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Activation, Bismarckianism and Federalism: Radical Change and Unintended Outcomes in Germany

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The central philosophy of the "Hartz" reforms

- Integrate services (agencies for work & municipal social services)
- Integrate benefits hitherto institutionally divided
- Abolish unemployment assistance, universalise and modify social assistance, rename it 'unemployment benefit II'
- Modernise services
- Intensify activation and job placement
- Shorten individual unemployment spells
- Reduce unemployment
### "Hartz IV": radical reform - 'third order' change

#### organisation and governance of services

<table>
<thead>
<tr>
<th></th>
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</thead>
<tbody>
<tr>
<td>b) gradual: internal restructuring, co-operation, add-ons</td>
<td>France 2001-2007 Austria 2007-2010</td>
<td></td>
</tr>
<tr>
<td>a) none</td>
<td>DK 1993-2003</td>
<td>UK 2008 (IB⇒ESA)</td>
</tr>
</tbody>
</table>

#### reforms of...

| (1) none | (2) gradual: benefit levels and duration, eligibility requirements | (3) structural: creation, abolishment or merger of benefit categories |

#### the benefit system

**third order change:** "simultaneous changes in all three components of policy: the instrument settings, the instruments themselves, and the hierarchy of goals" (Hall)
Retrenching Bismarckian social insurance (1): benefits for workless people until 2004

<table>
<thead>
<tr>
<th></th>
<th>unemployment benefit</th>
<th>unemployment assistance</th>
<th>social assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>funded from contributions</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>funded from taxes</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>earnings related</td>
<td></td>
<td>relative status maintenance</td>
<td></td>
</tr>
<tr>
<td>flat-rate</td>
<td></td>
<td></td>
<td>minimum income</td>
</tr>
<tr>
<td>wage replacement</td>
<td></td>
<td>paid in arrears (end of month)</td>
<td></td>
</tr>
<tr>
<td>subsistence</td>
<td></td>
<td></td>
<td>paid in advance</td>
</tr>
<tr>
<td>not means-tested</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>limitative means-testing</td>
<td></td>
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<tr>
<td>causative means-testing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>limited duration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>unlimited duration</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>individual entitlement</td>
<td></td>
<td>with parenthood supplement</td>
<td></td>
</tr>
<tr>
<td>household entitlement</td>
<td></td>
<td></td>
<td>flat-rates for each category of household members</td>
</tr>
<tr>
<td>obligation to (actively seek) work</td>
<td>former breadwinner=claimant only</td>
<td>any able-bodied household member of working age (in theory!)</td>
<td></td>
</tr>
<tr>
<td>contributions to other social security branches</td>
<td>yes</td>
<td>no</td>
<td></td>
</tr>
<tr>
<td>applicable jurisdiction</td>
<td>social</td>
<td>administrative</td>
<td></td>
</tr>
</tbody>
</table>
Retrenching Bismarckian social insurance (2): benefits for workless people as from 2005

<table>
<thead>
<tr>
<th></th>
<th>unemployment benefit</th>
<th>'unemployment benefit II'</th>
<th>residual social assistance</th>
</tr>
</thead>
<tbody>
<tr>
<td>contribution based</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>tax based</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>earnings related</td>
<td>relative status maintenance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>flat-rate</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>not means-tested</td>
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<td></td>
<td></td>
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<tr>
<td>poverty-based</td>
<td></td>
<td></td>
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<tr>
<td>limited duration</td>
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<td></td>
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<tr>
<td>unlimited duration</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>individual entitlement</td>
<td>with parenthood supplement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>household entitlement</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>obligation to work</td>
<td>former breadwinner only</td>
<td>any able-bodied household member of working age</td>
<td>by definition not able to work</td>
</tr>
<tr>
<td>contributions to other social security branches?</td>
<td>yes</td>
<td>originally yes</td>
<td>since 2011: no contribution to pension fund</td>
</tr>
<tr>
<td>applicable jurisdiction</td>
<td>social</td>
<td></td>
<td>administrative</td>
</tr>
</tbody>
</table>
Retrenching Bismarckian social insurance (3): workless people's benefits 2004 - 2009

recipients of.... (left scale)
- unemployment benefits
- unemployment assistance
- social assistance/UB II

unemployed (national administrative definition)
right scale: percentage receiving wage-proportional benefits

