

PD Dr. Matthias Knuth

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

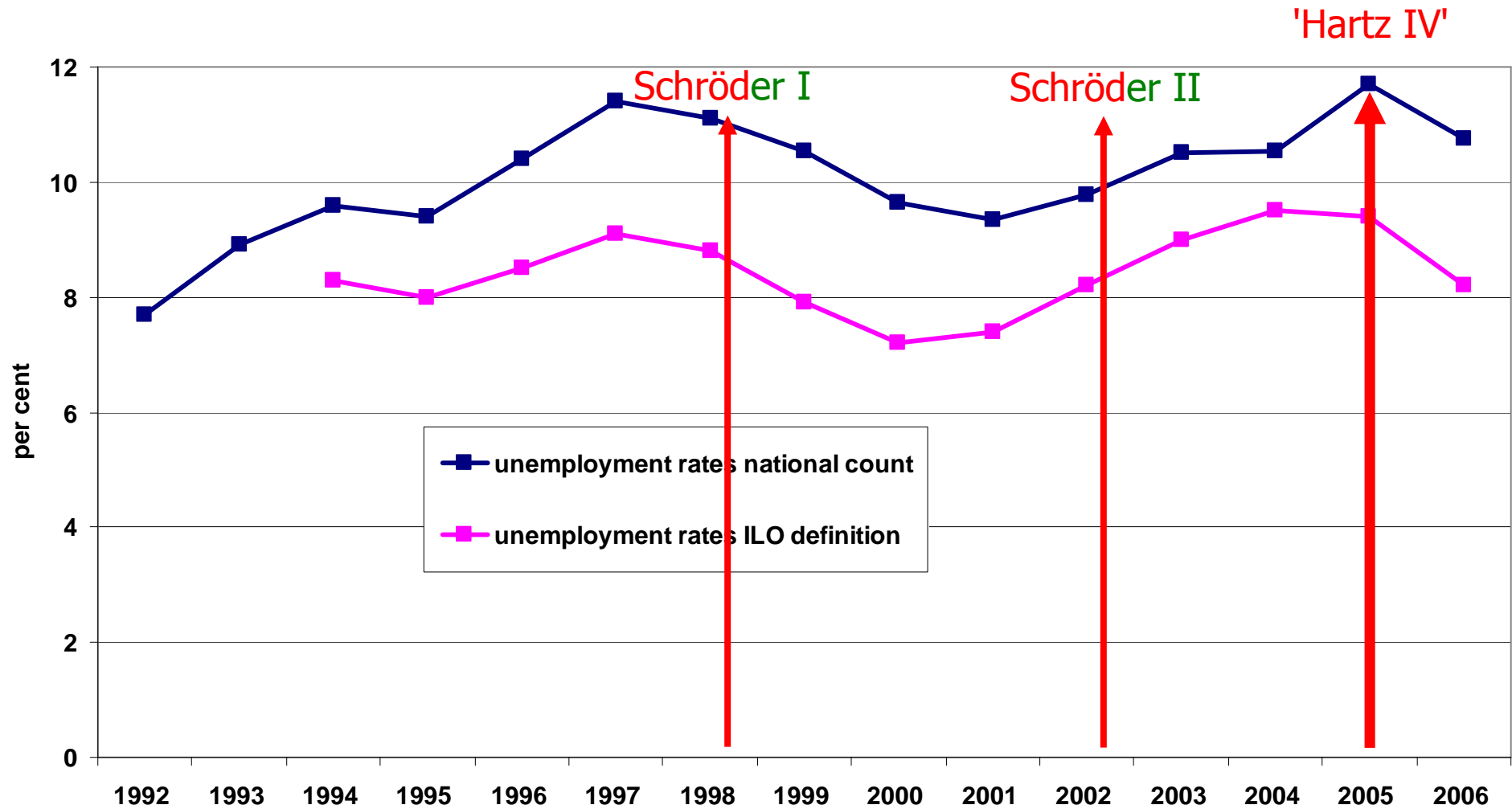
Before the reforms, German employment policy was facing the abyss.

Since then, we have made a big step forward.

Outline

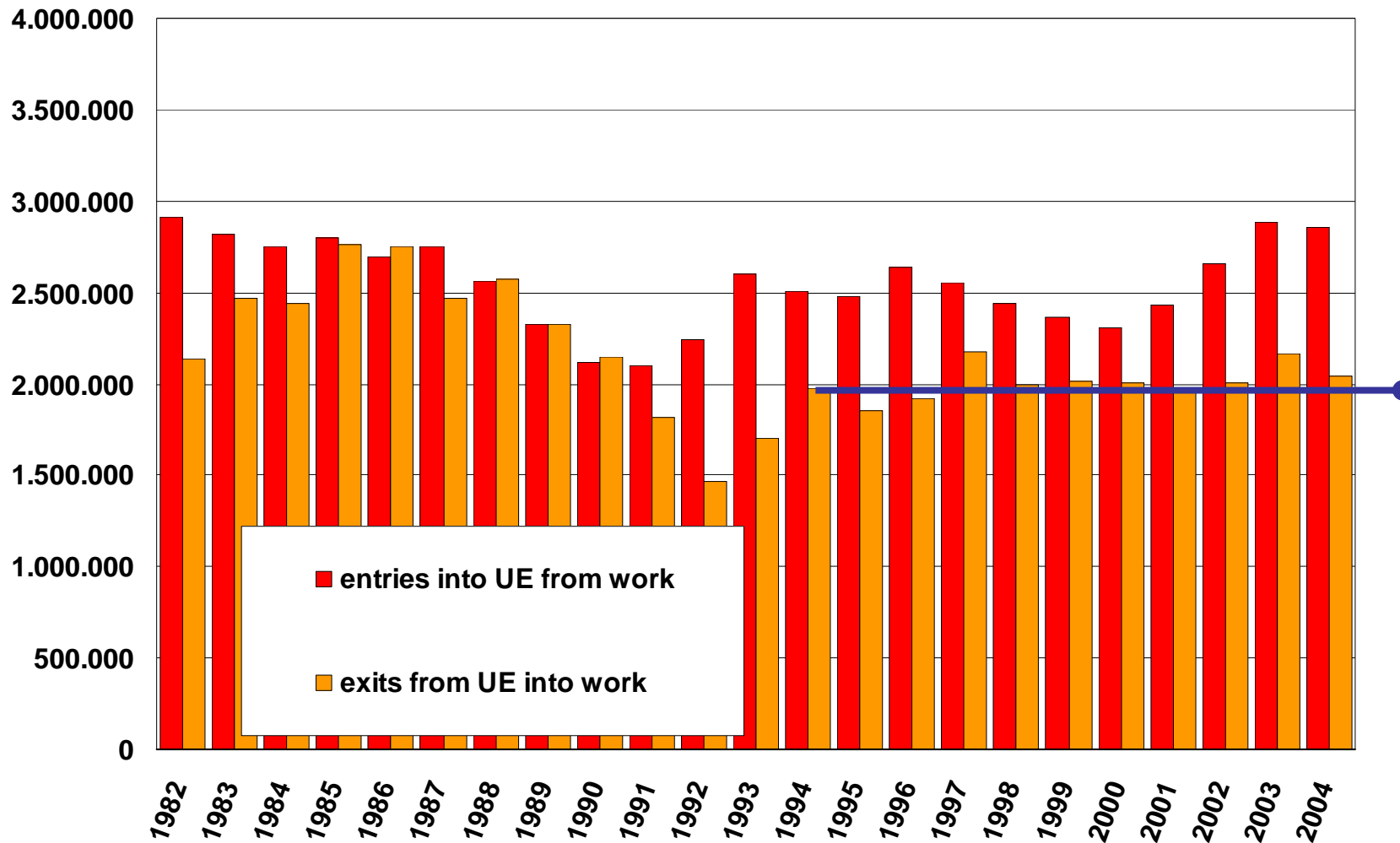
- (1) Problems of the German labour market
- (2) The Hartz Commission's approach and the legislative implementation of its proposals
- (3) Reshaping of benefits and service delivery
- (4) Resulting shift in the composition of labour market regimes
- (5) Design of ongoing evaluations
- (6) Unresolved governance problems

