

PD Dr. Matthias Knuth

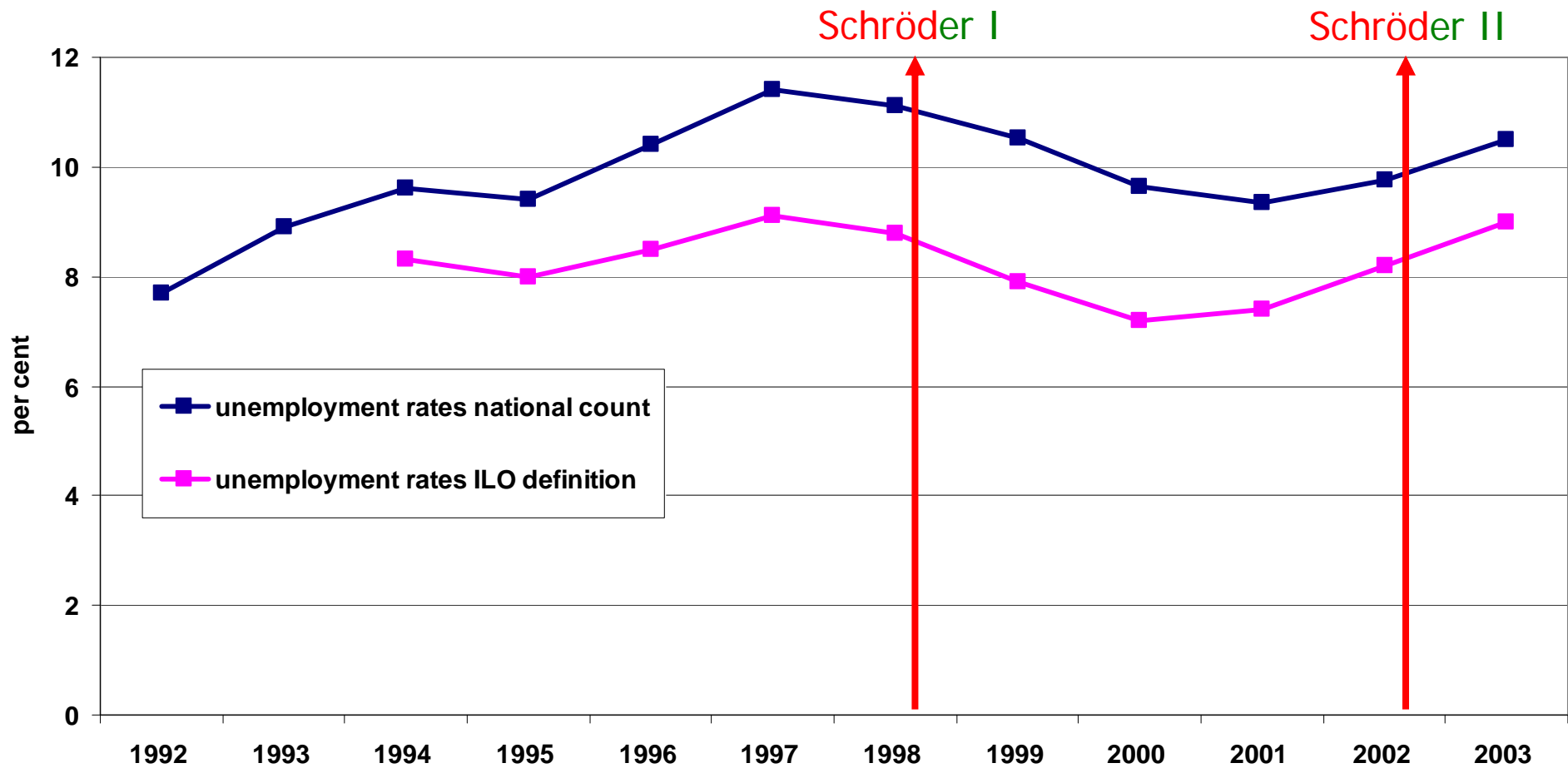
"The implementation of the fourth step
of the German 'Hartz' reforms:
Basic income support for jobseekers"