68.9%
25.8%
21.1%
17.0%
15.5%
18.9%
Percentages of waged and salaried employees ‘very worried’ about the security of their job

Source: Erlinghagen 2010
Federalism as an intervening variable in the reform process

• Framing of the reform as a 'merger' of a federal system (unemployment assistance) with a municipal system (social assistance) has invoked path dependencies of 'local welfare systems':
  • implementation *without* municipalities politically unacceptable
    • parliamentary compromise (2003/204) created two competing models of municipal involvement: 'consortia' and 'licensed municipalities'
  • implementation *with* municipalities difficult to reconcile with the constitution (constitutional court ruling of 2007)
  • consensus on adapting the constitution to political necessity only possible at the price of an *increased* role for municipalities (Knuth, Larsen 2010) and the *Länder*
  • resulting steering and governance structure overly complex
Steering and Governance of consortial jobcenters from 2011
Outcomes 1: Individual effects of activation

• Significant effects of reported activation experiences on
  • taking up employment:
    • for recipients of UB II overall (Boockmann et al. 2009)
    • for recipients with health problems (Brussig, Knuth 2010a)
    • for recipients with migrant backgrounds
    • for older recipients (Brussig, Knuth 2010b)
  • on employability even if not taking up employment (Brussig et al. 2010)
    • especially for women
Outcomes 2: Aggregate effects of 'activating' reform

• preparedness to take up employment: no effect – or slightly negative on recipients of UB II, probably due to 'creaming off' (Brenke 2010, based on GSOEP)
• job search: no effect on recipients of UB II; effect on recipients of UB only since 2009 (ibid.)
• aspired wage of UB II recipients in search of full-time job: no effect (ibid. & Bender/Koch/Messmann/Walwei 2007)
• unemployment ⇒ employment outflows: strong effect on recipients of UB, small effect on recipients of UB II (Knuth 2010)
• ratio "employment growth : unemployment decline": positive – due to reform, to new growth pattern, or to demographic change and beginning labour force shrinking?
• perceived job insecurity: rising – despite decreasing overall labour turnover and increasing average job tenure (Erlinghagen 2010)
• increased readiness for concessions among the employed (Kettner, Rebien 2009)
  ⇒ expanded scope for firm-internal flexibility in part explains resilience of employment levels during financial crisis
Outcome 3: Organisation and Governance

- Organisational split between the activation of two categories:
  - insured unemployed
  - recipients of UB II
- Organisational split within the activation of the recipients of UB II:
  - consortia ('joint establishments' between the Federal Employment Agency and a municipality)
  - licensed municipalities (currently 69; 110 from 2012)
- Steering and governance:
  - complex, redundant and potentially self-inhibiting for consortia
  - insufficient accountability of municipalities to federal government
- Reform has only very temporarily relieved the financial squeeze of municipalities – it is now as acute as ever.
- Financial hassle between the federal government and the municipalities remains permanent.
Outcome 4: 'Drift back' towards former Municipal Social Assistance

- increase in the number of 'licensed municipalities' (from 69 to 110) – despite evaluation results suggesting poorer performance of this organisational model
- municipalities alone responsible for implementation of the recently introduced 'educational package' for children in families receiving UB II – irrespective of the organisational model
- as unemployment decreases, barriers to employment not directly related to labour market factors become more visible:
  - poor health
  - single parenting, insufficient public childcare facilities
  - ethnic segregation

⇒ UB II regime: 'activated' social assistance with vast expansion in scale, shift towards federal funding and complex involvement of the Federal Employment Agency
Conclusions

• National systems of social protection are not uniform 'regimes' but historically layered with different logics co-existing.
• There is more to 'Bismarckian' systems than social insurance.
• Many countries have an undercurrent of minimum income benefits historically older than the modern welfare state.
• 'Residual' in Esping-Anderson's terms, the potential dynamics of these systems (social assistance, minimum income benefits) is under-researched.
• As far as these systems are linked to municipal self-government, their incorporation into activation policies may have unexpected consequences for the governance of activation.
THANK YOU VERY MUCH FOR YOUR ATTENTION!
References


Brussig, Martin; Knuth, Matthias (2010a): Rise up and work! Workless people with impaired health under Germany’s new activation regime. In: Social Policy and Society, Jg. 9, H. 3, S. 311–323.


