Path Breaking, Path Shifting and Path Dependence in Benefit and Employment Service Reform

The fourth step of the German 'Hartz' reforms
Seminar on Work, Employment and Social Protection
Centre d'Economie de la Sorbonne
January 25, 2008
Before the reforms, German employment policy was facing the abyss.

Since then, we have made a big step forward.
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) Resulting shift in the composition of labour market regimes
(5) Design of ongoing evaluations
(6) Unresolved governance problems
Unemployment rates 1992-2006

Source: Federal Agency for Work Statistics Website
The 'Hartz Reforms': Five elements, four legislative steps

| (1)   | introduction of some new instruments of almp, fine-tuning of others | 'Hartz I' (2003) |
| (2)   | reform of 'small jobs' privilege + new instrument for small business creation | 'Hartz II' (2003) |
| (3)   | modernising the Federal Agency for Work according to NPM principles (governance, controlling, customer flow management, contracting-out some more services) | 'Hartz III' (2004) |
| (4)   | 'integration' of benefits for customers without contribution-based claims: 'Basic Income Support for Jobseekers' (BIS) | 'Hartz IV' (2005) |
| (5)   | creating a second tier of service provision for (4), removing majority of customers from (3) |
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 'BIS'**

- **modernise services**

- **intensify activation and job placement, improve some almp instruments**

- **shorten individual unemployment spells**

- **reduce unemployment**
Benefit System until 2004
(no children, under 45 years old)

- **≥24 months employment** with social insurance contributions, ≥ 12 months within the previous 2 years
- **unemployment benefit** at 60% of former net wage, max. 12 months
- **unemployment assistance** at 53% of former net wage, unlimited duration, 3% annual degression

- no employment with social insurance contributions within the previous 2 years
- **means-tested social assistance**, flat-rate, unlimited duration

- Bismarckian': earnings ↔ contributions
- poverty relief: tax-funded minimum support
- hybrid benefit: tax-funded + means-tested, but status maintenance

three benefits – two regimes

≈ ASS
≈ ARE
≈ RMI
Benefit reform since January 2005

- ≥24 months employment with social insurance contributions, ≥ 12 months within the previous 2 years
- no employment with social insurance contributions 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

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

- ‘Bismarckian’: earnings ↔ contributions ↔ benefits
- poverty relief: tax-funded minimum support
- hybrid system: tax-funded + means-tested, but relative status maintenance

- able to work 3 hrs./day
- unable to work, beyond working age

- two benefits / still two regimes of social protection for people supposed to be part of the employment system

- 347 Euros for single adult (+ housing allowance)

- tax-funded basic income support ('BIS')
Change of service provision

‘Agencies for Work’ (traditional PES)

- Max. 12 months unemployment benefit at 60% of former net wage

Municipalities (counties / large cities)

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

‘Consortia’:

- Agencies for Work + municipalities
  - Public body or company of private law (‘sui generis’ or ‘second tier PES’)

Options for 69 Municipalities

- 5 million customers

Germany cannot have ‘one stop’ for all

≈ ANPE + UNEDIC

Basic income support for jobseekers
- Flat-rate, unlimited duration

Social assistance
- Flat-rate, unlimited duration

With two regimes of social protection for workless people

≈ Collectivités territoriales
Two unemployment regimes: customer structure in June, 2007*)

Customer total: 6.8 million

*) Figures on gainfully employed persons with supplementary benefits: January 2007

13% insured above poverty level

- registered UE without benefit entitlement
- receiving insurance benefits but not registered as UE
- registered UE receiving insurance benefits
- recipients of insurance benefits + supplementary IS
- registered UE receiving IS
- gainfully employed and receiving supplementary IS
- receiving IS, not employed, not registered unemployed
Initial increase in unemployment and claimant counts – why?