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

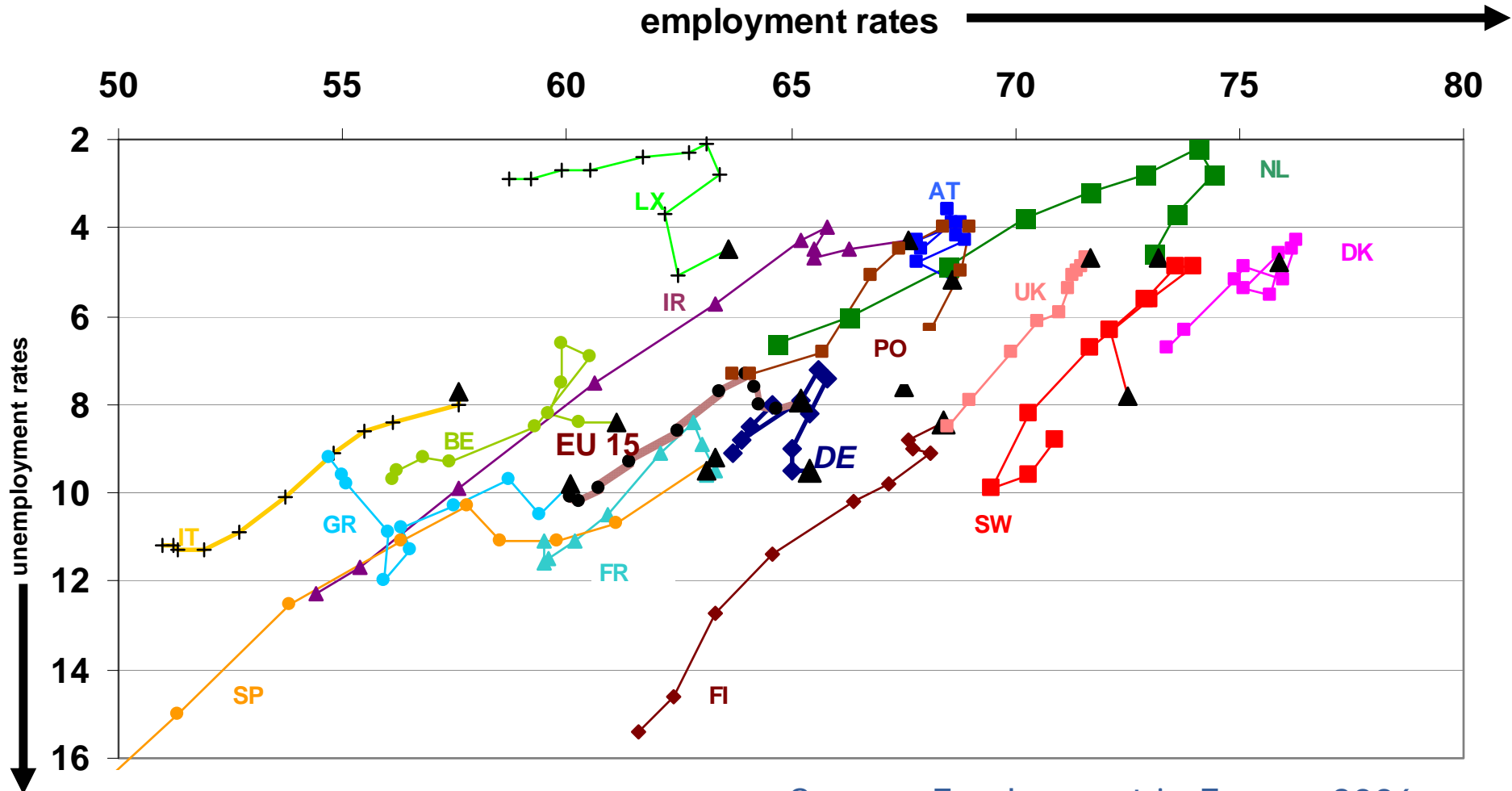
Outline

- (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

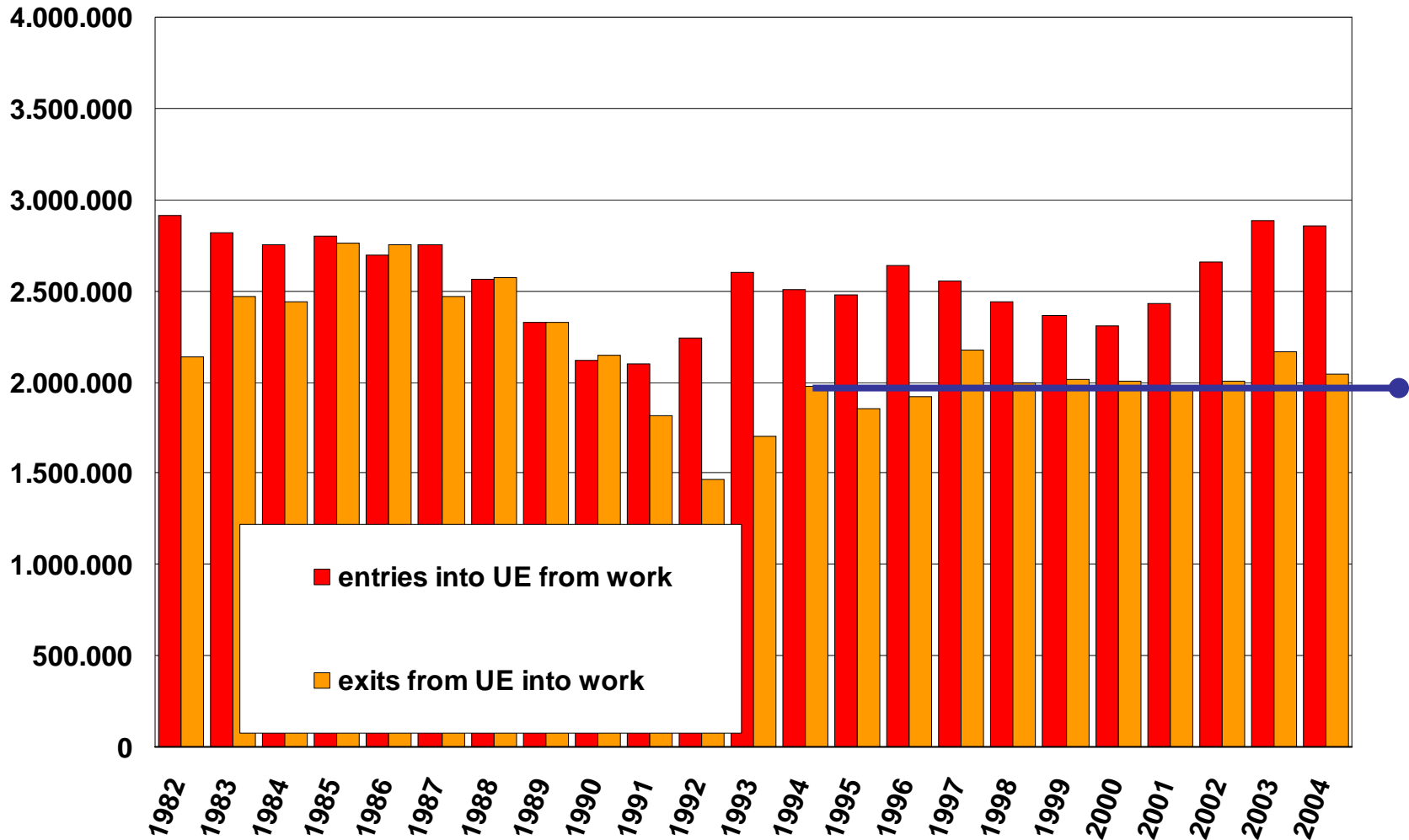


Employment and unemployment rates, EU 15, 1995 to 2005 ▲

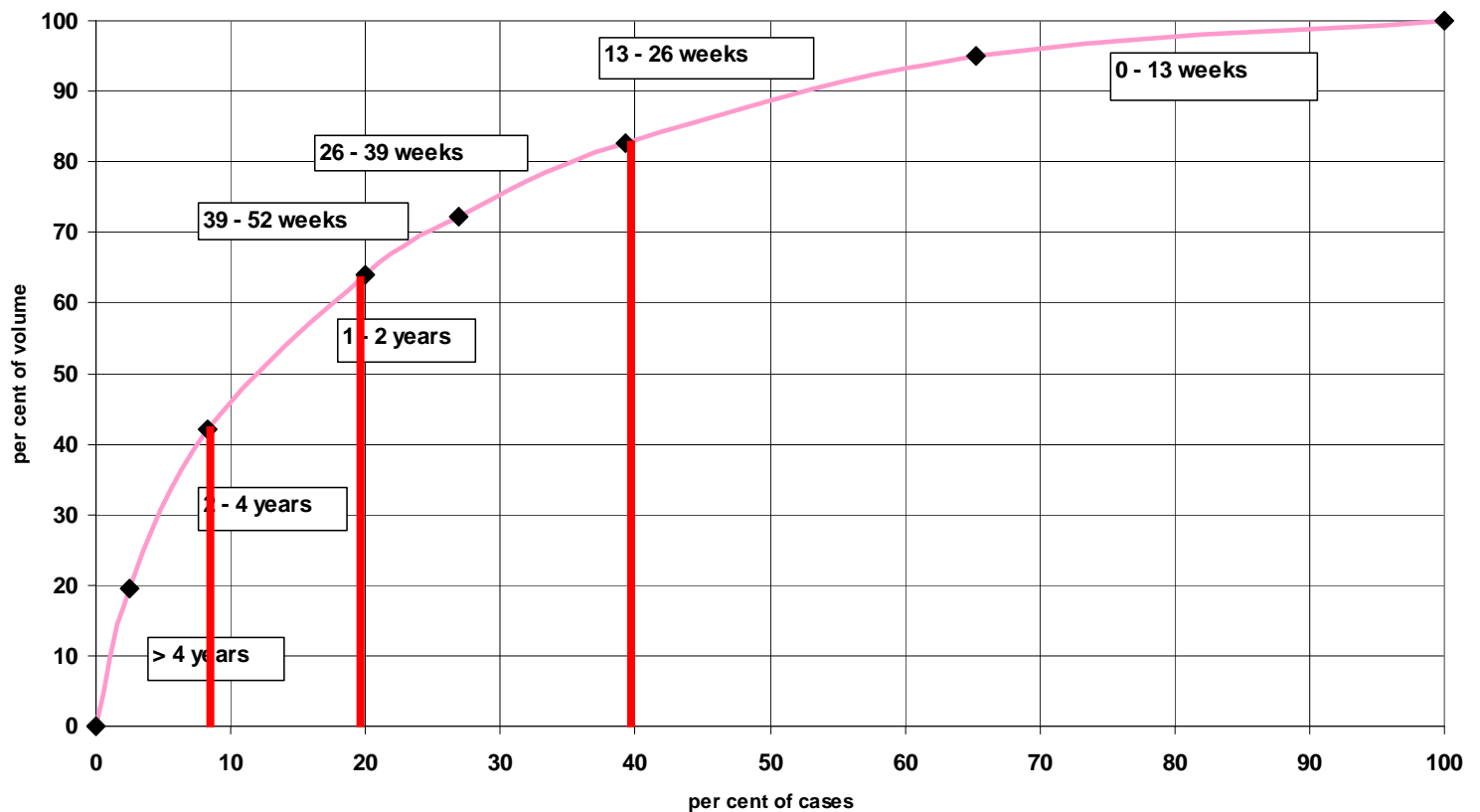


Source: Employment in Europe 2006

West Germany 1982 - 2004