Unemployment rates 1992-2006



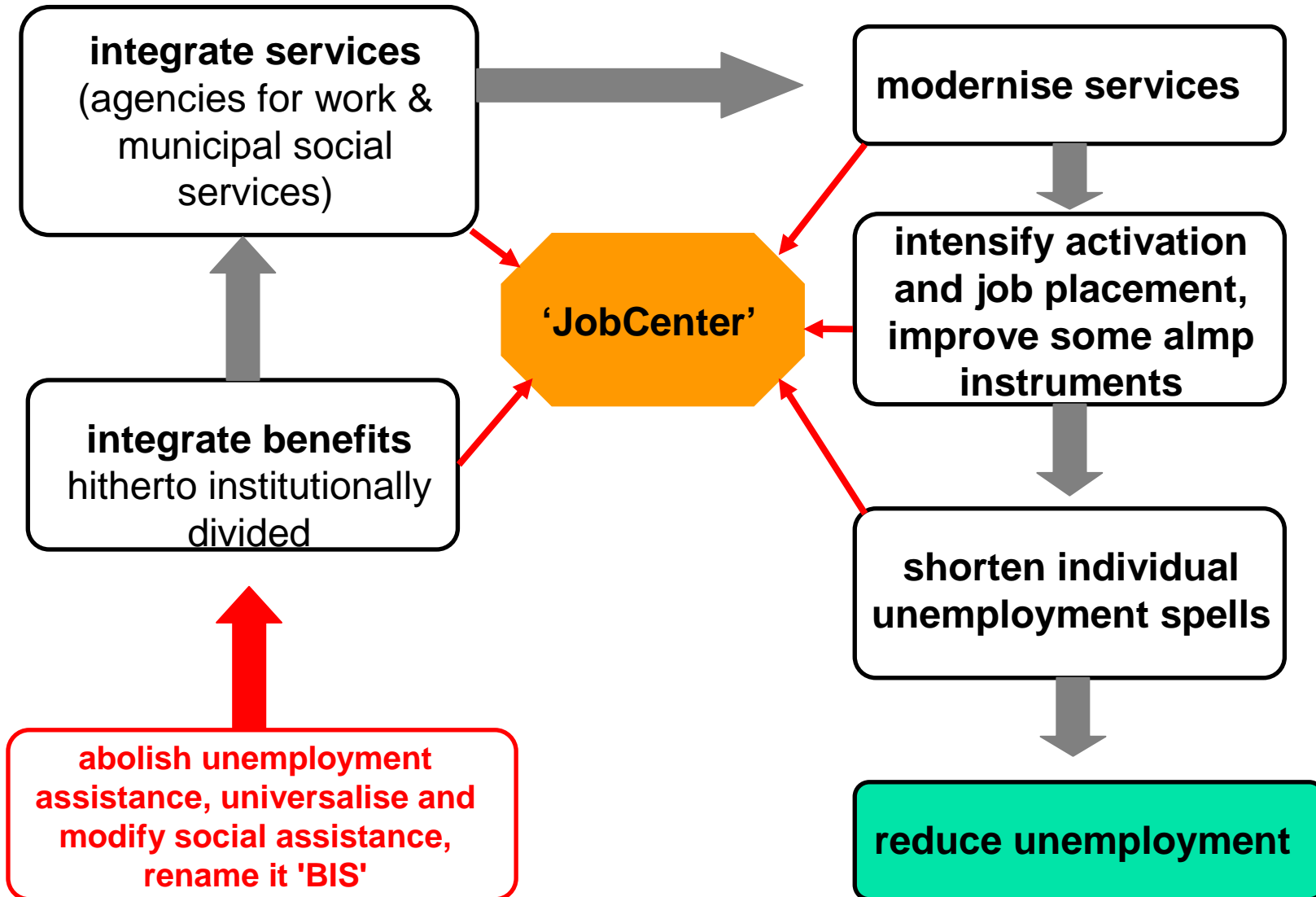
Source: Federal Agency for Work Statistics Website

West Germany 1982 - 2004



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)	



Benefit System until 2004

(no children, under 45 years old)

