



Germany

Trends, Recent Developments, “Feeding in” and “Feeding out”

A Study of National Policies

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Summary

Looking at the way how, with the exception of labour policies, the political fields that are important for a strategy of social inclusion are dealt with in the NRP and IRNRP 2007, it becomes clear that the Federal Government cannot have a projection or modification of the previous NRP in mind, when submitting its latest report. The IRNRP that has been submitted is reduced to a short overview of the most important reforms for more growth and employment. While the Lisbon strategy serves as point of reference, it does not become clear whether and how the Federal Government uses the common agreement in its governmental actions as guideline to coordinate its economic and social policies. But all in all the Federal Government is of the opinion that its reform policies are fully coinciding with the European Lisbon strategy for more growth and employment.

In its Implementation Report, the Federal Government takes up the country-specific recommendations and points-to-watch. This is done in the form of a tabular overview in which the various central legislative projects relating to the respective points are reviewed. Simultaneously, reference is made to another appendix in tabular form where the pertinent legislative projects are described in more detail and classified. Thus it becomes apparent how the Federal Government assigns individual projects. Looking at the assignment of the political measures to the country-specific recommendations, it becomes obvious that the Federal Government puts main emphasis on recommendation 3: "Reducing structural unemployment". However, a reflection on advantages and disadvantages, results and the desired further development of used policy instruments and passed laws is omitted.

In terms of *feeding in* and *feeding out* one can say that first of all there has been an economic upswing in Germany during the last two years. The Federal Government expects the positive development on the labour market to continue next year. But what remains unsaid is, for one, the problem of the domestic effects of this upswing. This is connected before all to the question whether new segmentations may form on the labour market and in how far the special problem groups, as for example long-term unemployed persons with low qualifications, will in fact be included as well. On the other hand, even if the hoped-for reduction occurs, mass unemployment with 3.5 mill. affected persons still remains the central problem of social exclusion. In this respect, the report does not provide any concrete objectives for further development. And it also turns out, that the job creation in the economic upswing is owed not so much to the aggravated regulations within the framework of promoting and demanding, but rather to structural changes which have become effective independently of the Agenda 2010. This would mean in turn that the successes reported by the Federal Government do not constitute a direct feeding out effect of the labour policies of the last five years.

Concerning the *major new trends or challenges* in terms of social exclusion one can say, that it is quite evident that the chosen reforms have resulted in new challenges and risks, concerning the negative effects of the Hartz reforms¹. Obviously, the low wage sector is expanding and is highly subsidised by social transfers within the framework of SGB II (Sozialgesetzbuch II/ Code of Social Laws II)² or the child benefit supplement out of the tax revenue for people with low income. Demands for the general introduction of minimum wages were raised in public so that gainful

¹ We reported intensively about the reform-discussion and the legislation of a new labour market policy, initiated in 2002 by a neutral commission, called by the name of the chair, Mr. Hartz (Hartz Commission, Hartz Legislation). They published four reports. The fourth report was the basis for the new SGB II, so it's common in Germany to speak about this SGB II and the regulations in it as "Hartz IV"

² Compendium of mostly all laws for the social security system, No. 1 – No. 12 (SGB I – SGB XII)

employment remains, or becomes again, sufficient to secure the subsistence minimum. There was also a heavy controversy about the expansion of child poverty as a consequence of the Hartz legislation in Germany but it has to be stated that there is a discrepancy between recognized social risks and the introduction of necessary steps to strengthen social inclusion (e.g. the discussion about the participation of poor children in collective lunches in all-day facilities).

The Implementation and Progress Report 2007 on the National Reform Programme Germany 2005 – 2008 arrives at the result that federal policies are taking into account the country-specific challenges and the recommendations of the Joint Report on Social Protection und Social Inclusion 2007 based on them by means of a continued budget consolidation, implementation of the health care reform, improvement of competition on the products and services markets and the reduction of structural unemployment. For all these points, evidence is provided among the 177 listed measures. Although after the large legislative projects since 2002, including the passed health care reform, a phase of concrete implementation of individual measures has rather set in this year, there are nonetheless both individual and groups of measures coming up to the challenges relevant for Germany. Conversely, individual measures remain as a rule unconnected and insufficiently related to each other. In general, it can be noted that the inclusion approach has become more controversial again in current politics. On the one hand, the Federal Government is working on the preparation of the 3rd National Report on Poverty and Wealth to be published in the spring of 2008. Numerous external expert opinions have already been drawn up and delivered. Taking child poverty as example, a high level of sensitivity for this problem becomes in fact evident. But on the other hand, political initiatives are still concentrating on pursuing social integration as a matter of priority only by integrated steps towards the primary labour market.

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Part I: Analysis of the 'Feeding in' and 'Feeding out' aspects

1. Short Summary of the German Implementation Report

As said in the guidelines for the experts, the 2007 Joint Report on social protection and social inclusion singled out various examples for "feeding in and feeding out" measures and effects. In the summary it is to be shown in how far the German IRNRP addresses the identified areas and which main points of emphasis arise with regard to areas relevant to "feeding in / feeding out".

1.1 How the IRNRP addresses the Lisbon recommendations and points-to-watch

In its Implementation Report, the Federal Government takes up the country-specific recommendations and points-to-watch. This is done in the form of a tabular overview in which the various central legislative projects relating to the respective points are reviewed. Simultaneously, reference is made to another appendix in tabular form where the pertinent legislative projects are described in more detail and classified. Thus it becomes apparent how the Federal Government assigns individual projects. The classification criteria are:

- Priorities NRP 2005
- Integrated guidelines
- Recommendations / Points-to-Watch
- Recommendations Euro zone

In another column, the expected effect of the individual measures is described. This results in a systematic and clear assignment of national policies to the objectives and requirements of the Lisbon process.

Looking at the assignment of the political measures to the country-specific recommendations, it becomes obvious that the Federal Government puts main emphasis on recommendation 3 "Reducing structural unemployment". Out of the total of 85 assignments of measures and laws to the recommendations and points-to-watch, 34 apply to this area. Another main focus emerges on sub-points 3.1 "Integration of low-skilled workers" – five concrete measures are assigned to this point; 3.3 "Developing more effective job placement for the long-term unemployed" – ten concrete measures assigned; and 3.4 "Improving the vocational integration of young people" – nine further measures assigned. Another larger group of twelve regulations is classified by the Federal Government under the first recommendation "Making public finances more sustainable". This includes, among others, the gradual raising of the retirement age to 67 years and the implementation of the health care reform which are to lead to a reduced growth of expenditures and more efficiency in the health care system.

As for the points-to-watch, the largest number of assignments concerns point 7 "Improving life-long learning". 18 measures and legislative initiatives are listed here. An evaluation of the measures relevant to the area social inclusion is given in Chapter 2.

However, a reflection on advantages and disadvantages, results and the desired further development of used policy instruments and passed laws is omitted. While the Lisbon strategy serves as point of reference, it does not become clear whether and how the Federal Government uses the common agreement in its governmental actions as guideline to coordinate its economic and social policies. In which relationship are the national and the European political process standing to, and influence, each other? There is no final answer to this question. We have formulated an assessment in our Flash Report. But no matter how the influence of the national and European level on the shaping of the NRP is evaluated, it becomes clear in any case that national policies may well be integrated into the institutional framework of the Lisbon strategy.