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



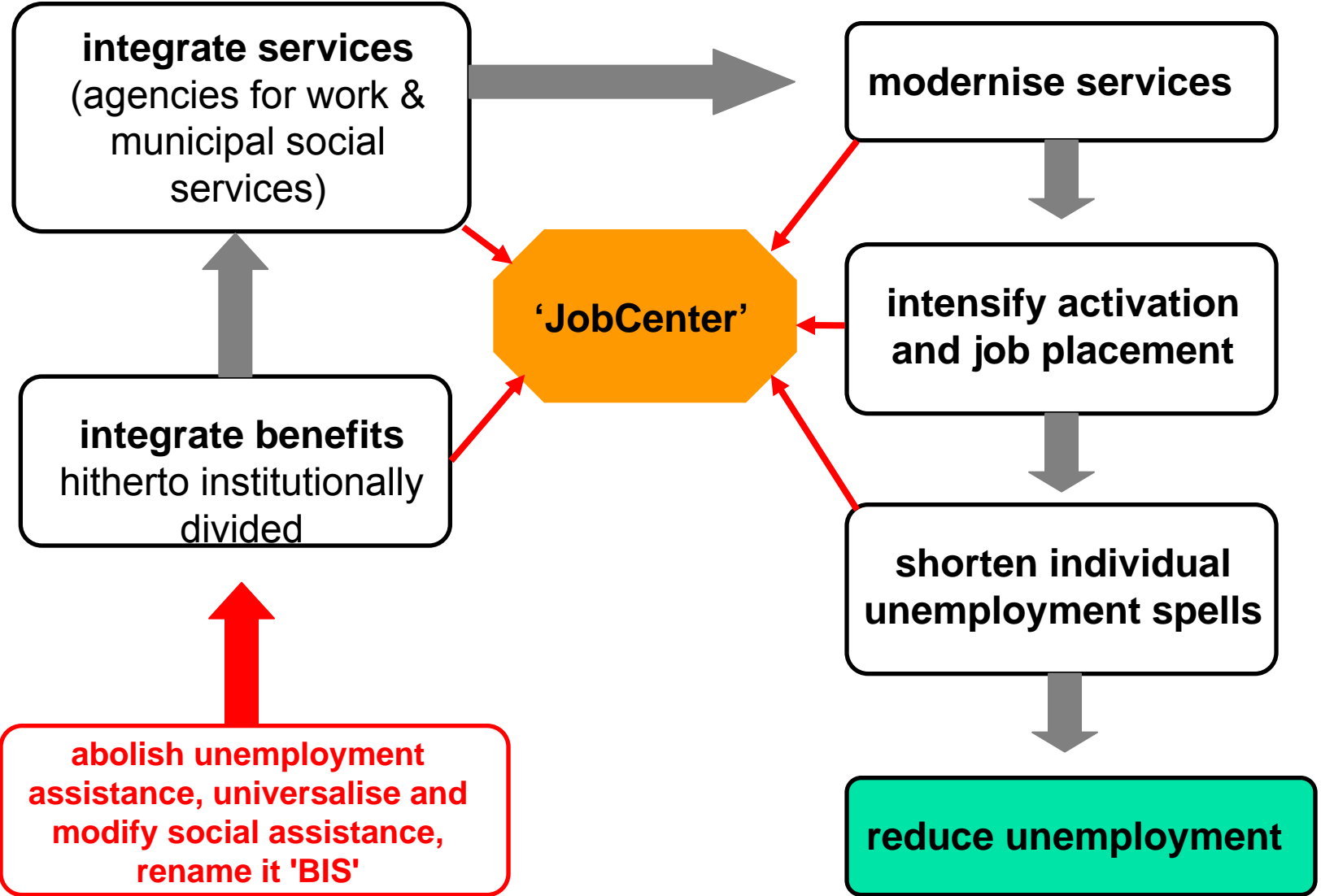
Source: Karr 2002

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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 '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, more contracting-out) | '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) | |