- seasonal effect beginning of each year
- former social assistance recipients not necessarily registered with PES (like RMI → ANPE)
- former unemployment assistance recipients: only the former contribution payer = breadwinner registered – now all family members of working age and considered able to work automatically registered
- Reform has temporarily disrupted 'active' schemes that previously camouflaged unemployment.
- Renaming of 'Social Assistance' to 'Unemployment Benefit II' has lowered psychological barriers against claiming.
- Poverty has grown in Germany before, during and after the reform.
- Yet, only about half of the recipients of 'Unemployment Benefit II' are registered as unemployed!
Claiming UB II but not counted as unemployed

- over 15 (≈ working age) but in school.
- personally not able to work but cohabiting with a claimant considered able to work.
- currently sick but not indefinitely
- currently not available for work because of caring responsibilities (general childcare rule: until 3rd birthday)
- working >15 hrs. per week but still in need of financial support (low wages, large families)
Fiscalisation resulting from regime shift (from insurance to basic income support)
'Passive' and 'active' spending, contracting out, 2004 / 2006

2004:
- Total spending: 93 billion €
- Active spending rate: 33%
- 'Passive' spending: 67%
- 'Active' spending: 33%
- 4.5 billion €

2006:
- Total spending: 84 billion €
- Active spending rate: 24%
- 'Passive' spending: 76%
- 'Active' spending: 24%
- 2 billion €
• **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
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>
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<tbody>
<tr>
<td></td>
<td>average annual stock</td>
<td>outflows into regular employment</td>
<td>re-employment rate</td>
<td>average annual stock</td>
<td>outflows into regular employment</td>
<td>re-employment rate</td>
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<tr>
<td>2005</td>
<td>2091</td>
<td>2206</td>
<td>105%</td>
<td>2770</td>
<td>563</td>
<td>20%</td>
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<tr>
<td>2006</td>
<td>1664</td>
<td>2017</td>
<td>121%</td>
<td>2823</td>
<td>800</td>
<td>28%</td>
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*) customers registered as unemployed only (in BIS, roughly 50% of working-age claimants)
Long-term trends in UE turnover

West Germany 1982 - 2004

*) only 370 counties with consortia or separated services
Recent unemployment trends among recipients of unemployment benefits vs. basic income support

Entwicklung der Arbeitslosigkeit seit Januar 2005 nach Rechtskreisen

- Personen in Mio. -

Quelle: Statistik der Bundesagentur für Arbeit
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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.
Governance of 'consortia' (simplified)

3 levels of government

- Federal
- 'Regional' = 16 Länder
- Local: 439 municipalities

349 Consortia

Partners' meeting

Optional multi-partite advisory council

178 Local Agencies for Work

Tripartite governing boards

Federal Agency for Work

349 Consortia partners' meeting

Optional multi-partite advisory council

178 Local Agencies for Work

Tripartite governing boards
Recent ruling of the Federal Constitutional Court

- Consortia **unconstitutional** because
  - *'gestion en mélange'* violates principles of democracy – voters must know whether responsibility is rooted in federal, Länder or municipal politics
- new solution must be found before end of 2010
  - 'experimental competition' between consortia and licensed municipalities suspended since consortia cannot be the future solution
  - full municipalisation possible
  - 'separate provision' as a universal model also possible

⇒ 'two stop' model for now 6 million (instead of 270,000 before the reform)
Summary and Conclusions

- path of social insurance broken \( \Rightarrow \) ue insurance marginalised
- 'regime borrowing' from social assistance \( \Rightarrow \) 'path shifting'
- 'merger' of ue assistance and social assistance \( \Rightarrow \) new regime of social protection 'Basic Income Support for Jobseekers'
  \( \approx \) social assistance + employment support/work obligation
- path dependency: social assistance as a municipal prerogative
  \( \Rightarrow \) 'second tier' PES instead of 'one stop'
- compromise between reform intention and old path
  \( \Rightarrow \) 'impossible match' between federal agency and municipalities
- PES governance and further development entangled in power struggle between Federation and Länder
  \( \Rightarrow \) PES reforms only to be understood in the framework of a country's overall governance structure and its contested issues
Thank you very much for your attention!