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

≈ ARE

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

≈ ASS

**unemployment
assistance** at 53% of
former net wage,
unlimited duration,
3% annual depression

‘Bismarckian’:
earnings ↔ contribution

**three benefits
– two regimes**

benefit:
means-tested + means-tested, but
status maintenance

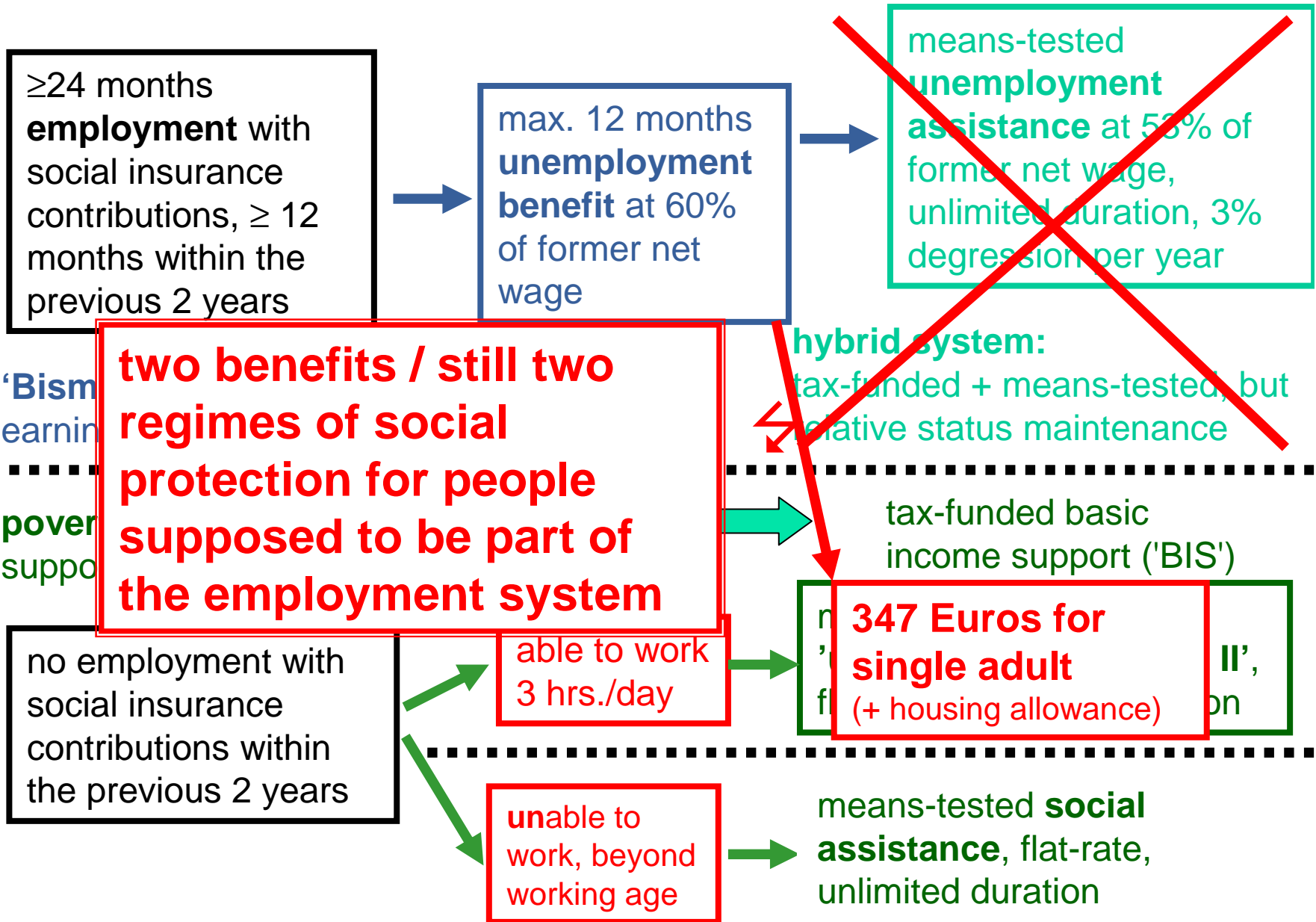
poverty

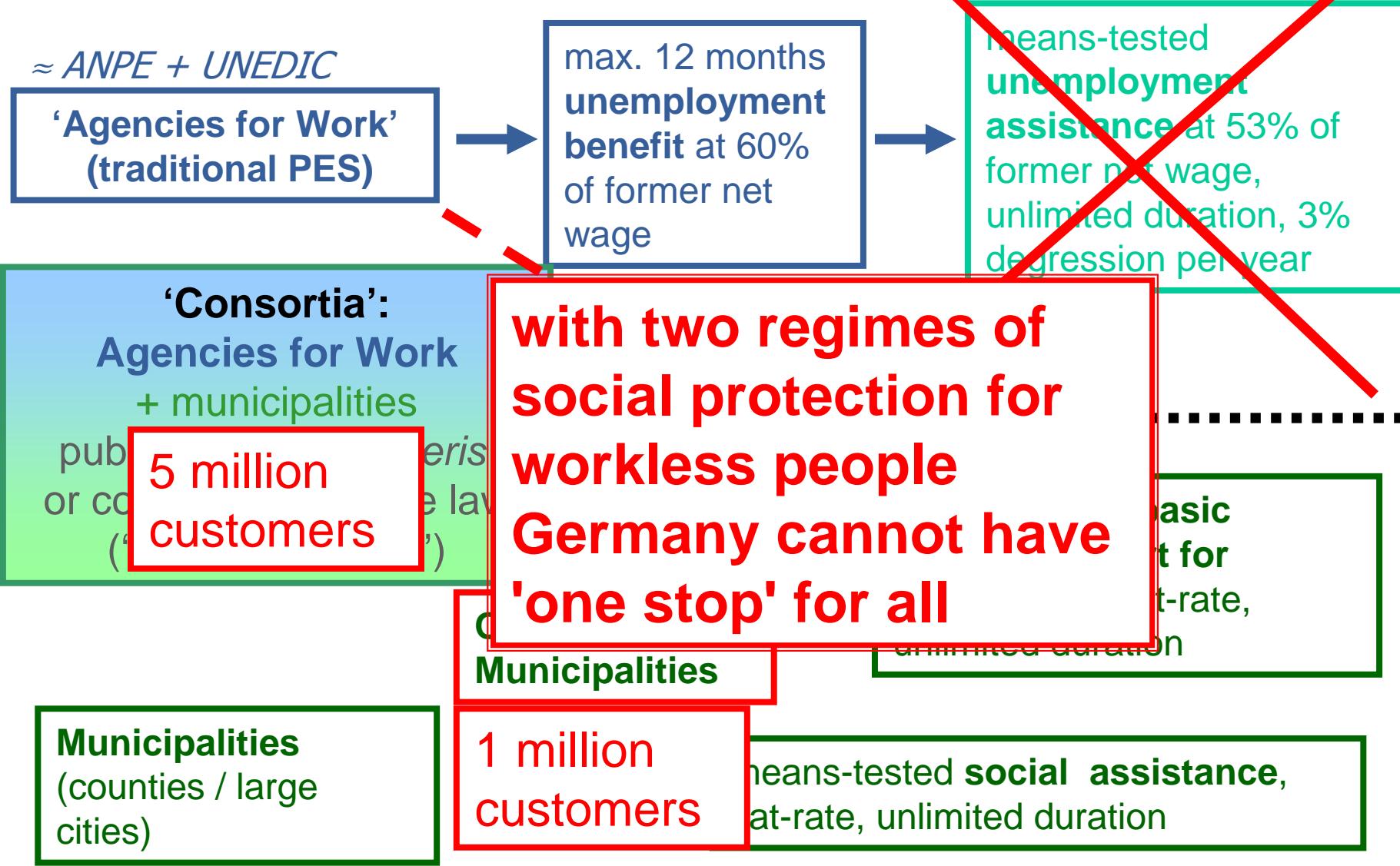
poverty

no employment with
social insurance
contributions within
the previous 2 years

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

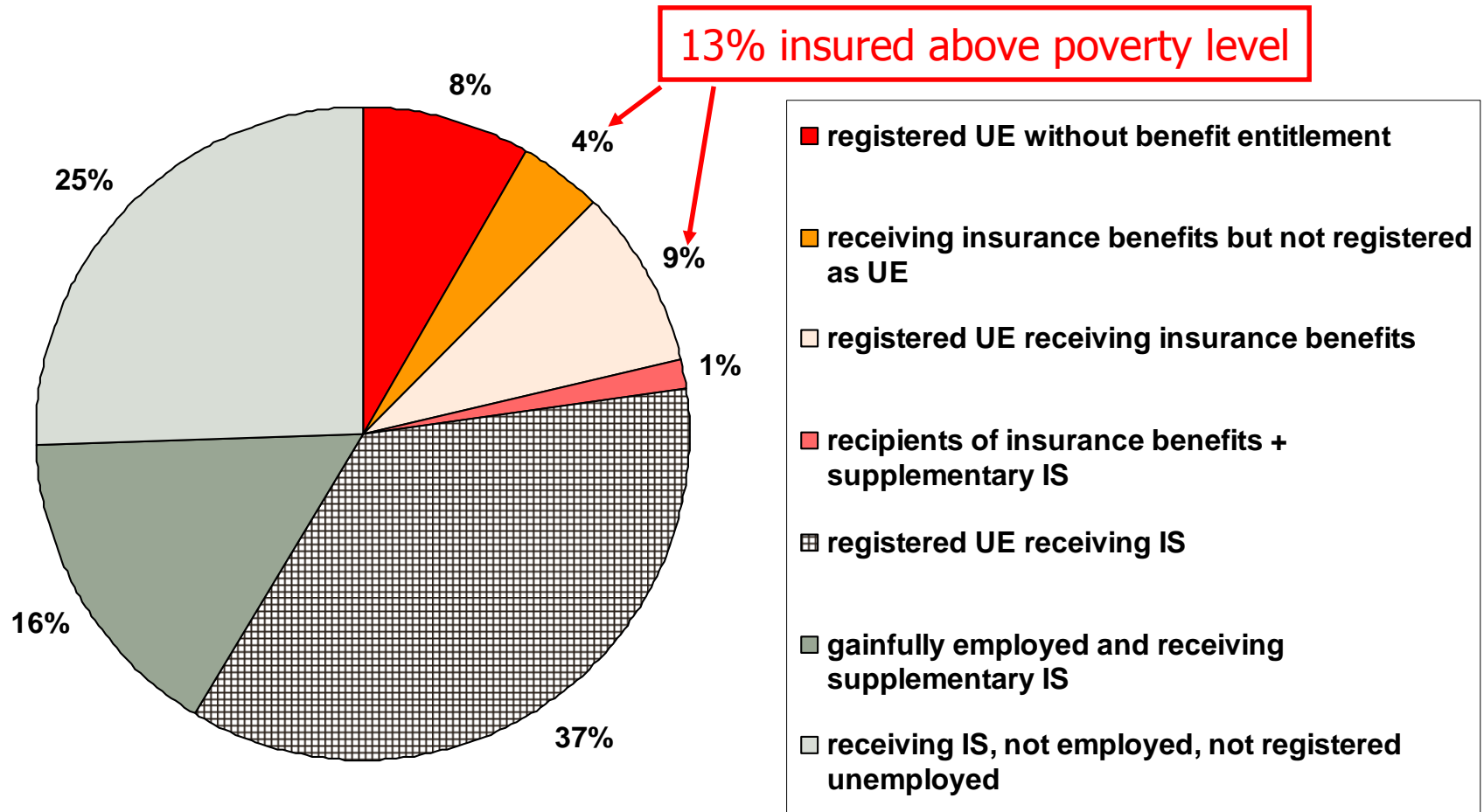
≈ RMI





≈ 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