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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

≥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~~

'Bismarckian':
earnings ↔ contributions ↔ benefits

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

poverty relief: tax-funded minimum support

tax-funded basic income support ('BIS')

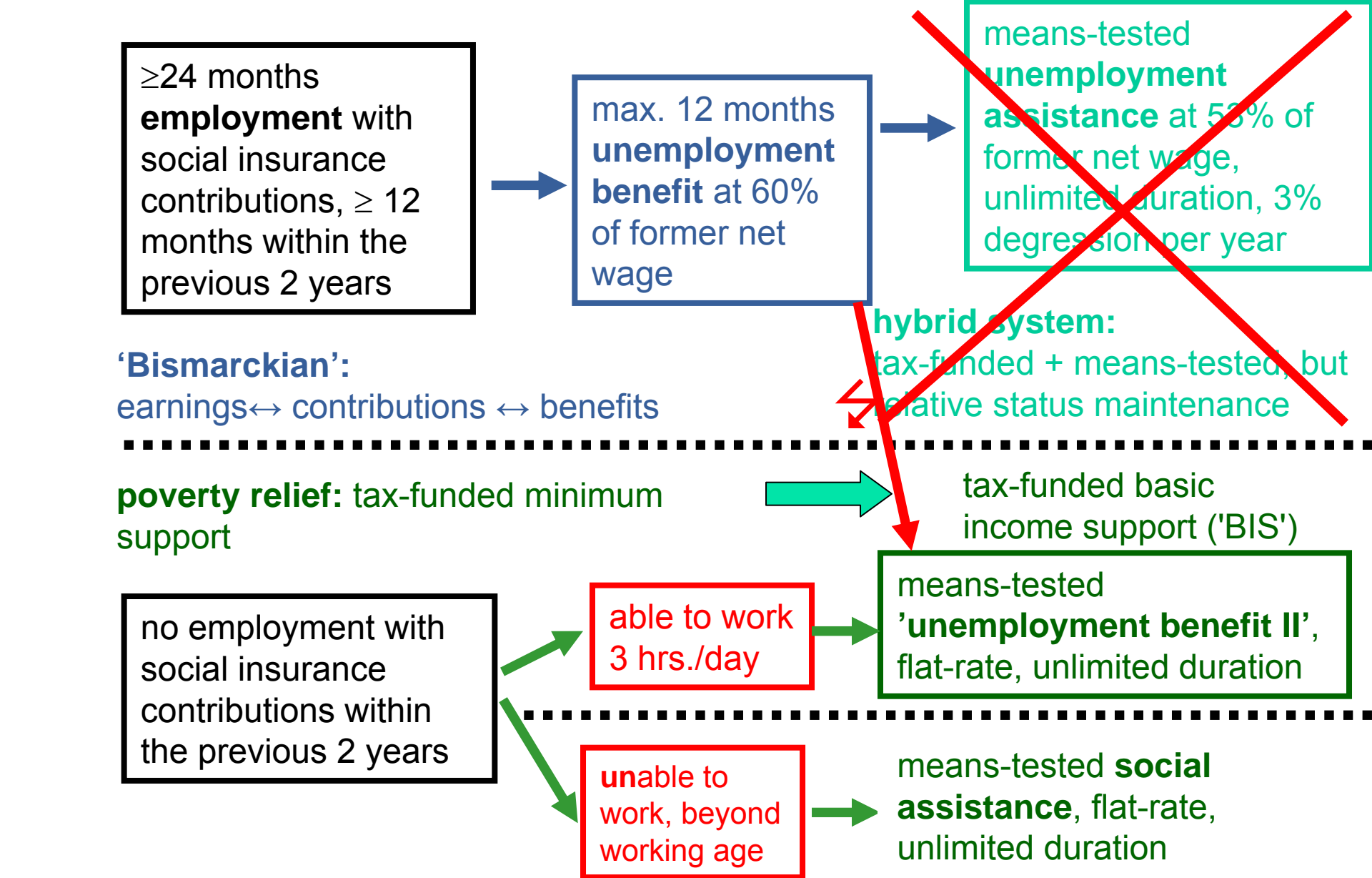
no employment with social insurance contributions within the previous 2 years