1.2 The connection between the Lisbon strategy and the German IRNRP

As main points of emphasis, the IRNRP identifies (i) making public finances more sustainable as basis for an efficient welfare state, (ii) the reform of the social security systems (before all pension and health), (iii) extending the knowledge society, (iv) strengthening competitiveness and the promotion of start-up enterprises and (v) the continuation of labour market reforms. Referring to the currently positive structural data, the Federal Government at first notes that its reform policies have, all in all, been right. The current high economic growth is said to be founded before all on the policy of budget consolidation, collective wage agreements boosting employment as well as the efforts of enterprises to strengthen their competitiveness. The Federal Government is also of the opinion that its reform policies are fully coinciding with the European Lisbon strategy for more growth and employment.

This is said to be valid all the more as the Federal Government expects the positive development on the labour market to continue next year. It proceeds on the assumption that the number of unemployed persons will on average decrease to less than 3.5 mill. and could reach its lowest level in ten years. But what remains unsaid is, for one, the problem of the domestic effects of this upswing. This is connected before all to the question whether new segmentations may form on the labour market and in how far the special problem groups, as for example long-term unemployed persons with low qualifications, will in fact be included as well. On the other hand, even if the hoped-for reduction occurs, mass unemployment with 3.5 mill. affected persons still remains the central problem of social exclusion. In this respect, the report does not provide any concrete objectives for further development.

The debate over the need to make changes to the Agenda 2010 of the former SPD-GREEN Federal Government being held before all in the SPD, but also in the CDU/CSU, shows that the Federal Government is intent on sticking to the reform policy of demanding and promoting. While Employment Minister Müntefering has placed the subject "making work pay" on the political agenda himself by way of the debate on minimum wages, he has at the same time adopted a clear position against amendments to the Agenda 2010 policy in the (inner-party) dispute with SPD Chairman Kurt Beck over an extension of the period during which older employees can draw unemployment I benefits.

In all of our reports we have pointed out time and again the chances, but also the social risks of this reform policy. In view of the current debate over the further development of social policies, these assessments are, from our standpoint, as relevant to the present situation as ever. To summarise it once more in short, the Agenda 2010 has neither led to the feared axing of the social system nor to an encompassing reduction of social polarisation, but rather continued the stop-and-go of (German) social policy. For example, successes in job placements on the labour

market are countered by problematic developments in the low wage sector; the inclusion of former social assistance recipients into the system of the Employment Promotion Act is accompanied by a material deterioration suffered by many former recipients of unemployment assistance. Additional examples could be added here.³

2. Assessment of the IRNRP from the perspective of social inclusion – Feeding out

In combination with a number of social policy reforms (before all the labour market laws Hartz I - IV), the economic upswing has apparently led to the result that the public budgets are consolidating and unemployment is continuously decreasing. This improvement is not only "perceived"; the structural indicators in the IRNRP provide proof of the progress made during the last two years in some central areas: The GDP is to increase from 111.1 (2004) to 112.3 (2006; EU 25 index = 100). The leeway for distribution within society is thus widening. Equally encouraging is the first look at the labour market: The general employment quota has risen from 65% to 67.2%, among women from 59.2% to 61.5% - thus having reached the Lisbon goal -,⁴ and among older employed persons even from 41.8% to 48.4%. Finally, the quota of long-term unemployed persons has gone down from 5.4% to 4.7% (all data 2004 - 2006, quoted from the IRNRP).

2.1 ... in terms of employment

On the following pages, the central aspects of the development on the labour market will be examined and analysed with a view to their feeding-out effects.

Job creation: Overall situation and the low skilled and vulnerable groups

Looking at first at the most important key figures on the development of the labour market, clear mobility on it could indeed be noted during the last few months. According to calculations by the Federal Statistics Office, gainful employment is approaching the 40-million threshold. This means ca. 1.4 mill. employed persons: more than in 1992 and 0.8 mill. more than in 2000 as the best year so far. In parallel, the number of unemployed persons has gone down in September by 162,000 to 3,543,000, a decrease of 694,000 affected persons in comparison with last year. Thus, the nation-wide unemployment rate has decreased by 0.4% to 8.4% in September. According to the projection of the Federal Agency for Employment, employment liable to contribute to social security stood at 26.89 mill. in July, constituting an increase of 555,000 in comparison with last year. Roughly one half of the increase of employment is created by full-time jobs liable to contribute to social security. As initial projections by the Federal Agency for Employment indicate, the number of persons in exclusively insignificant employment amounted to 4.96 mill. in July 2007. In comparison with last year, this is an increase of 125,000 persons. Higher figures were also noted for self-employed persons, whereas the number of persons holding job opportunities has gone down.⁵

³ Benz, Benjamin, Boeckh, Jürgen 2005: Zwischen sozialer Gerechtigkeit und sozialen Chancen. Ansprüche und Wirklichkeiten rot-grüner Sozialpolitik, in: SozialExtra, Heft 9/2005, S. 30 - 33

⁴ Vgl. Bundesministerium für Familie, Senioren, Frauen und Jugend 2007: "Chancengleichheit auf dem Arbeitsmarkt ist der Schlüssel zu Innovation und Erfolg in Europa", Pressemitteilung vom 5. Oktober 2007

⁵ Pressemitteilung der Bundesagentur für Arbeit vom 27. September 2007

Labour market researchers like the Vice Director of the Institute for Labour Market and Vocational Research, Ulrich Walwei, regard the labour market reforms as an important contribution to the “relatively employment-intensive” course of the current economic upswing. However, this positive feeding out effect is not entirely free from problems seen from the viewpoint of social policy, as he sees the mechanism for the increase in employment in the first line in the fact that the Hartz Laws have aggravated the pressure on wages and extended temporary employment. The latter rose from 11,805 employed persons in 1975 to 598,284 persons in 2006. The lower wage limit in this sector of the economy is Euro 6.34 in West Germany and Euro 5.70 in East Germany. The so-called „stick-on effect” is also relatively low. No more than ca. 30% were able to find a regular job via temporary employment.⁶ But at the same time, Walwei is convinced that without the Hartz legislation it would be considerably more difficult „to break up the hard core of unemployment, namely long-term unemployment”.⁷ On the other hand, the Chairman of the Federal Agency for Employment, Frank Weise, is much less optimistic. While he also sees movement with regard to the long-term unemployed, he notes nonetheless that “for the really difficult cases (...) there is still no solution” and that a change in outlook, concerning in particular the treatment of older employees, needs to start off in the enterprises so that they “recognise that they profit, when they keep older persons in employment”.⁸

But when it comes to evaluating these data, there are in fact important key figures, especially in terms of feeding out, which would indicate that the increase of integration through gainful employment is not equivalent to a decrease of social exclusion. For at the same time, the volume of work, i. e. the total number of worked hours, has fallen from 59.8 bn. in 1991 to somewhat less than 57 bn. this year. This means that at least part of the new employment is not being offered as full-time employment. Moreover, the number of employed persons liable to pay social security contributions is still about one million lower than during the record year 2000.⁹ In the assessment of the Institute for Macroeconomics which is sympathetic to the trade unions, the German example also shows that more flexibility does not automatically lead to more employment: For one, full-time jobs were split into several insignificant employment opportunities, because these are cheaper for the employers. Secondly, more flexible working hour regulations (e. g. working hour accounts) lead to the situation that manpower planning can be better adapted to the fluctuations in production and the necessary manpower reserve can thus be kept smaller.