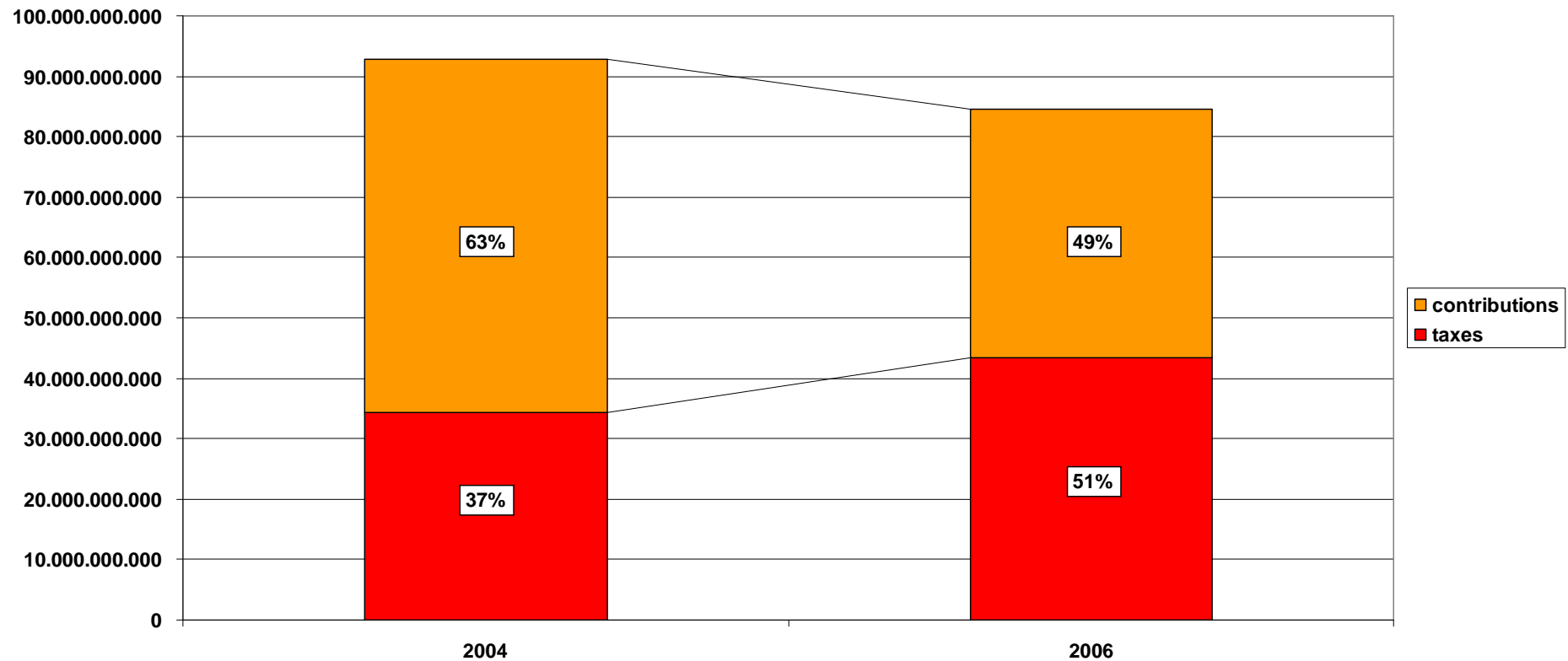
Initial increase in unemployment and claimant counts – why?

- 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!

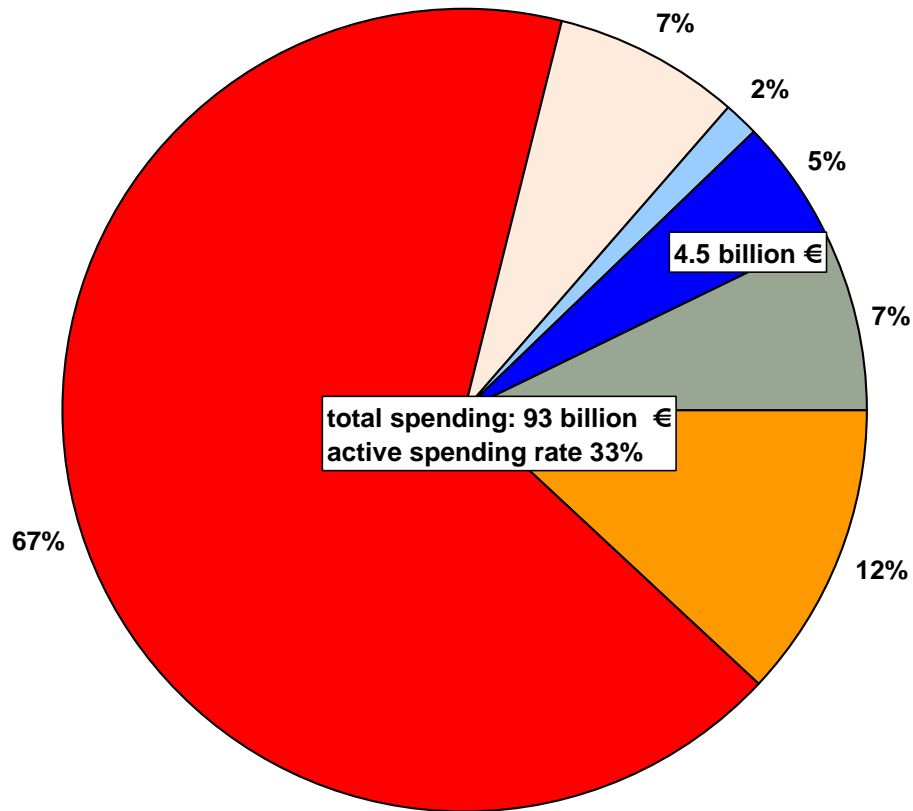
Claiming UB II but not counted as unemployed

- over 15 (\approx 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)

