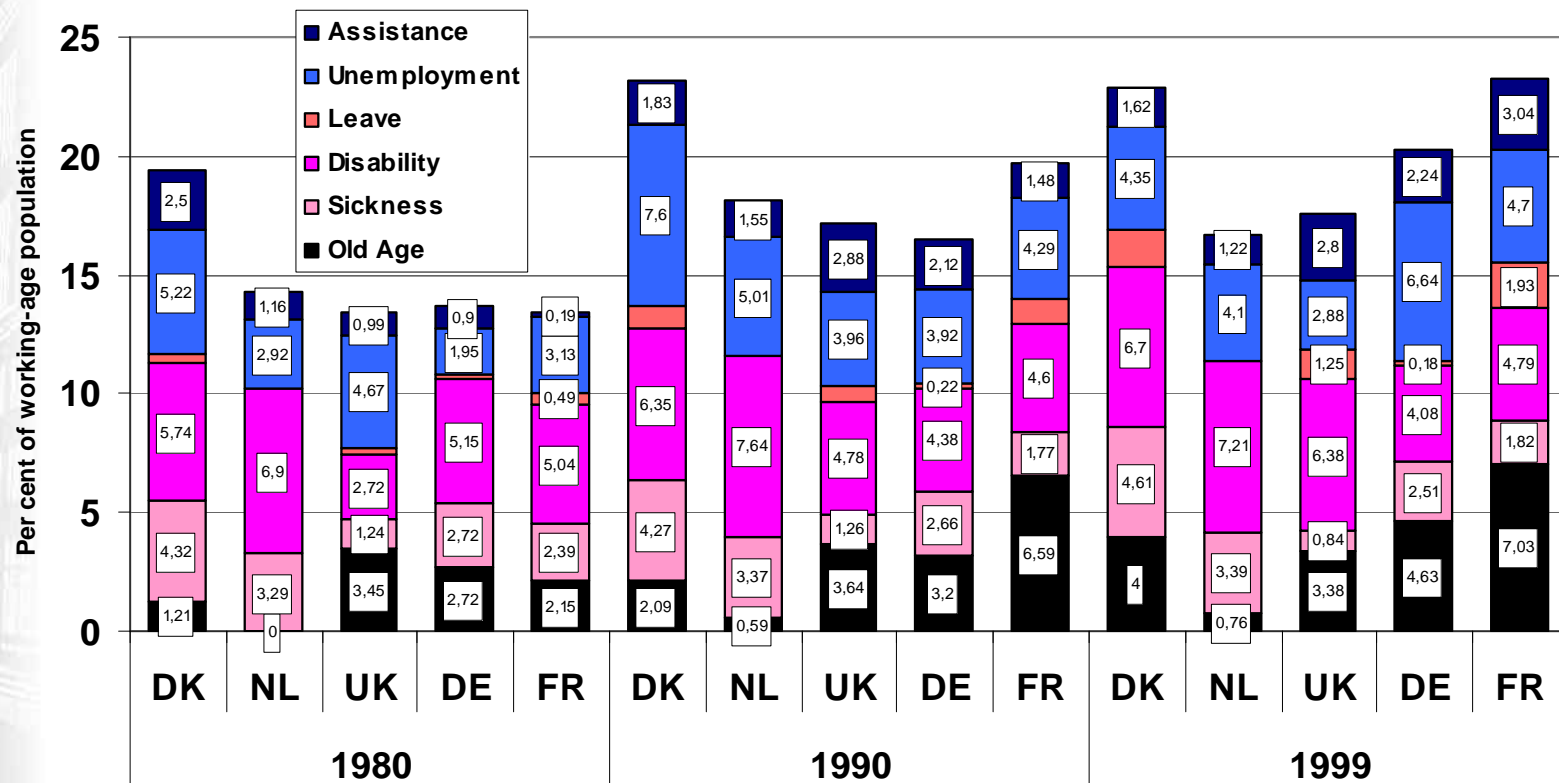


Source: Karr 2002

Unemployment as an unevenly distributed phenomenon

- The ten per cent of unemployment spells that last the longest account for 40 per cent of the days spent in unemployment.
- The longer 40 per cent of the spells account for 80 per cent of the unemployment volume.
- Leaving aside macro-economic considerations of job creation, it was the contention of the Hartz Commission that German unemployment could be lowered by shortening individual unemployment spells through earlier and better targeted intervention.