Other factors indicate that the new jobs are owed not so much to the aggravated regulations within the framework of promoting and demanding, but rather to structural changes which have become effective independently of the Agenda 2010. This would mean in turn that the successes reported by the Federal Government do not constitute a direct feeding out effect of the labour policies of the last five years. Specifically, it is pointed out that due to the demographic change the manpower supply has decreased this year considerably more strongly than in previous years. In addition, the inclination of housewives towards employment – i. e. the desire to take up gainful employment again – is still increasing, but no longer as clearly as in the past. This relieves the supply of manpower. Besides, easing effects for the labour market are also found in the fact that

⁶ Roth, Eva 2007: Voller Einsatz zum Niedriglohn. Wenn Leiharbeiter erzählen, staunen Festangestellte, in: Frankfurter Rundschau vom 8. Juni 2007

⁷ zit. nach: Sievers, Markus 2007: Das neue Denken nach Hartz. Was die Arbeitsmarktreformen veränderten, in: Frankfurter Rundschau vom 13. August 2007; vgl. Kettner, Anja, Rebien, Martina 2007: Hartz-IV-Reform. Impulse für den Arbeitsmarkt, in: IAB Kurzbericht No. 19 vom 1.10.2007, Nürnberg

⁸ „Für schwere Fälle gibt es noch keine Lösung” – Interview mit Frank-Jürgen Weise, in: Frankfurter Rundschau vom 22. März 2007

⁹ Vgl. Frankfurter Rundschau: Haben wir ein Jobwunder vom 11. Oktober 2007

the migration balance was negative in 2007: More people emigrated from Germany than immigrated to Germany. And finally, it is to be noted that the good economic climate leads to the creation of new jobs before all in the export-oriented economy, where the order situation determines the demand for manpower more strongly than the incentives of labour policies. But in the low wage sector, this applies with strong restrictions only. Here the Agenda 2010 clearly increased the pressure on the unemployed to accept a job at just about all conditions of employment. As a consequence, the low wage sector is extended particularly in the field of simple services (partially also at the expense of full-fledged employment relations), while at the same time the number of people who cannot live off their work (*working poor*) is growing.¹⁰

Nonetheless, it is before all the representatives of Employers' Associations and the leading economic institutes who purport to recognise a causal relationship between labour policies and the positive development of employment. By contrast, the trade unions arrive at clearly more critical assessments. For example, in its five-year balance on the Hartz legislation submitted in August 2007, the Federation of German Trade Unions (DGB) draws attention to the problem that considerable malformations have occurred on the labour market, accompanied by a clearly higher poverty risk for the unemployed. In essence, six points are criticised:¹¹

- Instead of the hoped-for concentration of employment promotion and social assistance, labour policy is still split up into two systems (ARGEN as Working Teams of municipalities and the Federal Agency as separate authorities and municipalities having chosen the Option Model). Looking after all unemployed persons "hand in hand" aimed at by the Hartz reforms has not been obtained. In the Hartz evaluation commissioned by the Federal Government this is called "one of the biggest weak spots of German labour policy" (DGB quotation). At the same time, the DGB points out that the assignment of affected persons to the two systems (SGB III and II) is not determined by any practical logic, but by the financial claim the unemployed person can raise either on the insurance payment unemployment benefits (ALG) I or the welfare payment unemployment benefits (ALG) II (See Annex). Insofar, what is actually to the fore here is not the question of the choice of the instrument best suited for fast integration of the affected persons (principle of finality), but the legal assignment to one of the benefit systems (principle of causality).
- The labour reforms were not able to prevent the splitting of the labour market. Whereas young, well-educated, mobile adults can find work quickly, the economic upswing largely misses the recipients of Hartz IV.¹² The placement efforts of the Employment Agency concentrate on the unemployed in the legal sphere of SGB III, i. e. mostly short-term unemployed persons. At the same time, "the largest part of unemployment, and in particular solidified unemployment, (...) is shifting even more to the Hartz IV system (SGB II legal sphere)" in the DGB's estimation. Background: The legal sphere of SGB III entitling to receive ALG I as insurance payment covers only about one-third of all unemployed persons. Nonetheless, 356.000 out of the 670.000 persons who found employment between July 2006 and July 2007 were

¹⁰ Vgl. Frankfurter Rundschau vom 31. August 2007: Arbeiten am Aufschwung

¹¹ Vgl. hier und im Folgenden: Deutscher Gewerkschaftsbund 2007: Das „Zwei-Klassen-System“ in der Arbeitsmarktpolitik, Berlin

¹² Vgl. Reinberg, Alexander, Hummel, Markus 2007: Der Trend bleibt – Geringqualifizierte sind häufiger arbeitslos, in: IAB Kurzbericht No. 18 vom 26.9.2007, Nürnberg, vgl. DGB-Bundesvorstand (Hg.) 2006: Jugendarbeitslosigkeit: Ein ungelöstes Problem in Deutschland, Berlin; vgl. Deeke, Axel 2007: Arbeitslose mit Migrationshintergrund. Sprachförderung allein greift häufig zu kurz, in: IAB Kurzbericht No. 3 vom 31.1.2007, Nürnberg

former ALG I recipients. By contrast, only 315.000 affected persons receiving ALG II could be placed in a job.¹³

- As the placement efforts by the Manpower Administration apparently concentrate on those groups of persons expected to be quickly reintegrated into the labour market, the problematic cases are accumulating in the welfare system of SGB II. At the same time, the insurance system of SGB III which has been relieved by the reforms and is therefore becoming leaner and leaner is able to produce budget surpluses. For example, the number of ALG I recipients has gone down to about one million persons in July 2007, equating to a minus of 28% in comparison to the previous year. On the other hand, the total number of ALG II recipients (ALG II and social assistance) has increased from 4.1 mill. in January 2005 to 7 mill. in July 2006 and to 7.3 mill. recipients in July 2007, before slightly decreasing again to 7.14 mill. recipients by September 2007. Thus, the current figure is still clearly higher than the 2005 base figure.¹⁴ Consequently, the Federal Agency for Employment has garnered a budget surplus of Euro 390 mill. by the end of April 2007 instead of a planned deficit because of this split development. As the Board of Directors has announced, the surplus is expected to go up to Euro 1.3 bn. by the end of the year.¹⁵
- In the DGB's estimation, the departures from unemployment are often merely illusory successes. As the Federation of Trade Unions points out, only 35% of the departures from SGB II are transfers to gainful employment. And out of these, 41% have been placed in work opportunities limited to six months, the so-called One-Euro-jobs. All in all, one has to assume that only about one-fifth of all persons ceasing to receive benefits under SGB II are actually taking up regular employment.
- The support of ALG II recipients continues to be insufficient. In comparison with unemployed persons under SGB II, their chances to get access to qualified promotion measures is clearly worse. Although one out of five ALG II recipients does not have vocational qualifications, no more than 63,000 further training measures were available to SGB II recipients in July 2007. On the other hand, in spite of being numerically smaller by two-thirds, the group of unemployed persons looked after under SGB III had 61,000 offers made available to them, although these unemployed persons, as a rule, have a better qualification profile already.¹⁶ Thus, the work opportunity remains the most important promotion instrument in the sphere of SGB II. In July 2007, it was the clearly dominating instrument with a total of 305,000 grants. It is quite obvious that an "institutionalised creaming" takes place through the different treatment and attention provided to these groups of affected persons¹⁷.