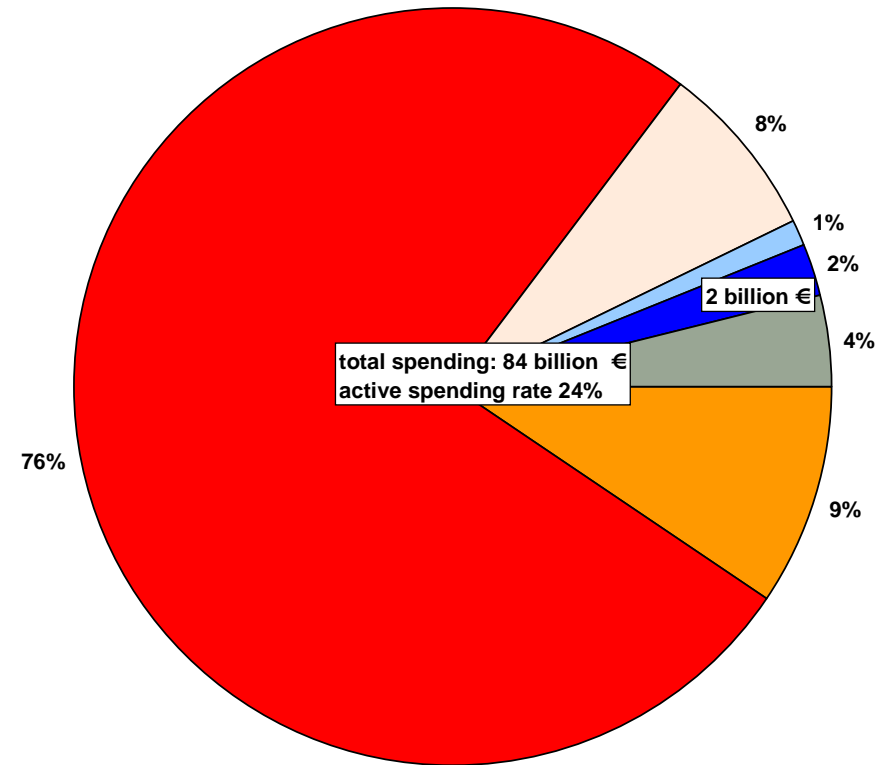
Fiscalisation resulting from regime shift (from insurance to basic income support)



'Passive' and 'active' spending, contracting out, 2004 / 2006



2004



2006

- administrative
- 'passive'
- 'active' to (unemployed) workers
- 'active' to employers
- 'active' to third parties / contracted out
- 'active' not specified

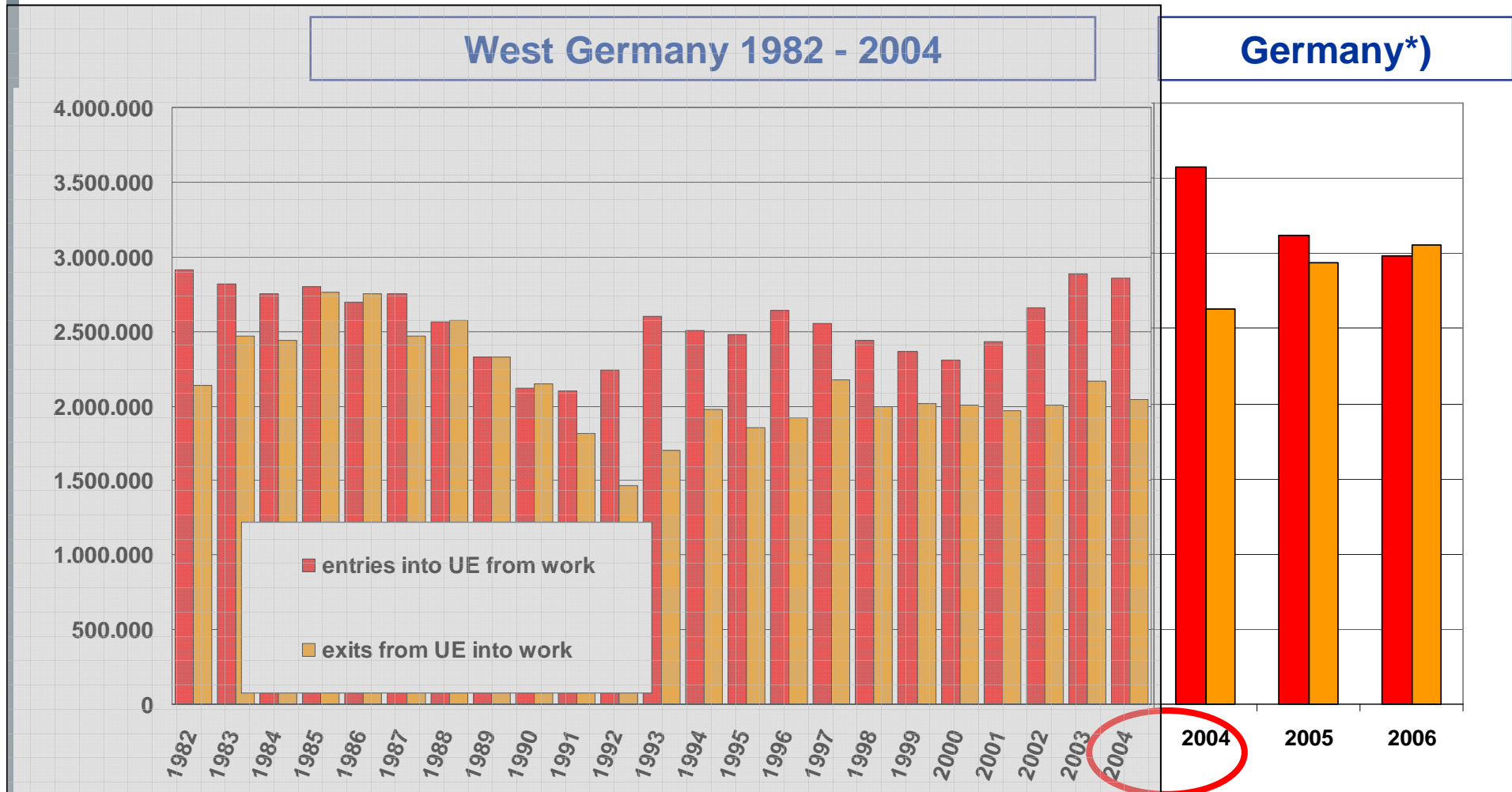
- **Comparison of consortia and licensed municipalities in four lots:**
 - (1) Descriptive analysis and regional matching (154 out of 439 local units matched for in-depth analysis)
 - (2) Implementation and governance in 154 local units (semi-standardised case studies)
 - (3) Outcomes and efficiency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

