"The implementation of the fourth step of the German 'Hartz' reforms: Basic income support for jobseekers"

Presentation at the NAV evaluation workshop, Oslo, October 22, 2007
Outline

(1) Problems of the German labour market
(2) The Hartz Commission's approach and the legislative implementation of its proposals
(3) Reshaping of benefits and service delivery
(4) Design of ongoing evaluations
(5) Recent labour market performance: cyclical upturn – and effects of the reforms?
(6) German reform in international perspective
Unemployment rates 1992-2003

Source: Federal Agency for Work Statistics Website
Employment and unemployment rates, EU 15, 1995 to 2005

Source: Employment in Europe 2006
Long-term trends in UE turnover

West Germany 1982 - 2004

- entries into UE from work
- exits from UE into work
Individuals' unemployment spells completed in June 2000 by duration and contribution to macro volume

Source: Karr 2002
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The 'Hartz Commission' (March to August 2002)

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

- Integrate services (agencies for work & municipal social services)
- Integrate benefits hitherto institutionally divided
- Intensify activation and job placement
- Shorten individual unemployment spells
- Modernise services
- Reduce unemployment

abolish unemployment assistance, universalise and modify social assistance, rename it 'BIS'
The ‘Hartz Reforms’: Five elements, four legislative steps

<table>
<thead>
<tr>
<th></th>
<th>Description</th>
<th>Phase</th>
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<tbody>
<tr>
<td>1</td>
<td>introduction of some new instruments of almp, fine-tuning of others</td>
<td>‘Hartz I’ (2003)</td>
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<td>2</td>
<td>reform of 'small jobs' privilege + new instrument for small business creation</td>
<td>‘Hartz II’ (2003)</td>
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<td>3</td>
<td>modernising the Federal Agency for Work according to NPM principles (governance, controlling, customer flow management, more contracting-out)</td>
<td>‘Hartz III’ (2004)</td>
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<td>5</td>
<td>creating a second tier of service provision for (4), removing majority of customers from (3)</td>
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Benefit System until 2004
(no children, under 45 years old)

≥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% annual degression

‘Bismarckian’: earnings ↔ contributions ↔ benefits

hybrid benefit: tax-funded + means-tested*), but relative status maintenance

poverty relief: tax-funded minimum support

no employment with social insurance contributions within the previous 2 years

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

*) two different meanings of means-testing: 1) availability of means as a limitation of benefits 2) absence of means as the justification of entitlement
Benefit reform since January 2005

≥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

means-tested unemployment assistance at 55% of former net wage, unlimited duration, 3% degression per year

hybrid system: tax-funded + means-tested, but relative status maintenance

tax-funded basic income support ('BIS')

poverty relief: tax-funded minimum support

able to work 3 hrs./day

means-tested 'unemployment benefit II', flat-rate, unlimited duration

unable to work, beyond working age

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

'Bismarckian': earnings↔ contributions ↔ benefits

no employment with social insurance contributions within the previous 2 years
Change of service provision

1 million claimants

- ‘Agencies for Work’ (traditional PES)
- Max. 12 months unemployment benefit at 60% of former net wage
- Municipalities (counties / large cities)
- Means-tested unemployment assistance at 53% of former net wage, unlimited duration, 3% degression per year

‘Consortia’:

- ‘Bismarckian’: earnings ↔ contributions ↔ benefits
- Public body ‘sui generis’ or company of private law (‘second tier PES’)
- Poverty relief: tax-funded minimum

Options for 69 Municipalities

- Means-tested ‘unemployment benefit II’, flat-rate, unlimited duration
- Social assistance, flat-rate, unlimited duration

Municipalities

mean-tested social assistance, flat-rate, unlimited duration
Different Framing of the employment problem in the two regimes

'Bismarckian' unemployment regime:
- unemployment = employed for less than 15 hrs. per week
- obligation: to seek and accept employment of more than 15 hrs. per week
- legally defined objective of the regime: promote high employment level, high quality of employment, and individual employability
- acceptability of job offer limited by benefit level
⇒ 'conditional and temporary de-commodification'