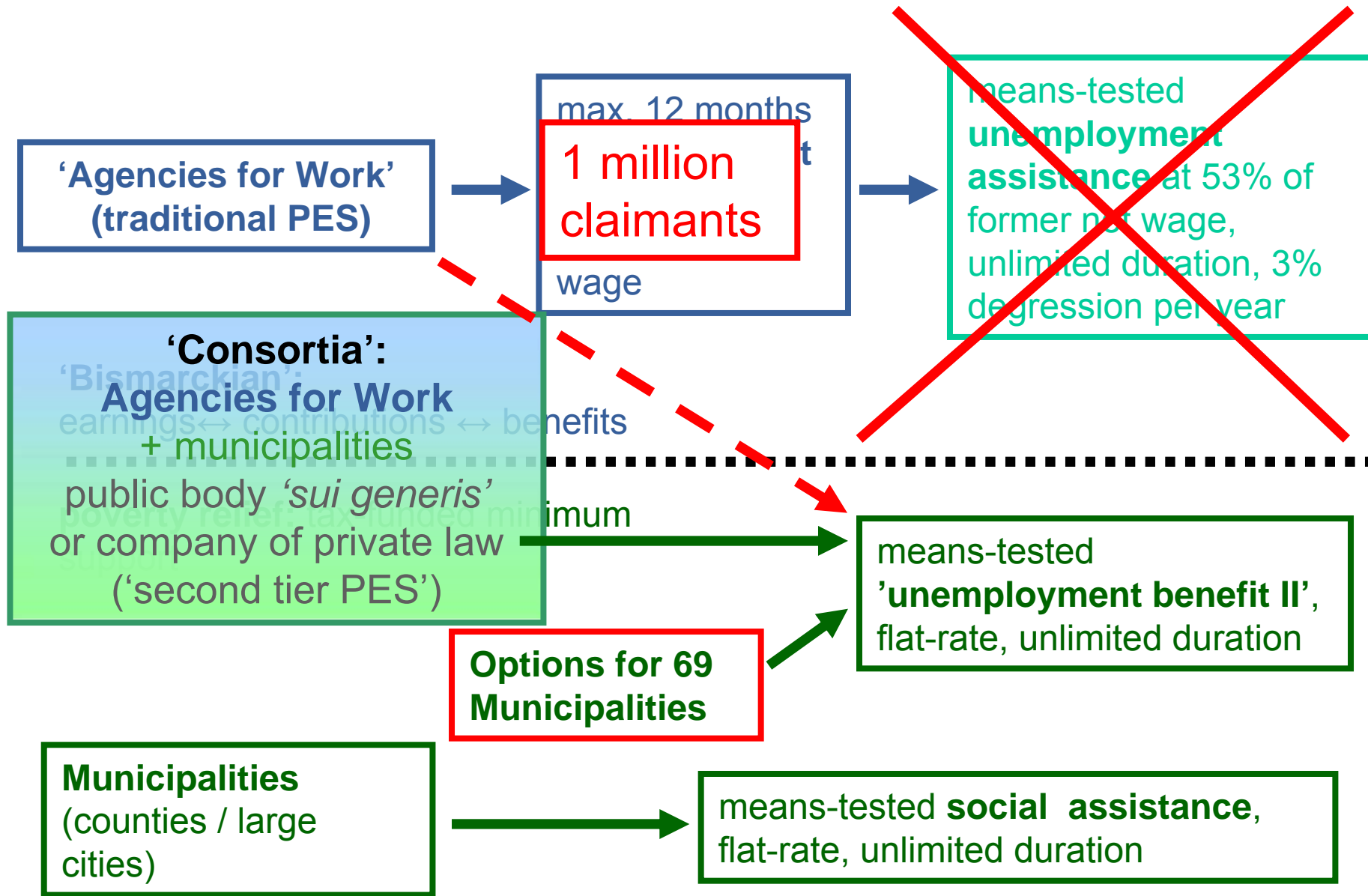
able to work 3 hrs./day

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

unable to work, beyond working age

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





Different Framing of the employment problem in the two regimes

'Bismarckian' ue insurance 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 ault 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

'regional'
= 16 Länder

local: 439 municipalities

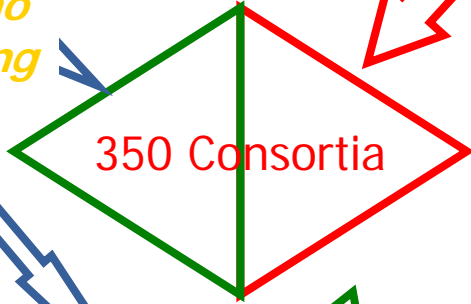
legislation
government

legislation
government

council
administration



only financial controlling, no target steering

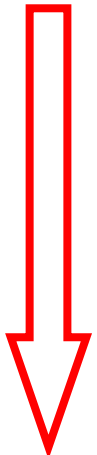


tripartite governing board

Federal Agency for Work

178 Local Agencies for Work

tripartite governing boards



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:

| | Agencies for Work | Municipalities |
|----------------------|-------------------|----------------|
| Civil Servants | 1 | 2 |
| open-ended contracts | 3 | 4 |
| fixed-term contracts | 5 | 6 |

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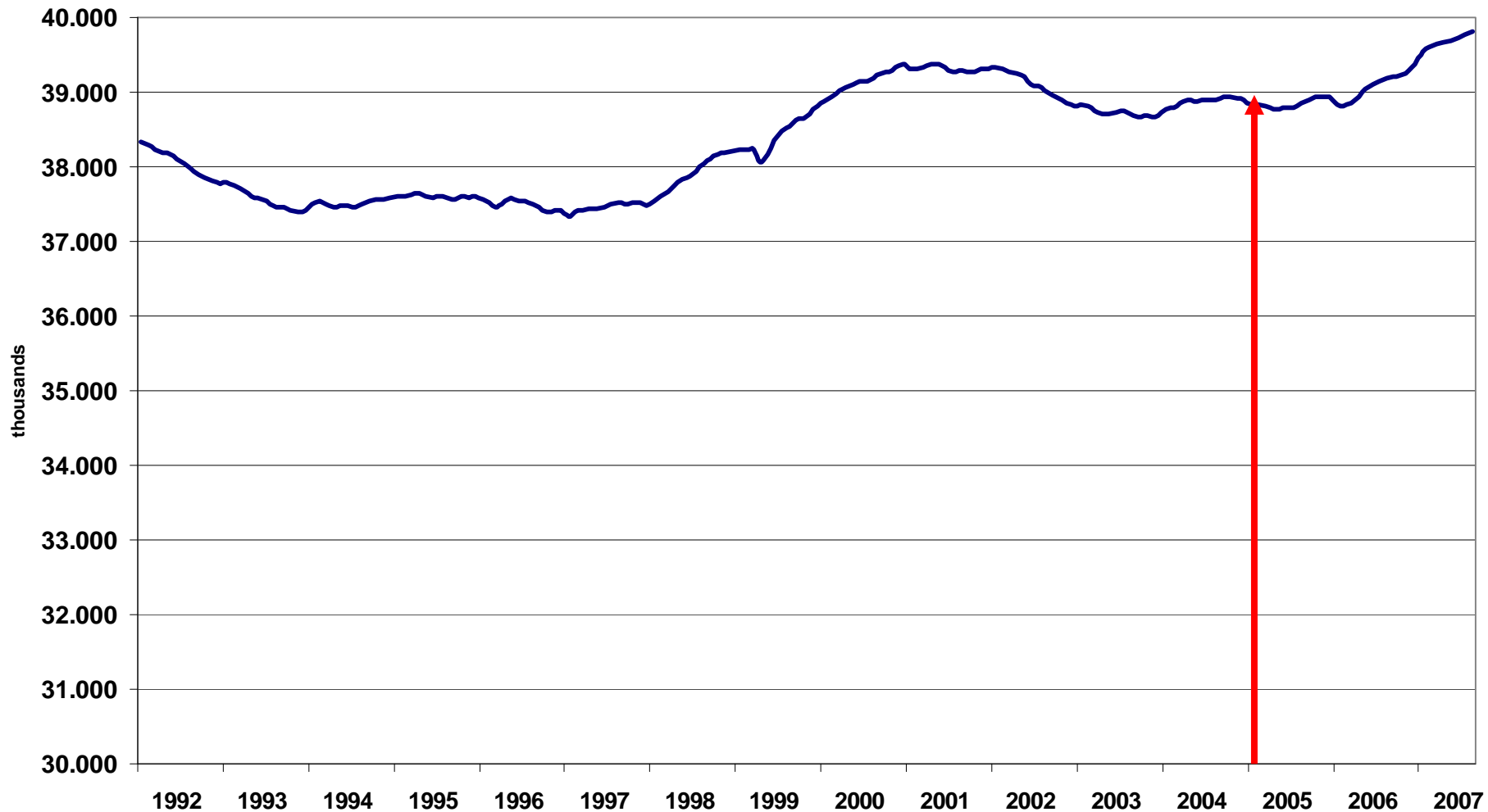
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- **Comparison of consortia and licensed municipalities in four lots:**
 - (1) Descriptive analysis and regional matching (154 out of 439 local units matched for in-depth analysis)
 - (2) Implementation and governance in 154 local units (semi-standardised 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