	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%

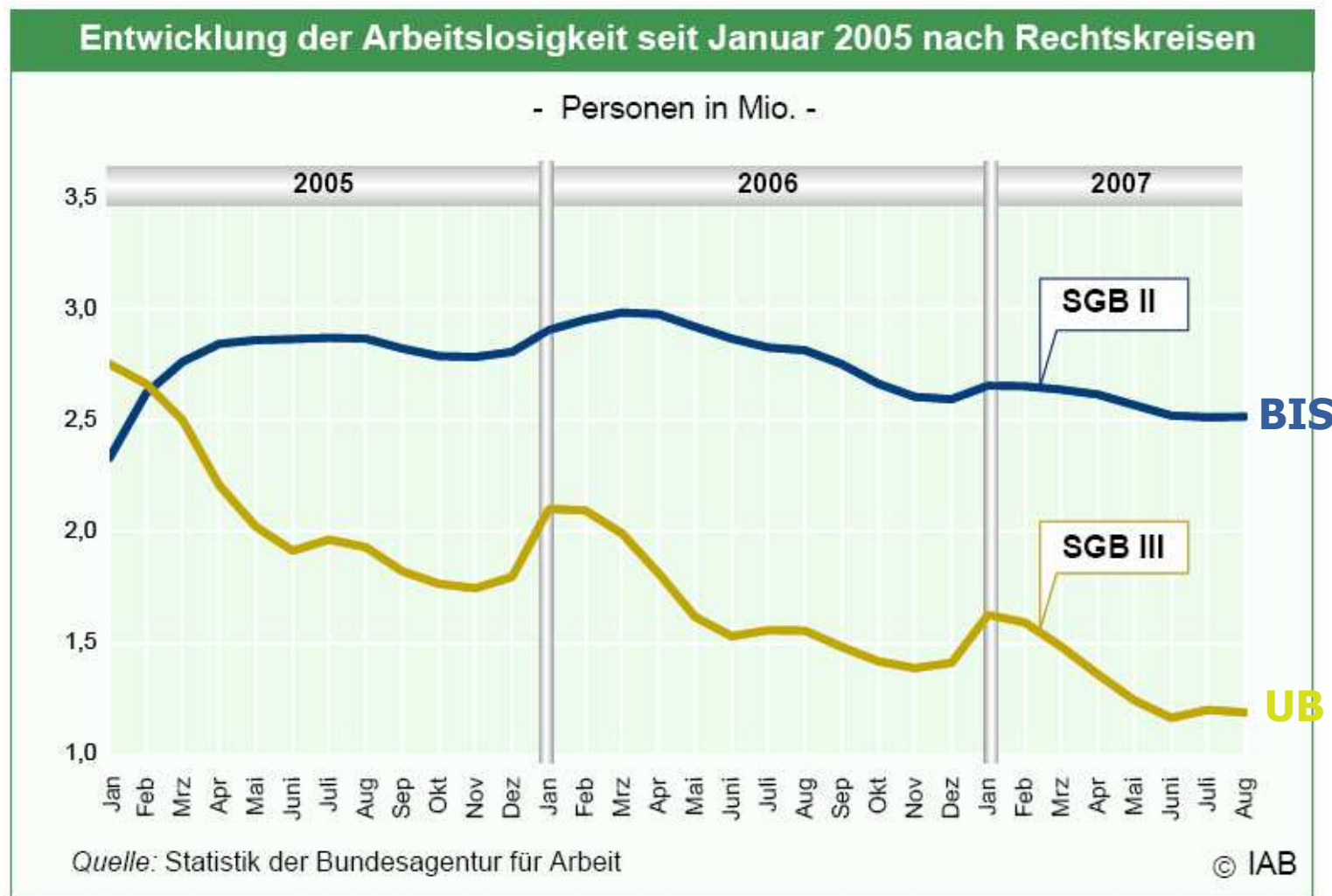
^{*)} customers registered as unemployed only (in BIS, roughly 50% of working-age claimants)