¹³ a.a.O.: 2

¹⁴ Bundesagentur für Arbeit: Monatsbericht September 2007, S. 9

¹⁵ Schellenberger, Rouven 2007: Schwarze Zahlen in Nürnberg, in: Frankfurter Rundschau vom 3. Mai 2007; vgl. Konle-Seidl, Regina, Eichhorst, Wernder, Grienberger-Zingerle 2007: Activation Policies in Germany. From Status Protection to Basic Income Support, in: IAB-DiscussionPaper No. 6/2007, Nürnberg

¹⁶ Vgl. Antoni, Manfred, Dietrich, Hans, Jungkunst, Maria, Matthes, Britta, Plicht, Hannelore 2007: Die Schwächsten kamen seltener zum Zug, in: IAB Kurzbericht No. 2 vom 30.1.2007, Nürnberg

¹⁷ Vgl. auch Bäcker, Gerhard, Neubauer Jennifer (im Erscheinen): Soziale Sicherung und Arbeitsförderung bei Armut durch Arbeitslosigkeit, in: Huster, Ernst-Ulrich, Boeckh, Jürgen, Mogge-Grotjahn, Hildegard (Hg.): Handbuch Armut und soziale Ausgrenzung; vgl. Hohendanner, Christian 2007: Verdrängen Ein-Euro-Jobs sozialversicherungsspflichtige Beschäftigung in den Betrieben?, in: IAB DiscussionPaper No. 8/2007, Nürnberg

Job creation: Adequate income form work - Making work pay?

In response to the demand to create a low wage sector in Germany which is raised in the political public we have pointed out in previous reports that it already exists to a large extent. It became rather apparent that in spite of full gainful employment a large number of affected persons did not lay claim on subsidiary benefits by the Social Welfare Office.¹⁸ However, as benefits under SGB II are quite apparently being regarded as less stigmatising, but also because the wage spread has increased during the last few years and the pressure to accept lowly paid work has grown, there are 1.2 mill. gainfully employed persons by now who simultaneously draw unemployment benefits II, as the Federal Agency for Employment has announced.¹⁹ The trend is strongly increasing, for in September 2006 only 900,000 of these supplementary benefit recipients (so-called "Aufstocker") had been registered.²⁰

Besides, the material situation of families clearly indicates that the child benefit supplement introduced with the merger of unemployment assistance and social assistance is apparently insufficient to level out poverty in spite of gainful employment. This child benefit supplement had been introduced to ward off the drawing of benefits under SGB II, if the income suffices to support the adults, but not the children. The supplement raises the general child benefit up to the amount that would match the amount of social assistance for the child. According to information provided by the DGB, one out of six children under 15 years of age is meanwhile living off Hartz IV – in regions with high unemployment even one child out of three may be affected.

In the course of the summer of 2007, two strands of discussion developed and combined: The benefits of ALG II, and before all those for the children, were to be raised, because the current amounts do not make it possible to lead a life in conformity with human dignity. During the last months and years, a total of about 270 "tables" have been set up in Germany, where groups of persons committed to charity, mostly with an ecclesiastical background, get down to collecting food at supermarkets, but also among private persons, to pass it on to needy persons against a small remuneration or even free of charge. These "tables" are more than an indication for the fact that the current rates for recipients of unemployment benefits II, social assistance for dependants (SGB II) and social assistance for persons incapable of gainful employment (SGB XII) are quite obviously calculated too low. Moreover, in our First Report 2007 we have already reported about calculations according to which it is not possible for children living on social assistance to take part in collective meals in day care facilities. And the financial means intended for school aids, for clothing and the participation in sports and other clubs are plainly too low. From all of this, claims were derived to raise the amounts of benefits for ALG II and social assistance.

The Federal Minister for Social Affairs and the coalition partner SPD for their part have pushed a discussion to prevent, by means of introducing minimum wages at least in low wage trades, a situation whereby the extending minimum wage sector will eventually become a sector of add-on wages in which low incomes from gainful employment will be supplemented by social transfer payments by the state. If the benefit rates paid within the framework of SGB II and XII are raised, this effect would even be increased.

¹⁸ Strengmann-Kuhn, Wolfgang: Armut trotz Erwerbstätigkeit. Analysen und sozialpolitische Konsequenzen, Frankfurt am Main New York 2003.p.192

¹⁹ Sievers, Markus: Kanzlerin gegen Vizekanzler. Koalition streitet über Hartz und Mindestlohn, in: Frankfurter Rundschau vom 14. August 2007, p.5

²⁰ Vgl. Sievers, Markus 2007: Hungerlöhne nehmen zu, in: Frankfurter Rundschau vom 30. März 2007

So far, this conflict has not been solved within the governing coalition. Neither has an appropriate increase of the minimum security benefits within the framework of SGB II and XII been decided nor the minimum wage sector been structurally extended. As for the regulations of the Law Concerning Mandatory Working Conditions in Transboundary Services („Sending Law“) of 26 February 1996 – we have already reported on it in detail -, respective minimum wages have been agreed for merely two industrial sectors. At first, unions and management are to make appropriate settlements. However, even before coming into effect, the arrangement agreed for the postal service is already meeting with heavy rejection by the future new suppliers getting ready for the market after the termination of the postal monopoly. The question is still open whether the government coalition will, in the final analysis, arrive at a generally binding statutory regulation or not. The liberalisation of the postal services is yet more evidence that liberalising – often pushed at the instigation of the competition policy of the European Union – leads to an extension of wages which are no longer securing subsistence.

Looking at the social consequences of low wages and unemployment, another aspect is added: According to *Creditreform* – an umbrella organisation of the finance business – 107 out of 1000 households were considered to be heavily indebted in Germany in 2006. The highest density can be observed in Bremen (153), followed by Berlin (152), Saxony-Anhalt (134) and Hamburg (127). The figures of the Federal Statistics Office also show that the number of consumer insolvencies has greatly increased (from 3,357 in 1999 to 92,310 in 2006). The main reasons in 2006 were unemployment in 29.6% of all cases, followed by separation/divorce/death of the spouse with 13.1% and failed self-employment with 10.3%.

As the Federal Government has stated, combating long-term unemployment is one of its focal points. At the centre of its efforts stands the integration of low-skilled workers and among them before all young people without secondary school qualifications. Within the framework of the “National Pact for Training and the Next Generation of Skilled Workers in Germany“, a special programme “Introductory Training for Young People“ was launched. In addition, wage cost allowances for long-term unemployed young people without vocational qualifications (“qualification grant“) are to be introduced. Finally, a new tool “employment promotion benefits“ is to be created under SGB II. This is an add-on wage model according to which jobs can be promoted by means of a grant of up to 75% of the wage costs limited initially to 24 months and subsequently unlimited. As for older employees, the Federal Government mentions in its IRNRP the “Initiative 50 plus“ intended to promote employability and the initiative “New Quality of Work“ (INQA) aiming at the development of new models for working conditions tailored to the needs of older people. We have already reported in detail about both projects.

Job creation: Territorial differences and regional gaps

Six out of 177 measures listed in the Implementation and Progress Report 2007 on the National Reform Programme Germany 2005 – 2008 deal with the completion of German unity. This refers in particular to the implementation of new EU regulations entailing an entitlement to grants in structurally weak regions in order to strengthen the investment activities of industry and trade and to further develop the semi-industrial infrastructure, regional management projects and many more. In conjunction with the continuation of the direct fiscal support of the new *Länder* already passed earlier by the Federation and the *Länder*, it is thus intended to gradually equalise the strong East-West divide that still exists. In addition, measures to promote education and research are specifically implemented.