Percentages of Working-Age Population Depending on Benefits



Source: OECD Employment Outlook 2003: 224ff.

The “Hartz Commission”

- individual honorary membership
 - ⇒ social partner participation in person, not by delegation
 - ⇒ deviation from established tripartite policy patterns like “Alliance for Jobs”
- industrial and political leaders
- only two members from Academia: Labour Market Policy and Public Management
- from the sidelines strong influence of
 - consultancy firms
 - the Bertelsmann Foundation (think-tank and source of funding for applied research)

Objectives of the reforms

- shortening of unemployment spells \Rightarrow lower level of unemployment
- from 'active' to 'activating' labour market policies
 - "Fördern und Fordern" \approx 'promoting and obliging'
- more intensive and more effective counselling and placement services
 - modernising the organisation of the Federal Employment Agency
 - creating 'one-stop' services even for those who were then drawing two benefits: unemployment assistance plus supplementary social assistance (\approx 7% of the claimants)
- increasing work incentives, creating smoother transitions into work

The „Hartz“ Proposals and their Legislative Implementation

- numerous new instruments of almp + changes of existing instruments (legislation “Hartz I”)
 - ⇒ for an organisation already overburdened with instruments
- more favourable conditions for “small jobs” (Hartz II)
 - originally only in private households, extended by legislator into a complete overhaul of “marginal employment” with special conditions for contributions and taxation
- renaming of the PES from “institution” to “agency”, renaming of executive functions, modernisation of the Federal Employment Agency’s governance, HR policies and organisation of services (Hartz II and III)
 - ⇒ earlier intervention, more effective job broking, monitoring of job search, **reducing UE by shortening individual UE spells**
- merging of services hitherto divided between Employment Agencies and municipalities (Hartz IV) (one-stop Job-Center)
- merging of the benefits of the two customer groups concerned: (Hartz IV)
 - UE assistance
 - Social assistance (as far as worklessness is the reason for claiming it)

Conclusions on Reform Agenda

- most fundamental change of benefit and provision
 - occupies only a few pages in the voluminous Hartz Commission report
 - officially justified with the problems of only 7 per cent of the registered unemployed who had to visit both federal and municipal offices
 - shrouded by a shower of new instruments
 - not well understood even by the protagonists
- “one stop” service missed:
 - Federalism led to change of government plans
 - borrowing from the social assistance regime leads to further municipalisation of service provision
 - from institutional dualism towards **three** types of service organisation

Benefit system until 2004

≥24 months
employment with
social insurance
contributions, ≥ 12
months within the
previous 2 years

max. 12 months
**unemployment
benefit** at 60%
of former net
wage

**unemployment
assistance** at 53% of
former net wage,
unlimited duration, 3%
degression per year

'Bismarckian':
earnings ↔ contribu

**three benefits /
two regimes**

hybrid system:

(tax-funded + means-tested*),
but relative status maintenance

'poor law': tax-funded minimum support

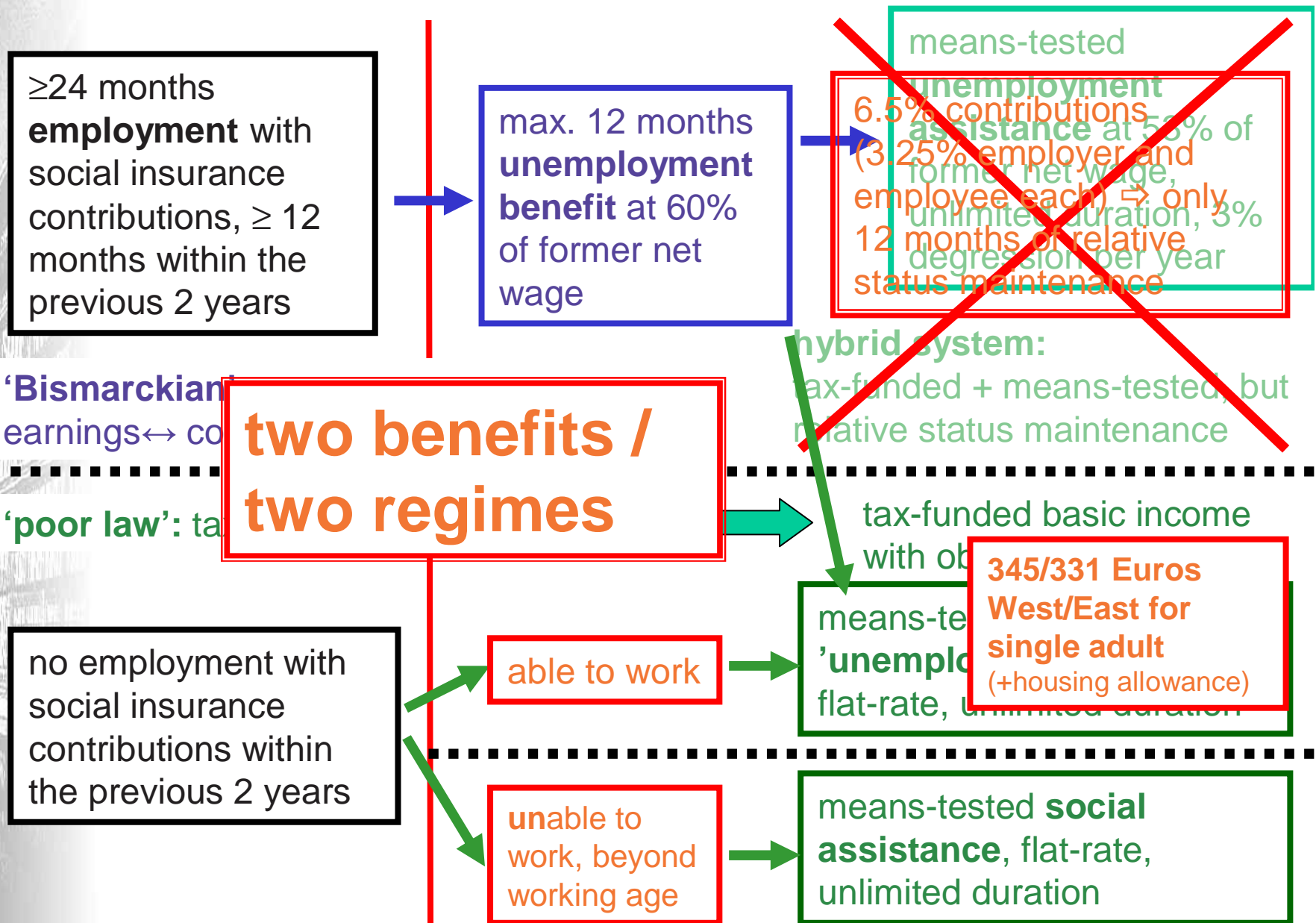
no employment with
social insurance
contributions within
the previous 2 years

means-tested*) **social assistance**,
flat-rate, unlimited duration

losing job, entering the labour market,
returning to the labour market after inactivity

*) two different meanings of means-
testing: 1) availability of means as a
limitation of benefits 2) absence of means
as justification of entitlement

Benefit reform since January 2005





Changes in Contribution-Based UE Benefit Duration

| since 1998 | | | from 2006 | | |
|---------------------------|-----|--------------------------|---------------------------|-----|--------------------------|
| months of contribution | age | months of entitlement | months of contribution | age | months of entitlement |
| 12 | | 6 | 12 | | 6 |
| 16 | | 8 | 16 | | 8 |
| 20 | | 10 | 20 | | 10 |
| 24 | | 12 | 24 | | 12 |
| 28 | 45 | 14 | 30 | 55 | 15 |
| 32 | 45 | 16 | | | |
| 36 | 45 | 18 | 36 | 55 | 18 |
| 40 | 47 | 20 | | | |
| 44 | 47 | 22 | | | |
| 48 | 52 | 24 | | | |
| 52 | 52 | 26 | | | |
| 56 | 57 | 28 | | | |
| 60 | 57 | 30 | | | |
| 64 | 57 | 32 | | | |