Long-term trends in UE turnover

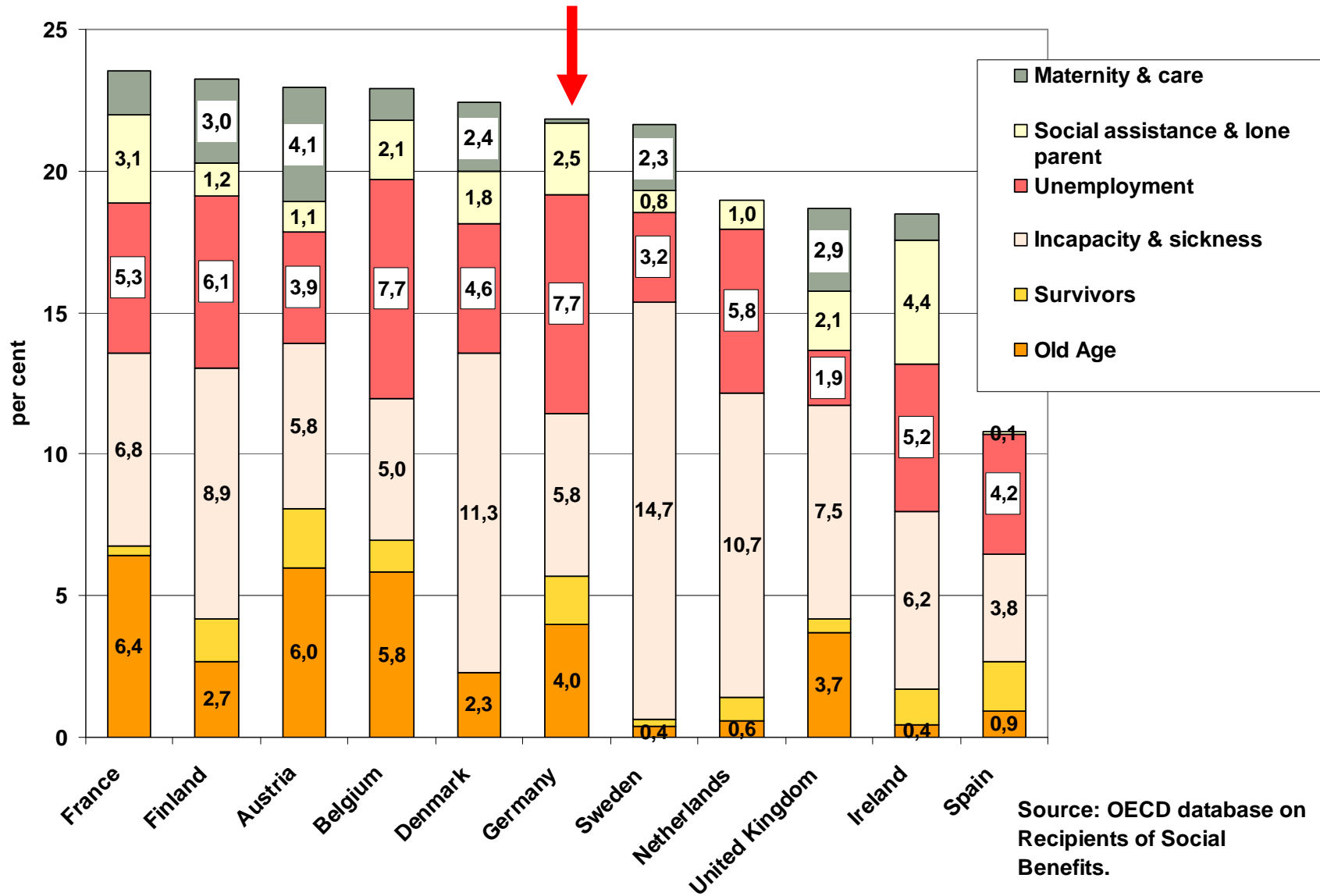


***) only 370 counties with consortia or separated services**

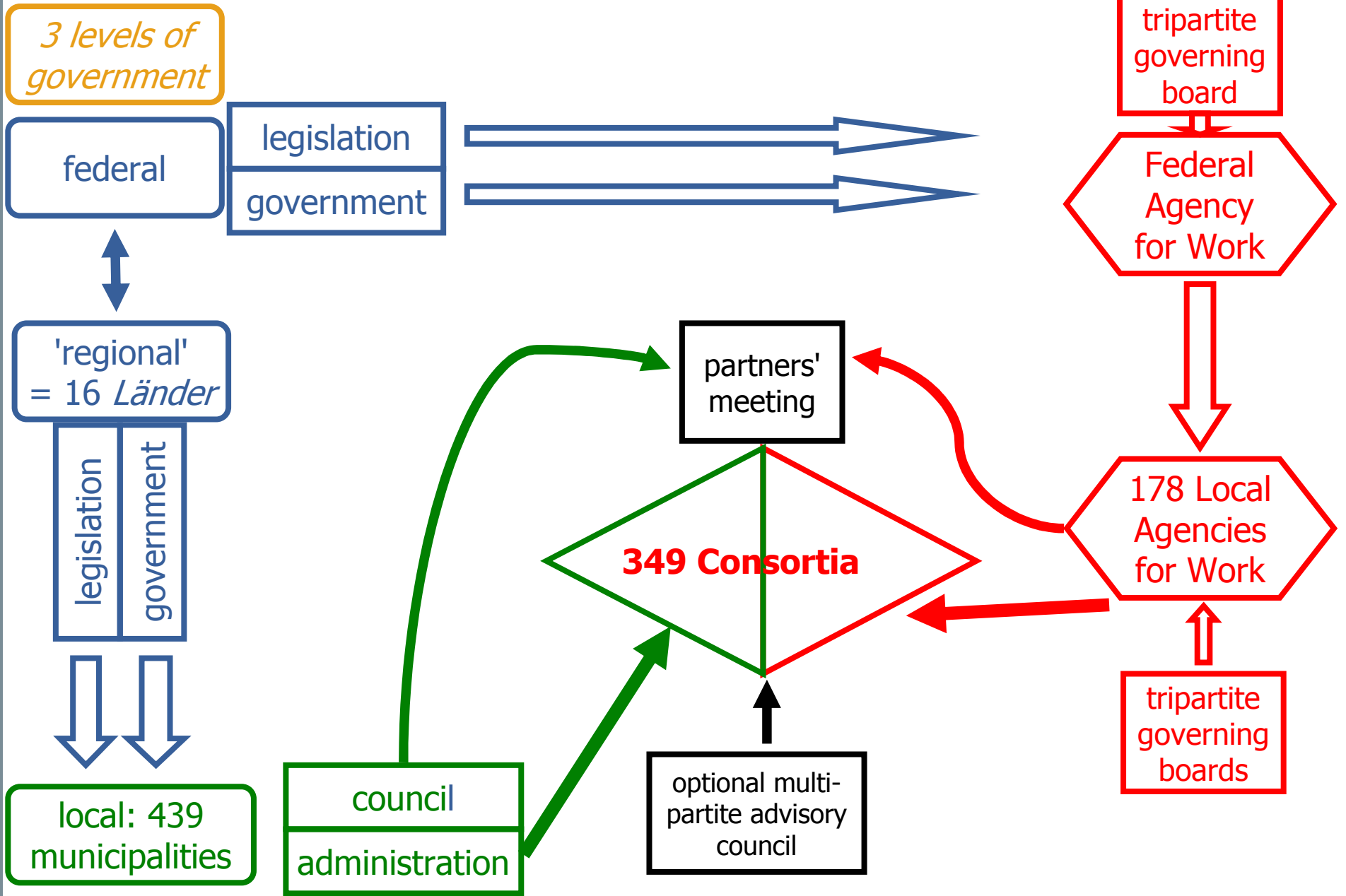
Recent unemployment trends among recipients of **unemployment benefits** vs. **basic income support**



...by type of benefit (2004)



Governance of 'consortia' (simplified)



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)

- path of social insurance broken ⇒ ue insurance marginalised
- 'regime borrowing' from social assistance ⇒ 'path shifting'
- 'merger' of ue assistance and social assistance ⇒ new regime of social protection *'Basic Income Support for Jobseekers'*
 - ≈ social assistance + employment support/work obligation
- path dependency: social assistance as a municipal prerogative
 - ⇒ 'second tier' PES instead of 'one stop'
- compromise between reform intention and old path
 - ⇒ 'impossible match' between federal agency and municipalities
- PES governance and further development entangled in power struggle between Federation and *Länder*
 - ⇒ 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!