The Report also mentions that some West German regions increasingly require public promotion as well. During the time period 2007 – 2013, Germany will receive a total of Euro 26.3 bn. from the EU Structural Fund (EFS), with the Convergence Objective (new *Länder* and the Lüneburg region) accounting for Euro 16.1 bn. and the Regional Competitiveness Objective (old *Länder*) for Euro 9.4 bn. According to the Federal Government, Germany has pledged to spend 71% of the money received from the Structural Fund for the Convergence Objective and 81% of the money received for the Regional Competitiveness Objective on measures complying with the Lisbon strategy. The measures listed individually aim very strongly at a feeding out effect:

- Support of workers and enterprises in their effort to adapt to changing economic conditions
- Improvement of access to employment and the participation in working life
- Promotion of the qualifications and abilities of people and improvement of the systems aiming at general education and vocational training
- Promotion of partnerships between the actors, as for example employers, trade unions and non-governmental organisations, for the purpose of reforms in the areas of employment and integration into the labour market
- Increased efforts at the social integration of disadvantaged people and the combating of discrimination on the labour market.²¹

Improvement of the economic infrastructure, promotion of innovation, research and development, strengthening before all of small and medium-sized enterprises, gearing the labour market for all these new challenges and many more are supposed to lead to more growth and employment and, beyond this, to social participation. This will have to be critically observed during the next years. The importance of the ESF for German labour and social policies is already underlined by the fact that in response to the search order "European Social Fund Germany Overview", more than 84,000 sources are listed.

2.2 ... in terms of social cohesion

Family policies that promote re-conciliation of work and family life

Family policies and their better reconciliation are dealt with in one paragraph in which the Federal Government points out that the offer of care for toddlers under three years of age is to be extended to 750,000 places by the year 2013. This is put in concrete terms in the Annex Part II.

Active ageing

Likewise, this field is not accorded any attention by the Federal Government in its report. In a way, the subject "active ageing" can be linked to the initiative "New Quality of Work". However, in the end it is merely a question of industrial solutions for safeguarding employment and not of an encompassing approach to meet the challenges of an ageing society.

²¹ http://ec.europa.eu/employment_social/esf/docs/de_profile_de.pdf

Health care system

The health care system is not accorded a separate chapter, either. In the context of Chapter 2.2 "Reforming social security systems", the contribution of the statutory health insurance schemes to obtain the general goal of keeping the social security systems financially viable despite social change, while offering adequate social protection at the same time, is merely referred to. The Federal Government believes that it has embarked on the right path, when adopting the health reform that came into force on 1 April 2007; we have already reported about its effects.

Gender equality

Questions of gender equality do not play an independent role in the IRNRP submitted by the Federal Government. They are mentioned in the report rather implicitly, for example within the context of education, vocational promotion or the improvement of the compatibility of family and work.

2.3 ... in terms of the social security systems and fiscal policies

In the IRNRP the Federal Government admits, as a matter of principle, to the goal to strive for sound and sustainable public finances as basis for long-term high economic growth. And the good economic development has indeed led to the situation that tax revenue is effervescing, while expenditures for the social security systems (before all in the unemployment insurance scheme) are going down at the same time and, in addition, the revenue of the social security system is going up due to the increase in employment liable to pay social security contributions. Insofar, two effects can be noted: For one, because of the budget consolidation during the last few years the public spending quota – i. e. the share of government spending in the gross domestic product – has fallen to the lowest level since reunification at 45.8% as early as in 2006. This encouraged Finance Minister Peer Steinbrück to remark that the state now has its finances under firm control again.²² On the other hand, social expenditures have also been decreasing again since 2004. Whereas the share of social security contributions in gross wages had amounted to 42% in 2004, it has gone down to 39.7% in 2007. However, due to the fact that the principle of raising funds on a footing of equality has been broken before all in the nursing care and health insurance systems, the share of social security contributions to be borne by the employees has increased in comparison with the share of the employers.²³

All in all, the following becomes clear: If the extension of the low wage sector, the tightening of the rules of reasonableness within the framework of SGB III and SGB II, the questioning of uniformly applicable collective agreements and many more measures are supposed to make a contribution to the "flexibilisation" of labour in Germany in the final analysis, the social security systems are still based on the assumption of the existence of a normal employment relationship. This is modified by the introduction of unemployment benefits II, because this benefit is also granted to persons who have not been gainfully employed. The same applies to basic security in SGB XII. But notwithstanding the question whether SGB XII has in fact been adequately designed, the financial benefits in the other social security systems – with the exception of

²² Sievers, Markus 2007: Staat zieht sich weiter zurück, in Frankfurter Rundschau vom 22. Januar 2007

²³ Sievers, Markus 2007: In der SPD werden die Rufe nach niedrigeren Sozialbeiträgen lauter, in: Frankfurter Rundschau vom 25. Oktober 2007

nursing care – remain closely attached to the principle of equivalence in the end. This means that only a person who has found a good job over a longer period can expect to receive reasonably good benefits in lieu of wages. Insofar, “flexicurity” means “flexibility” rather than “security” in Germany at the moment!

3. The ‘Feeding in’ aspects in the German IRNRP

The link with measures and policies under the EU Social Protection and Social Inclusion Process is not made clear in the report. It is merely mentioned that the economic strategy adopted by the Federal Government on occasion of its closed conference in Genshagen on 9/10 January 2006 and the six priorities defined in the German NRP correspond, by and large, with the fields of action identified as priority measures by the European Council in March 2006. All in all, it is noted, German reform policy is thus fully in line with the European Lisbon strategy. However, this does not answer the question whether the German reform policy would bear a different mark without Lisbon.

Nor are any explicit references to the challenges identified for each country in the 2007 Joint Report on social protection and social inclusion to be found in the IRNRP. Any concrete examples of feeding in that can be highlighted as examples of good practice are missing as well.

Looking against this background at the way how, with the exception of labour policies, the political fields that are important for a strategy of social inclusion are dealt with in the NRP and IRNRP 2007, it becomes clear that the Federal Government cannot have a projection or modification of the previous NRP in mind, when submitting its latest report. The IRNRP that has been submitted is reduced to a short overview of the most important reforms for more growth and employment. Insofar, when referring to the overall approach the Federal Government has taken with regard to the national implementation of the Lisbon strategy, our assessment given last year on the NRP and the pertinent Implementation Report is still valid:

“The National Reform Programme 2005 - 2008 and thus also the Implementation Report focuses on measures for the promotion of growth and employment under the conditions of globalisation and the demographic change. In conformity with the (revised) Lisbon Strategy, the transition to the services and knowledge society is to be organised. The National Reform Agenda which is set out in the NRP and whose implementation is accounted for in the Implementation Report is orientated towards “strengthening of the forces of growth through more employment, more investments and higher productivity dynamism” (p. 3). Insofar, both the NRP and the Implementation Report are in the first line a “National Strategy Report on Economic Policy” with regard to style and contents, including a concentration on feeding in measures. Only secondly and imparted before all through the expectations of economic and fiscal effects (feeding out), bridges to socio-political objectives are built by the reports. The “magical square” of the NRP is defined as budget consolidation, economic growth and innovation, employment liable to contribute to the social security systems and coping with the demographic change.”

4. Governance and the German IRNRP

With regard to labour policy, we have already reported several times that the Hartz legislation was accompanied by an extensive evaluation. Consequently, a number of reports are available by now. The Federal Agency for Employment, the Institute for Labour Market and Vocational Research, the trade unions and/or institutes sympathetic to the employers' position regularly present reports dealing with the development on the labour market and the social situation. In principle, there is no lack of empirical surveys in Germany. The basic problem is that even the best empirical method cannot solve the political dispute over the right kind of labour and social policy. Different points of view and basic positions are facing each other. Besides, successes and failures of current policies can rarely be assigned to a concrete measure. Only the democratic process can lead time and again to a reconciliation of conflicting interests.