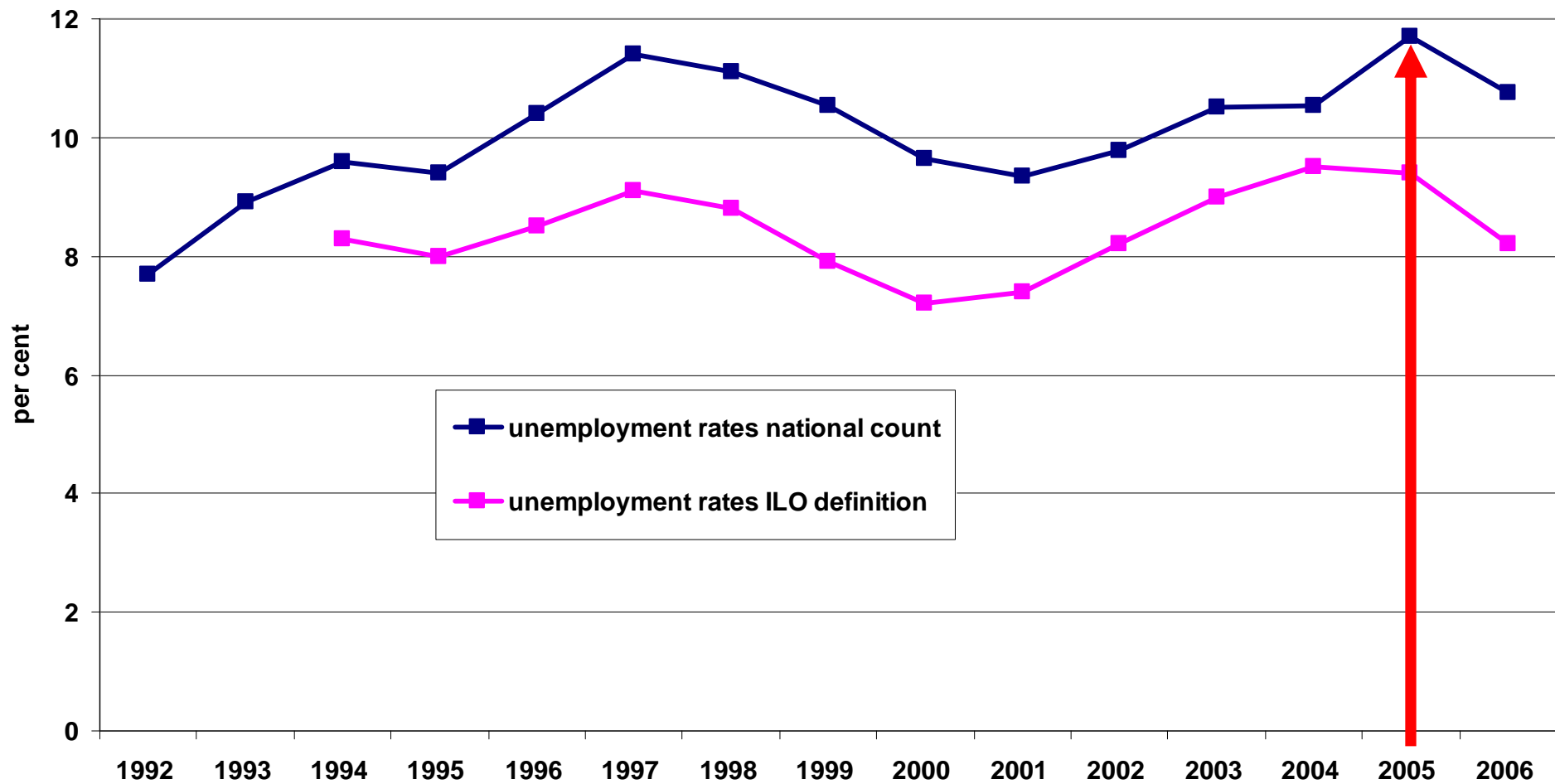
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Employment (of any kind) 1992 to August 2007 (thousands, seasonally adjusted)