Parliamentary struggle about the new institutional setup

- The red-green coalition government wanted to concentrate the benefits and services for all adult persons able to work in the hands of the Federal Employment Agency.
- However, the new regime for all those who had no claims or exhausted their claims for contribution-based unemployment benefits was borrowed from social assistance which was a municipal prerogative. Furthermore, the municipalities are under the legislation and supervision of the *Länder*. There is no direct link between the Federal Government and the municipalities.
- This gave the Christian Democratic majority in the *Bundesrat* (the second house representing the *Länder*) the leverage to block the legislation twice and enforce two compromises through parliamentary mediation procedures:
 - (1) As a rule, benefits and services in the new regime are not to be administered by the Federal Employment Agency alone but by “Consortia” to be negotiated formed locally between municipalities and the local branches of the Federal Employment Agency.
 - (2) As an exception, 69 municipalities will deliver the new benefits and services alone for an experimental period of six years. This experiment is to be scientifically evaluated.

Change of service provision

Employment
Agencies



max 12 months
1.6 million
claimants
wage



means-tested
unemployment
assistance at 53% of
former net wage,
unlimited duration, 3%
degression per year

'Consortia':
employment agencies

+ municipalities

enefits

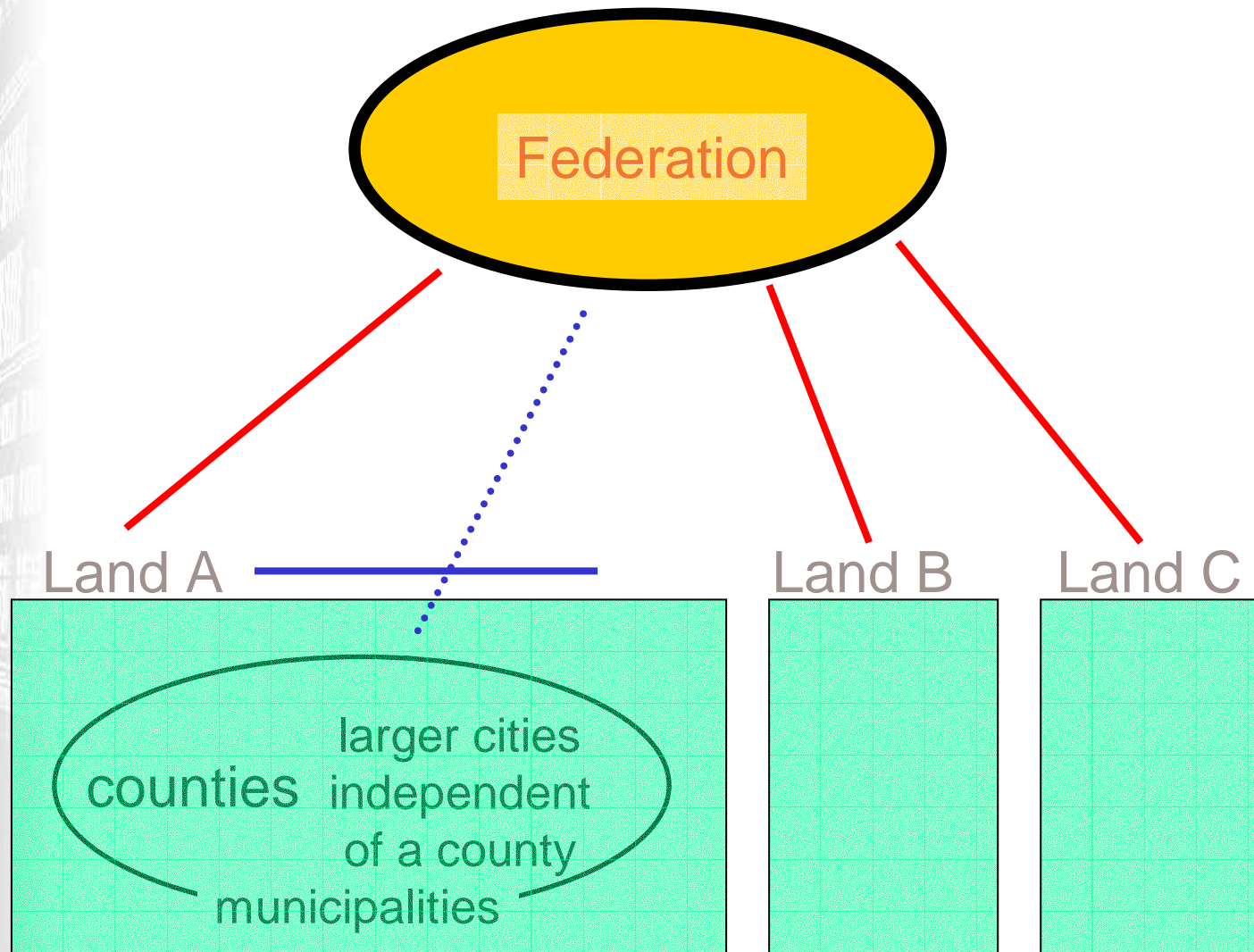
um support

Options for
Municipalities

Municipalities
(counties / large
cities)

3.7 million households
= 4.8 million 'work-able'
claimants + 1.9 million
dependents (6.7 million
individuals)

Set-up of the German State



Extension of Obligation to Work Boosts UE Statistics

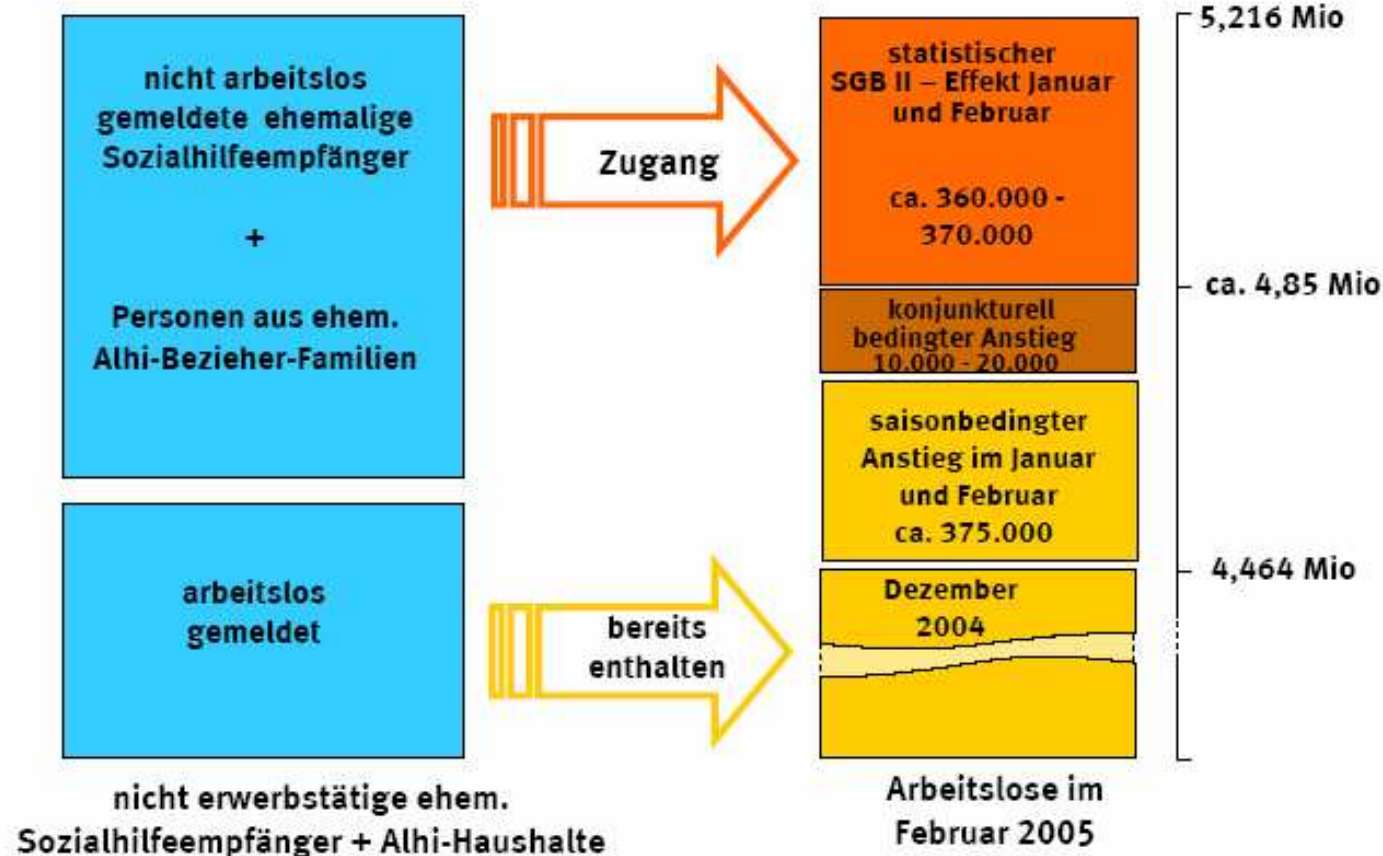
- Former members of households receiving Social Assistance and able to work:
 - in theory no change (supposed to register)
 - in practice, many were not registered
 - municipalities interested in defining as “able to work”
 - Former recipients of Unemployment Assistance:
 - only the recipient himself had to be registered
 - now, all household members able to work are registered
- ⇒ group strongly affected: Turkish housewives who don't speak German