In this context it then needs to be regarded as extremely problematical that the voices of those groups of the population that are most strongly affected by poverty and social exclusion can make themselves heard in this democratic debate least of all. The preparation of the IRNRP also suffers from this deficiency. The current report was drawn up under the guidance of the Federal Ministry of Economics. The *Länder* as well as the trade associations, the trade unions and the leading associations of the local authorities were integrated into the process. But for the area of social inclusion, central independent actors like the voluntary welfare institutions and/or the initiatives of groups of affected persons are left out. In comparison with the old way of procedure before the introduction of streamlining, a step backwards with regard to the openness of the participation procedure is to be noted here. This is accompanied by the observation that the entire process concerning the preparation and discussion of the NRP and IRNRP receives even less attention among the public than was the case with the NAPincl. Judging by experience, the hint that the report will be published and thus stimulate the parliamentary and public debate about the further development of the German contribution to the Lisbon strategy is likely to remain a wish rather than reality. The EU Commission should give some thought to the question how the whole process could be used more strongly in future to foster the national debates of all relevant actors about the feeding in/feeding out processes.

Founded by the Basic Law (Grundgesetz) it is the strength of the German welfare state that all relevant actors try to promote a policy of equalisation of living conditions in the territory. This has led to the result that initiatives, either of the Federation or the *Länder*, the local authorities, private welfare work and NGOs are always to be seen as being interrelated in the final analysis. Voluntary services and performances often were the original idea for uniformly applicable nationwide regulations or state-wide regulations or for professional standards which gradually caught on and should not, or were not allowed to, be undercut any longer. The local welfare state, the regional welfare state, the public and private welfare work, the social services organised corporately and those organised more strongly along the principle of self-help all aim as a rule at the compensation of social risks, search for answers to social exclusion and see themselves as a contribution to the strengthening of social inclusion. There is no single understanding of social inclusion; even when defining it, different concepts and approaches for action are already competing with each other.

Complementary to this process, it is *the weakness of the German welfare state* that these equalisation processes happen with strong time delays, can reach very different depths of effects and are also working not only across-the-board in the direction of reducing social disadvantages, but may conversely also function, when it comes to restricting social services. Local authorities, *Länder* and institutions responsible for private welfare work can also be pacemakers for the

limitation of social assistance. The notion of social exclusion or social inclusion can be used in this connection in ways with diametrically opposed effects. There is no uniformity for this process as well, but at best discourse and, as a rule, social and political dispute. Concerning the OMC and the revised Lisbon objectives we have the problem that the Federation as contract partner of the European Union can conceptionally present and further develop its policies, but time and again comes up against limiting factors, both constitutionally and politically, with regard to their implementation. So even if the Federal government would be willing to strictly adhere to the Lisbon strategy, there would be always the problem of independent actors on Länder and local level.

To sum it up: in terms of measuring the impact of the OMC on national level we have a structural problem: The Federal government can always argue that its policy is following the OMC and the revised Lisbon strategy - and this won't be lying. In our reports we found evidence that national social policy is following the Lisbon strategies. But keeping the institutional framework in mind, we will never be able to measure the 'real' influence of the OMC and the revised Lisbon strategy as being pacemaker on the political process itself. From our point of view this isn't even necessary to know. Much more important than the question "Who is influencing who?" is the analysis of the results of current policy. Do they fit in the social inclusion targets? Does the feeding in measures show positive feeding out results? Does the whole process lead to more mobilisation of all relevant actors? For us, these are the relevant questions and it makes sense to concentrate on them rather than trying to figure out relation between institutional arrangements and their power to affect national decision making process. And last but not least we have also to take into account that the assessment on results of social policies sometimes still remain as a question of believing rather than of knowing.

Part II: Key trends and recent developments in poverty and social exclusion

1. Changes in the baseline social policy situation by changes in the economic and fiscal growth: consolidation of the budget and/or new targets in policy?

In 2007, the economic upswing has arrived in Germany as well. The growth rates for the gross domestic product are estimated at ca. 2% this year, and the labour market is experiencing overall relief. Consumption has increased in spite of the raising of VAT with effect from 1 January 2007. All in all, public income sources are effervescing. Federal Finance Minister Steinbrück is now expecting almost balanced budgets in Germany as a whole, although the federal budget will still show a deficit. Before all, the finances of the different branches of the social security system are considered consolidated at the moment, although risks are becoming apparent again in the fields of nursing care and the statutory health insurance schemes. Insofar, Germany does not only stay within the target range of the first Maastricht criterion, but can also forego allowing the overall pile of debts to increase further. Nonetheless, total indebtedness is still higher than the second Maastricht criterion, namely more than 60% of the gross domestic product.

This positive development is finding its expression now in really contradictory political approaches. On the one hand, the Federal Finance Minister and large parts of the governing coalition are advocating a cutback of public debts via a consolidation of public budgets, including

the debts of the social security systems which are meanwhile amounting to more than Euro 1.490 bn. According to information by the German Taxpayers Association, the state must spend almost one out of six Euros for interest on loans today, the Federation almost one out of five Euros.²⁴ On the other hand, demands are raised not only in the camp of the current opposition parties THE GREENS and THE LEFT to rescind part of the cuts imposed by law, for example in the field of labour market policies.

At the same time, it is becoming apparent that these tensions are by no means occurring only in the relationship between opposition and government or in the internal relationship between the coalition partners, but that these controversies are also argued out within the government parties themselves. This could, for example, be observed at the federal party conference of the SPD in October 2007 in Hamburg, where it was decided in the end – against the vote of the Federal Minister for Labour Müntefering – to extend the period during which unemployment benefits I can be drawn for older employees. All things considered, this rather leads to the impression that problems are solved merely selectively instead of tackling the identified risks effectively. At the moment, German policies are more in a latency phase than in a period of active shaping of socio-political problems.

2. Major new trends or challenges and new risk factors

It is quite evident that the chosen reforms have resulted in new challenges and risks, concerning the negative effects of the Hartz reforms. Obviously, the low wage sector is expanding and is highly subsidised by social transfers within the framework of SGB II or the child benefit supplement out of the tax revenue for people with low income. Demands for the general introduction of minimum wages were raised in public so that gainful employment remains, or becomes again, sufficient to secure the subsistence minimum (see Annex).

After the completion of the First Semester Report 2007, a heavy controversy about the expansion of child poverty as a consequence of the Hartz legislation broke out in Germany. According to a study by the Institute for Labour Market Research and Vocational Aid for Youths in Bremen, 1.9 mill. children under 15 years of age received social assistance in a household in need drawing Hartz IV or lived in an ALG II household in 2006.²⁵ In addition, there are also children and youths supported within the framework of SGB XII, although their number was rather insignificant (ca. 16,000).²⁶ Finally, a number of unreported cases which cannot be defined more precisely need to be taken into consideration as well.

These figures sparked off a heavy debate in political circles which has, however, not yet been transformed into concrete measures to date. The Federal Government has announced that it intends to revise the child benefit supplement for persons with low income, because the current practice has led to the result that only about 12% of the applications have been accepted (only 91,500 out of 765,000) – for reasons of “falling below” the minimum income of the applicants!²⁷ In these cases, the family income would thus remain below the ALG II limit despite the child benefit supplement. On the other hand, while a different practice in respect of grants would reduce the number of registered children receiving social assistance under ALG II/SGB II, it would still not make it possible to lead a life above this minimum level. Moreover, some social law experts

²⁴ FAZ.net vom 20. Oktober 2007: <http://www.faz.net/s/Rub28FC768942F34C5B8297CC6E16FFC8B4/Doc...>

²⁵ ZEIT inline, dpa 23.04.2007

²⁶ Statistisches Bundesamt vom 18. September 2007 – 377/07

²⁷ Cf. Deutscher Bundestag, Drucksachen Nr. 16/4670, p. 7

believe that the child benefit supplement is rather problematical for some parents, because it keeps the parents out of the welfare system, but at the same time deprives them of the promotion tools possible within the framework of SGB II.²⁸ The Federal Government has in fact announced a programme for overcoming child poverty²⁹, but has not yet specified it. In how far the parental benefit which has been paid since 1 January 2007 and is also due to mothers and fathers who have not been gainfully employed before may have initiated relief in this respect is not yet ascertainable.