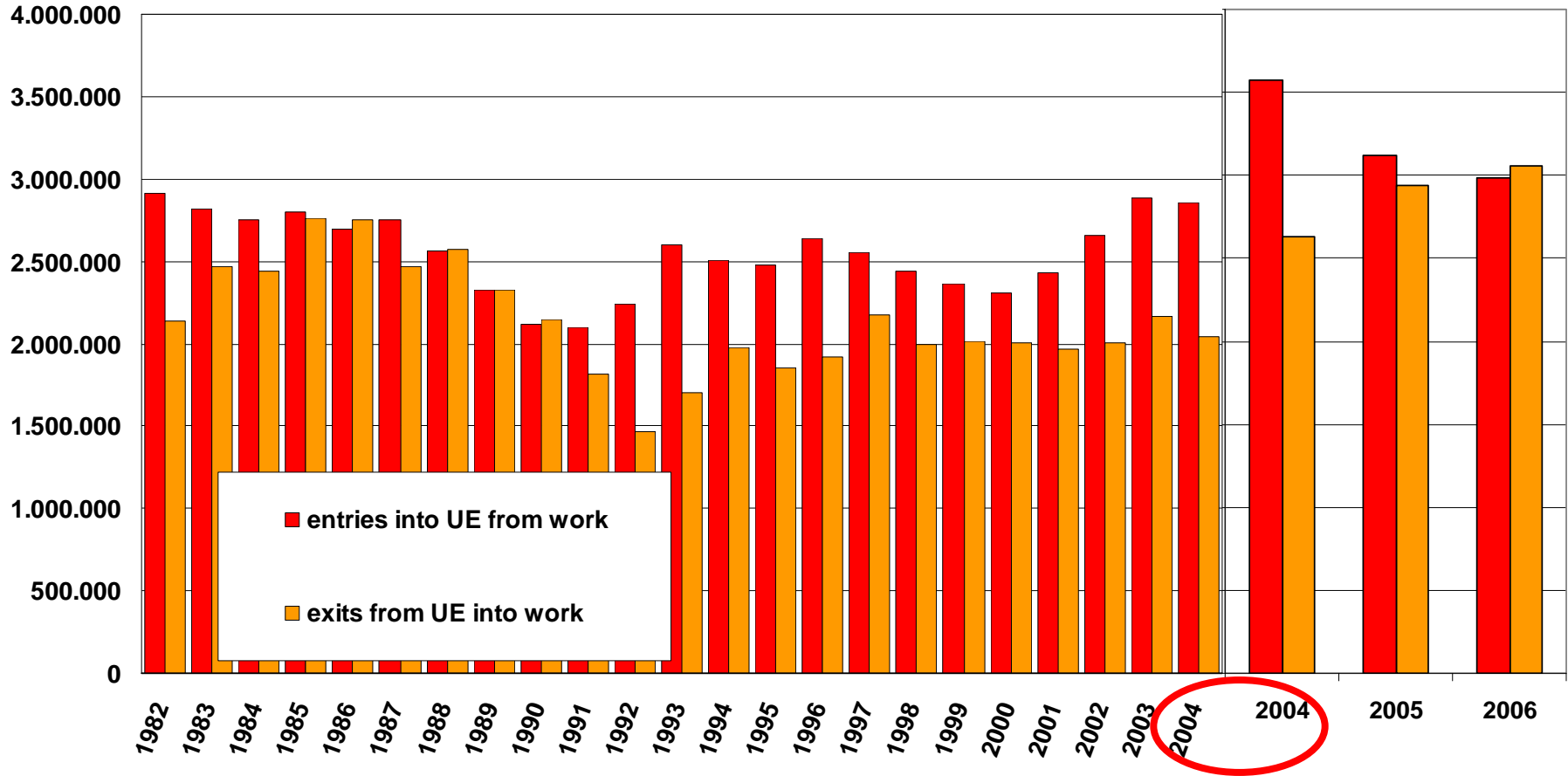


Unemployment rates 1992-2006



West Germany 1982 - 2004

Germany*)



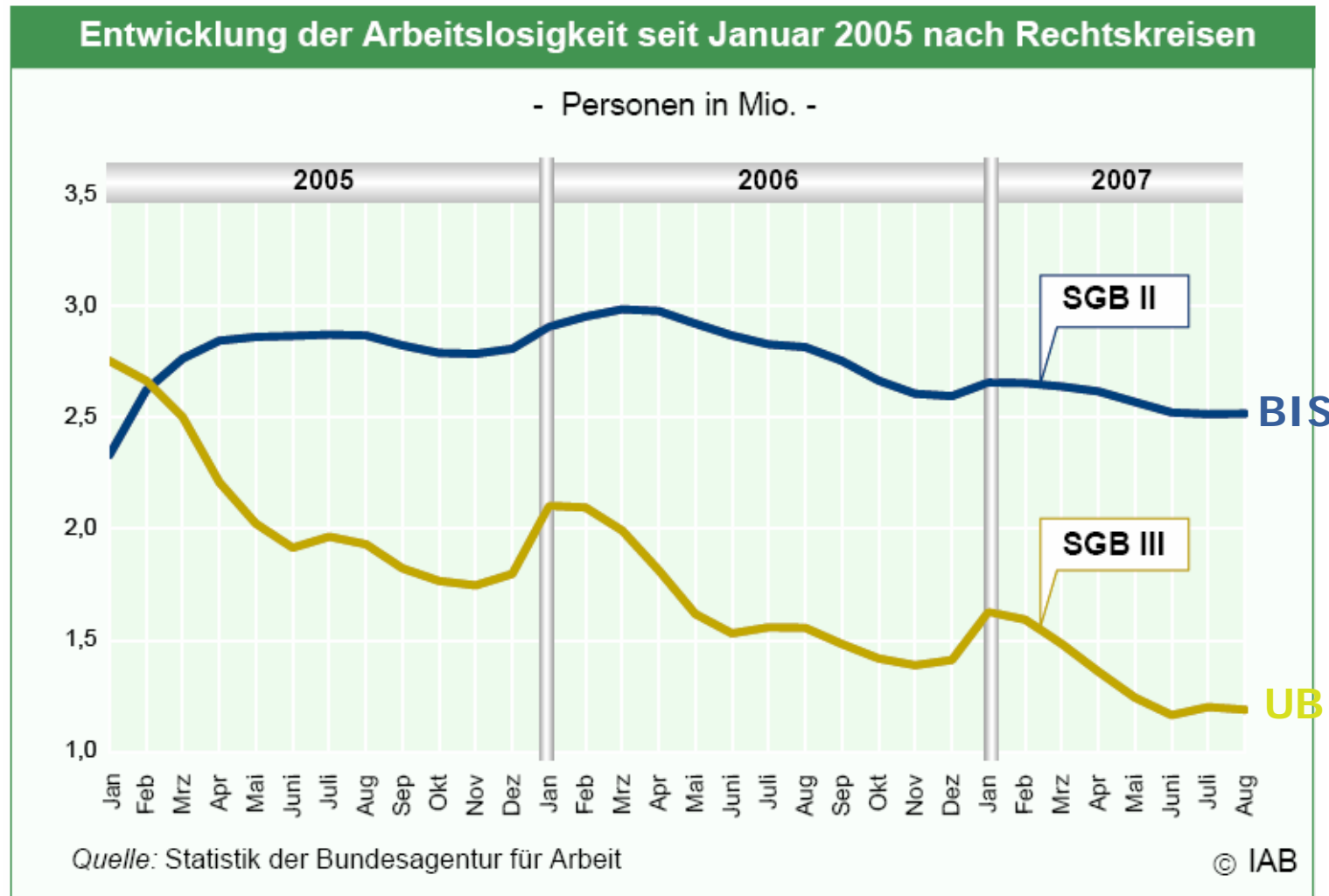
***) only 370 counties with consortia or separated services**