Regime of basic income support:
- core problem: neediness
- legally defined objective: to strengthen self-responsibility and financial self-sufficiency
- obligation: to seek to overcome, reduce or shorten neediness
- gainful employment = primary means to overcome neediness
- acceptability of job offer only limited by personal capacity, family responsibility, and 'good mores'
- in-work benefits: 1 million adult recipients (out of 5 million) gainfully employed
- 'decent job' or 'adequate match' absent as values
⇒ 'nearly unconditional re-commodification'
Governance and controlling of BIS service provision

3 levels of government

Federal

legislation

government

only financial controlling, no target steering

Regional = 16 Länder

Local: 439 municipalities

Tripartite governing boards

Local Agencies for Work

178 Local Agencies for Work

350 Consortia

20 separate provision

69 licensed municipalities

178 Local Agencies for Work

178 Local Agencies for Work

69 licensed municipalities

69 licensed municipalities
Institutional problems of consortia

- two sources of steering: local politics and national headquarters of Federal Employment Agency
- two employers: municipality and Federal Employment Agency (consortia have no employees of their own)
- two collective agreements with different pay structures and working time regulations
- at least two works councils involved; more in the counties with several towns
- at least six categories of employees:

<table>
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<tr>
<th></th>
<th>Agencies for Work</th>
<th>Municipalities</th>
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<tbody>
<tr>
<td>Civil Servants</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td>open-ended contracts</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>fixed-term contracts</td>
<td>5</td>
<td>6</td>
</tr>
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• **Comparison of consortia and licensed municipalities in four lots:**
  
  1. Descriptive analysis and regional matching (154 out of 439 local units matched for in-depth analysis)
  2. Implementation and governance in 154 local units (semi-standardised case studies)
  3. Outcomes and efficiency (2-wave survey of 25,000 customers in 154 local units, linked with administrative data for econometric analysis)
  4. Macro-economic simulation of the alternatives 'consortial' and 'municipal' model of service provision

• **Additional evaluations of effects on**
  
  1. customers with migrant backgrounds
  2. gender equality

• **Evaluation of regional 'employment pacts' for BIS customers 50plus**
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Employment (of any kind) 1992 to August 2007 (thousands, seasonally adjusted)
Unemployment rates 1992-2006

Source: Federal Agency for Work Statistics Website
Long-term trends in UE turnover

West Germany 1982 - 2004

Germany*)

*) only 370 counties with consortia or separated services
Unemployment in the two regimes: Stocks, outflows into regular employment (thousands), and resulting exit rates (2005 / 2006)

<table>
<thead>
<tr>
<th></th>
<th>unemployment insurance</th>
<th>basic income support</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>average annual stock</td>
<td>outflows into regular employment</td>
</tr>
<tr>
<td>2005</td>
<td>2091</td>
<td>2206</td>
</tr>
<tr>
<td>2006</td>
<td>1664</td>
<td>2017</td>
</tr>
</tbody>
</table>

- registered as unemployed in BIS = only 55% of all working-age BIS customers
- BIS with much lower re-employment rates than UE insurance
- BIS re-employment improving (beyond ‘natural’ cyclical effect?)
- re-employment of insured unemployed declining in absolute figures
  ⇒ ‘Employable’ unemployed already creamed off?
Recent unemployment trends among recipients of unemployment benefits vs. basic income support
Hypothetical effects of the reform

- more effects on the behaviour of the insured unemployed
- less effects on the long-term unemployed
- effects contrary to the promises of the Hartz commission
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## Benefit and institutional/organisational reforms in European comparison

### Benefit reforms

<table>
<thead>
<tr>
<th>(1) none</th>
<th>(2) gradual: eligibility requirements, maximum duration, benefit levels</th>
<th>(3) structural: benefit types abolished or newly created, merger of benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>Finland Belgium</td>
<td>Sweden 2007ff. Austria 2007-2010 France 2001-2007</td>
<td>(A) structural: merging, splitting up, privatisation of social services</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(B) gradual: internal restructuring, new co-operations, creating add-on organisations for special tasks</td>
</tr>
</tbody>
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Percentages of working-age populations (15-64) claiming social benefits...

...by type of benefit (2004)

Source: OECD database on Recipients of Social Benefits.
Thank you very much for your attention!