The discrepancy between recognized social risks and the introduction of necessary steps to strengthen social inclusion becomes evident before all in the discussion about the participation of poor children in collective lunches in all-day facilities. The discussion provoked by groups in the world of scholarship and the voluntary welfare associations, namely that the very children and youths who would most urgently require the necessary support of all-day facilities fail to get it because of SGB II has so far led to extremely contrary results. The Premier of the Saarland, Peter Müller, bluntly said in an interview in response to the question whether it would be possible to take part in collective meals with the Euro 1.15 provided for in the social assistance scheme: "For this price, you cannot get lunch in a day-care centre or primary school."³⁰ The SPD-GREEN government that has just been formed in the federal state of Bremen has decided to make lunch in all-day facilities for children and youths with low income available free of charge in spite of a large budget deficit.³¹ Some municipalities or independent non-profit-making institutions proceed similarly in day-care facilities. But when the City of Gießen – using allocations from funds of the *Land* – did the same, it had to find out that the amount of the grant was deducted again from ALG II by the local Working Team. As a new regulation on the federal level and *Land* level was to be expected, the project was, therefore, simply postponed by half a year.³² With regard to teaching materials at schools and school materials as well as contributions to school trips etc. there are numerous examples for public support as well, but no uniform solution exists.³³

All in all, it can be noted that contrary to the trend of an economic upswing becoming effective in the medium term, the decrease in the number of unemployed people and the boosting of the domestic demand, social polarisation in Germany is increasing. During the period 1997 – 2005, gross income from gainful employment has risen by 9.4% in Germany, whereas in parallel gross profits from entrepreneurial activities and assets have risen by 57.1%.³⁴ The discussion about a solidifying group of persons in Germany living in a precarious situation with little chances of reintegration ("*Prekariat*") which was stirred up a year ago has been confirmed by more recent surveys of the German Institute for Economic Research. Before all, persons with low education or vocational training do not only bear an increased poverty risk, but are also subjected to an especially large extent to the danger of slipping into a social segment with hardly a chance to get out again.³⁵

²⁸ Grube, Christian und Wahrendorf, Volker (ed.): SGB XII – Sozialhilfe, Kommentar, Rdn. 30 f.

²⁹ World Vision-Kinderstudie: Kinder in Deutschland 2007, bearbeitet von Sabine Andresen, Klaus Hurrelmann, Frankfurt am Main 2007 (i.E.)

³⁰ Der Tagesspiegel vom 14. Oktober 2007, page 7

³¹ Frankfurter Rundschau vom 6.10.2007

³² Giessener Anzeiger vom 26. Oktober 2007, page 15

³³ Vgl. Stellungnahme der Nationalen Armutskonferenz durch dessen Sprecher dr. Wolfgang Gern: Diakonisches Werk der EKD – Diakonie News (http://www.diakonie.de/de/print/aktuelles/23_5483.php)

³⁴ Schäfer, Claus: Unverdrossene „Lebenslügen-Politik“ – Zur Entwicklung der Einkommensverteilung, in: WSI-Mitteilungen Heft 11/2006, p. 583 ff. Aktualisierung: Heft 11/2007 (i.E.)

³⁵ Deutsches Institut für Wirtschaftsforschung, Wochenbericht Nr. 12/2007 vom 21. März 2007

3. New legislation and policy development

3.1 Labour market programmes

The strategy pursued by the Agenda 2010 to lift people out of poverty by means of gainful employment has obviously till now not led to the desired results. While the relief on the labour market has in part also reached people whose chances for placement had to be regarded as rather negative, it has, on the whole, rather benefited job seekers with better qualifications and no serious impediments to placement that belong to younger age groups. A growing basic number of persons remains who have so far hardly profited at all from the combination of cash benefits and support as well as advice. This concerns before all people with low qualifications and other impediments as well as older persons. The Federal Government has decided to introduce large promotion programmes for these groups of persons, combining the models of (subsequent or re-)qualification with those of add-on wages. The Implementation and Progress Report 2007 on the National Reform Programme Germany 2005 – 2008 lists these measures which have been initiated or tackled in detail. An annex to this report would merely mean a doubling of efforts.

German labour policy has been characterised for years by the fact that it proceeds time and again on the basis of new pilot schemes and programmes. What is missing is continuity, especially for those affected persons who have already been left out from active working life for a long time or even permanently. Nonetheless, there were and still are respectable proposals and partially also pilot schemes:

- *Social enterprises in Lower Saxony:* Years ago, *Land* Lower Saxony had already tried to place long-term unemployed persons in unlimited employment relations on the basis of employment contracts. Although only ca. 750 jobs were available, the "stick-on effect" on the primary labour market was rather considerable according to a statement by the former Social Affairs Minister Hiller. This labour market measure was made possible among others by ESF funds.³⁶
- *Permanently financed tertiary labour market for long-term unemployed persons:* In the voluntary welfare associations and the German Federation of Trade Unions, ideas have been shaped roughly taking up this pilot scheme social enterprises. In the end, a permanently financed tertiary labour market is to lead to social inclusion for persons who have no chance of returning to a normal working life now or in the foreseeable future. In contrast to the scheme social enterprises, social services which could otherwise not be offered are given priority here.³⁷

It is characteristic of the current debate about social policy that such concepts emerge, are discussed, but rarely implemented on a large scale, although reforms in this area would indeed be needed. For labour policy during the last few years has been an enormous job promotion programme – for the judicial system. Nation-wide, the number of Hartz lawsuits has increased to 45,500 during the first six months of 2007 – almost 38% more than 12 months earlier.³⁸ This is seen as an indication that this law (SGB II) was thrown together much too hastily, before all on the finish line in the Mediation Committee of the *Bundestag* and *Bundesrat*, without taking the realities of life appropriately into consideration. This constellation rooted in the conflict between

³⁶ <http://www.labib.de>

³⁷ Gemeinsame Erklärung des Deutschen Gewerkschaftsbundes, der Arbeiterwohlfahrt, des Paritätischen und Diakonisches Werkes, http://www.diakonie.de/de/html/presse/3995_4605.html

³⁸ Für 40 Euro und in bisschen Würde, in: Die Süddeutsche vom 6.10.2007

an SPD-GREEN federal government and a CDU-dominated *Bundesrat* – we have reported about this in detail – could now be removed by the grand coalition.

3.2 Child care for children under 3 years of age

A clear inclusion approach is followed by the Federal Government with its decision to provide day nursery places for one-third of the children between 0 and 3 years of age as from 2013. After long and arduous negotiations, cost sharing by the Federation was agreed.³⁹ This programme would close a gap between the interruption of employment after the birth of the child (parental benefits as payment in lieu of wages), a possible subsequent domestic release for parents (linked to financial transfers only conditionally) and the resumption of employment after admission of the (small) child to a day nursery. Child poverty would be noticeably reduced by the early resumption of employment, e. g. by single mothers, the necessary potential of female gainful employment would be secured in view of demographic shifts, and the compatibility of the family and gainful employment would, all in all, be facilitated. Insofar, this decision also makes an important contribution to equal opportunities in Germany.