Increase in UE through Implementation of Reform

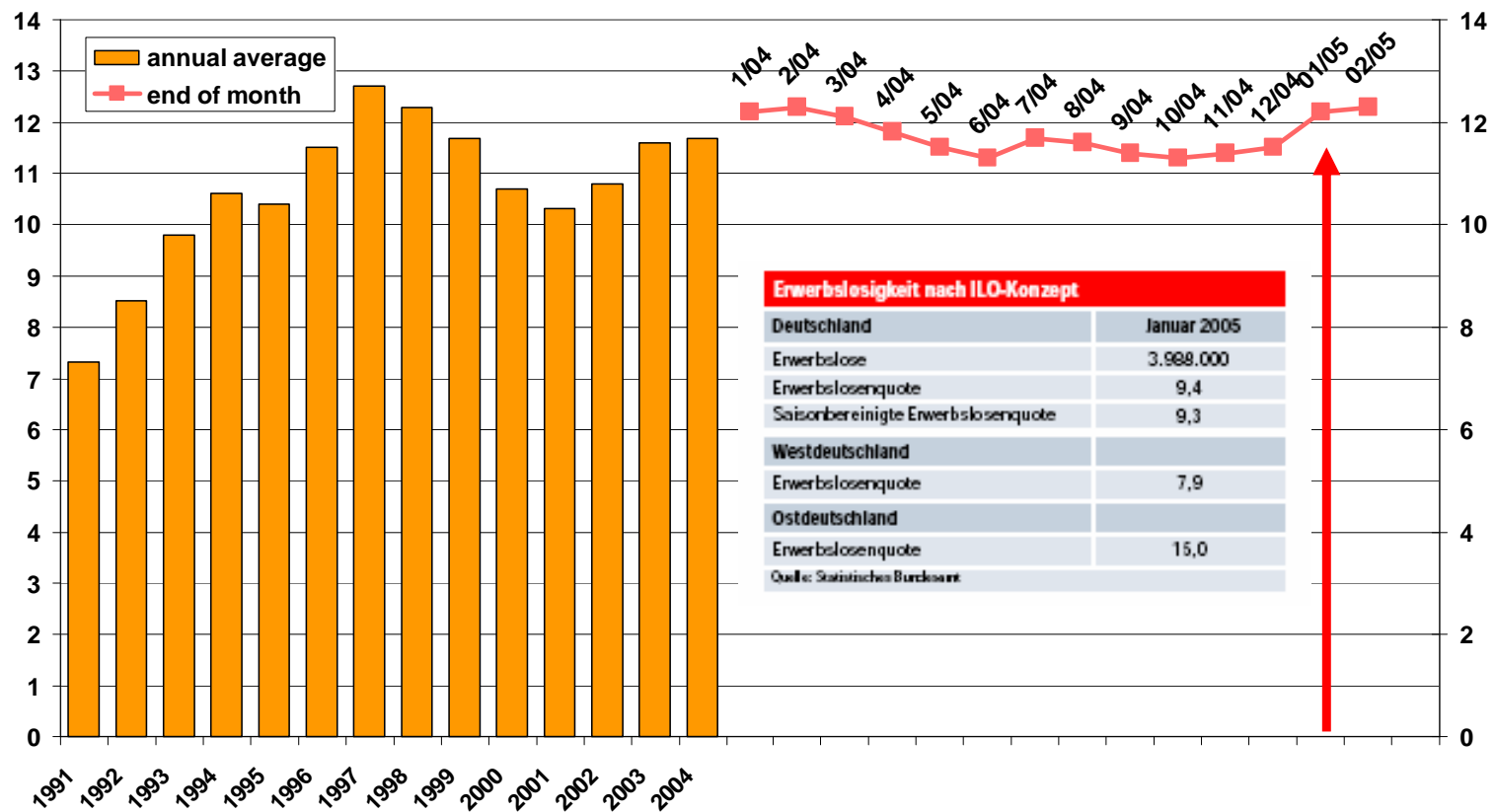
Der Arbeitsmarkt im Februar 2005



Bundesagentur für Arbeit



Unemployment Rates 1991–2004 and 1/04 – 2/05



Source: Federal Employment Agency Website

Results after 1 year (1)

- more people receiving benefits
 - more in-work benefits (wage supplements)
 - government spends more than before (and more than expected)
 - national unemployment count increased
 - more staff, lower caseloads
 - from $\approx 1:600$ to $\approx 1:200$
 - potentially innovative shake-up of public employment service bureaucracy
 - spirit of 'new frontiers' in the emerging new organisations
 - "Federal Employment Agency proper" now in minority position with regard to caseloads – the new regime dominates
 - new institutional cleavage instead of 'one stop'
 - processing of new benefit crowded out job placement for at least 6 months
 - statistics on labour market flows disturbed by institutional change
- ⇒ labour market outcome of more intensive care uncertain

Results after 1 year (2)

- most former UA claimants receiving less than before (or nothing because of stricter means-testing)
 - protests in the run-up to the reform
 - tensions within the Social Democratic Party
 - ⇒ two chairmen resigned within 20 months
- escape into early Federal elections
 - new left-wing party emerged
 - red-green majority lost
- Christian/Social Democratic coalition
 - Christian Democrats ⇒ municipalisation under the constitutional control of the federal states
 - ↪ devolution or provincialism?

Policy failures

- too many reform elements at once:
 - new instruments
 - new benefits ⇒ change of regime
 - new organisational structure for service provision
 - new system of governance
- governance impact of regime-borrowing underestimated
 - you can't borrow from the former social assistance regime without taking the municipalities on board
- no gradual roll-out strategy for restructuring:
 - British Jobcentres Plus: 6 years
 - German consortia: from Dec. 31, 2004 to Jan. 3, 2005
- change of regime not discussed / explained / understood
 - potentially inclusive aspects of basic income support not positively advertised
 - unexpected increase of claimant numbers attributed to fraud by responsible cabinet member
- extensive definition of being 'able to work':
 - ⇒ too much deadweight of sick people in the system now supposed to be activated



Thank you for your attention!