Unemployment in the two regimes: Stocks, outflows into regular employment (thousands), and resulting exit rates (2005 / 2006)

| | unemployment insurance | | | basic income support | | |
|-------------|------------------------|----------------------------------|--------------------|----------------------|----------------------------------|--------------------|
| | average annual stock | outflows into regular employment | re-employment rate | average annual stock | outflows into regular employment | re-employment rate |
| 2005 | 2091 | 2206 | 105% | 2770 | 563 | 20% |
| 2006 | 1664 | 2017 | 121% | 2823 | 800 | 28% |

- 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

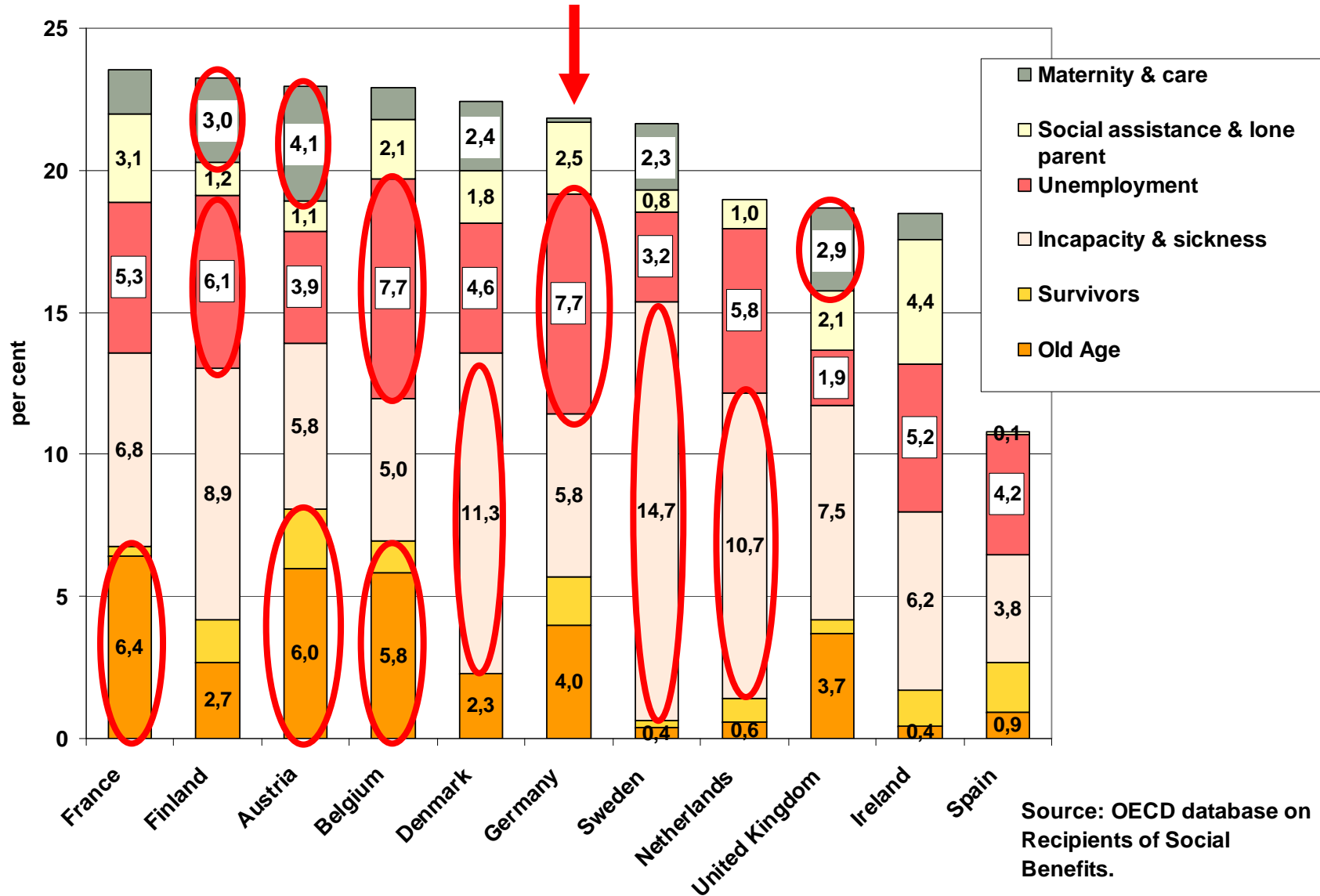
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Benefit and institutional/ organisational reforms in European comparison

| benefit reforms | | | institutional / organisational reforms |
|---|--|---|--|
| (1) none | (2) gradual: eligibility requirements, maximum duration, benefit levels | (3) structural: benefit types abolished or newly created, merger of benefits | |
| <p>UK 2002-2006</p> <p>Norway 2006-2010</p> | <p>Denmark 1993-2010</p> | <p>Germany 1.1.2005</p> <p>Netherlands 1996-2006</p> | |
| <p>Finland</p> <p>Belgium</p> | <p>Sweden 2007ff.</p> <p>Austria 2007-2010</p> <p>France 2001-2007</p> | | <p>(B) gradual: internal restructuring, new co-operations, creating add-on organisations for special tasks</p> |

...by type of benefit (2004)



Thank you very much for your
attention!