3.3 Pensions

The goal of the pension reform of 1957, to make it possible “to live in old age without poverty”, could gradually – almost – be reached. The poverty risk quotas are lowest in Germany among those over 65 years old. That mass unemployment over many years, and in particular the advanced retirement entry age and the higher age limits, would influence the pension level was clear; but now it is becoming obvious.⁴⁰ The agency responsible for the compulsory pension scheme pointed out last summer that entry pensions would currently be lower than during the last years. All the more important is the basic security in old age laid down in SGB XII which facilitates the application procedure for social assistance and strongly restricts family subsidiarity. While the recipients of basic security in old age are still living at the level of social assistance, the unreported number of cases of poverty in old age may thus have been reduced. 370,543 persons received this basic security in old age at the end of 2006, hence 112,809 persons or 44% more than in 2003.⁴¹ Still disputed is the amount of assets which an applicant does not have to spend, before he gets benefits (“protected assets”).

The political actors pin their hopes on the good economic development leading to a higher wage level, larger receipts for the compulsory pension scheme and then also to a more favourable adjustment of the existing pensions, which in turn is to make it possible that the protective clause in the Old-Age Pensions Insurance Sustainability Act of 2005 need not be applied any longer: The law provides for a reduced adjustment of the pensions conditional on the demographic trend, but protects the pensions from a negative adjustment. Therefore, the adjustment damping of the pensions which has not been applied since 2005 is to be “made up for” as from 2011, if pension increases are possible because of the development of wages.⁴²

³⁹ Frankfurter Rundschau vom 29.08.2007, p. 4

⁴⁰ lifePR: Rentenversicherung zu Durchschnittsrenten, LifeID 10619, <http://www.lifepr.de/index.php?page>

⁴¹ Statistisches Bundesamt: Pressemitteilung Nr. 413 vom 12.10.2007, URL: http://www.destatis.de/jetspeed/portal/cms/Sites/destatis/Internet/DE/Presse/pm/2007/10/PDO7_413_221,templateId=renderPrint.psm

⁴² Bundesratsdrucksache Nr. 2/07, p. 77; Bundesgesetzblatt Teil I, 2007, p. 556 und 563

Particularly problematical is the raising of the regular retirement age by two years to the age of 67, as decided by the parliament in springtime 2007, coming into effect 1.1.2008.⁴³ Beginning with 2012 till 2029 the regular retirement age will be raised from now 65 by steps to 67 years. Considering that only less than one half of the older employees (more than 55 years old) are still working now, consequently more than one half are waiting - either unemployed or underemployed - to reach the pension age or, with the exception of the pension for the long-term insured (so-called "63 regulation"), go into retirement early and accept reductions of their pension, this gap will - *sic rebus stantibus* - become even wider. Even the retirement age of seriously handicapped persons and the reference age for early retirement will be raised with the consequence of reductions of the pensions.⁴⁴

The programmes for the promotion of gainful employment among older people mentioned several times need to be looked at very critically in future, before all with regard to their mutual effect in relation to the entry into professional life of younger persons and of special problem groups on the labour market, e. g. foreign citizens. What is captivating is the reason given for this socio-political measure: In future, there will be the danger of a lack of qualified employees; therefore the gainfully employed must stay active longer! In view of the current high proportion of pensions due to reduced earning capacity this would have to be regarded as non-cynical only, if the concept of making the world of employment more human would simultaneously be introduced as integral part of the feeding-out!

3.4 Nursing care

In view of the demographic change, the nursing care insurance is more important than ever; nonetheless, it is subjected to legitimating pressure in two ways. For one, there is still some uncertainty about the definition of nursing care on which its condition is based. Being in need of nursing care apparently comprises a broader set of factors as is currently provided for in the assessment procedure of the Medical Services. This set includes not only different forms of dementia, but also symptoms of loneliness and the lack of people's ability to take care of themselves in their own flat. On the other hand, the estimate of benefit rates fixed in 1994 is no longer sufficient to cover what they still could and should cover back then. The grand coalition had agreed in the coalition contract to bring about a reform in this field. This has not happened to date; as a consequence, benefits to meet special contingencies in life within the framework of SGB XII in order to cover nursing care costs must be claimed again to an increasing degree. As in the case of the health care reform, the coalition partners are pursuing different goals. Whereas the CDU/CSU aims at a lead-in to the process of forming coverage capital (building up a stock of capital for the future), the SPD advocates – analogously to the Scandinavian model – a more extensive inclusion of taxes. It is not known when and whether this problem will be newly regulated during the current legislative period.

3.5 Health

The reform of the health insurance system described in detail in our last reports is gradually coming into operation at the moment. For the question of social inclusion which is relevant for the present report it is of importance that since 1 April 2007 all citizens have the obligation and the right to be insured in the compulsory health insurance system and since 1 July 2007 all persons

⁴³ Bundesratsdrucksache Nr. 2/07; Bundesgesetzblatt Teil I, 2007, p. 555 f.

⁴⁴ Bundesgesetzblatt Teil I, 2007, p. 556 f.

previously covered in a private health insurance scheme have a right to be insured in the private system. As from 1 January 2009, the private health insurance schemes will be obliged to offer a new basic rate.⁴⁵ This is meant to remedy the evil that more than 200,000 persons are still living in Germany without any insurance coverage.

4. Progress in relation to country-specific challenges

The Implementation and Progress Report 2007 on the National Reform Programme Germany 2005 – 2008 arrives at the result that federal policies are taking into account the country-specific challenges and the recommendations of the Joint Report on Social Protection und Social Inclusion 2007 based on them by means of a continued budget consolidation, implementation of the health care reform, improvement of competition on the products and services markets and the reduction of structural unemployment. For all these points, evidence is provided among the 177 listed measures. Although after the large legislative projects since 2002, including the passed health care reform, a phase of concrete implementation of individual measures has rather set in this year, there are nonetheless both individual and groups of measures coming up to the challenges relevant for Germany. Conversely, individual measures remain as a rule unconnected and insufficiently related to each other.

This should be explained by way of an example: The Federal Government and the *Länder*, and in part also the municipalities, launch programmes relevant for the labour market, using *inter alia* monies from the Structural Fund and the ESF. This way, socially disadvantaged youths are to get educational and career-orientated support, be it through subsequent qualification or vocational integration, be it through accompanying social support. But as we have shown several times on the basis of international as well as national studies, this policy is not linked to a revision of the conditions which are the cause for this social exclusion: in elementary education, in primary school, in open youth welfare etc. These policy fields coming largely under the competence of the *Länder* – very clearly emphasised once more by the first part of the reform of federalism – remain unchanged and are in part even made socially more selective. Even if the different constitutional levels of politics must be preserved in a three-tier social state like the Federal Republic of Germany, at least the political debate about this discrepancy could be held publicly. But this is in essence left to experts, the representatives of social interests and groups of affected persons.

5. Issues of particular interest

In general, it can be noted that the inclusion approach has become more controversial again in current politics. On the one hand, the Federal Government is working on the preparation of the 3rd National Report on Poverty and Wealth to be published in the spring of 2008. Numerous external expert opinions have already been drawn up and delivered. Taking child poverty as example, a high level of sensitivity for this problem becomes in fact evident. But on the other hand, political initiatives are still concentrating on pursuing social integration as a matter of priority only by integrated steps towards the primary labour market:

- The Federal Government has launched a programme for the integration of older employees into the labour market and tries to reach integration by means of add-on wages.

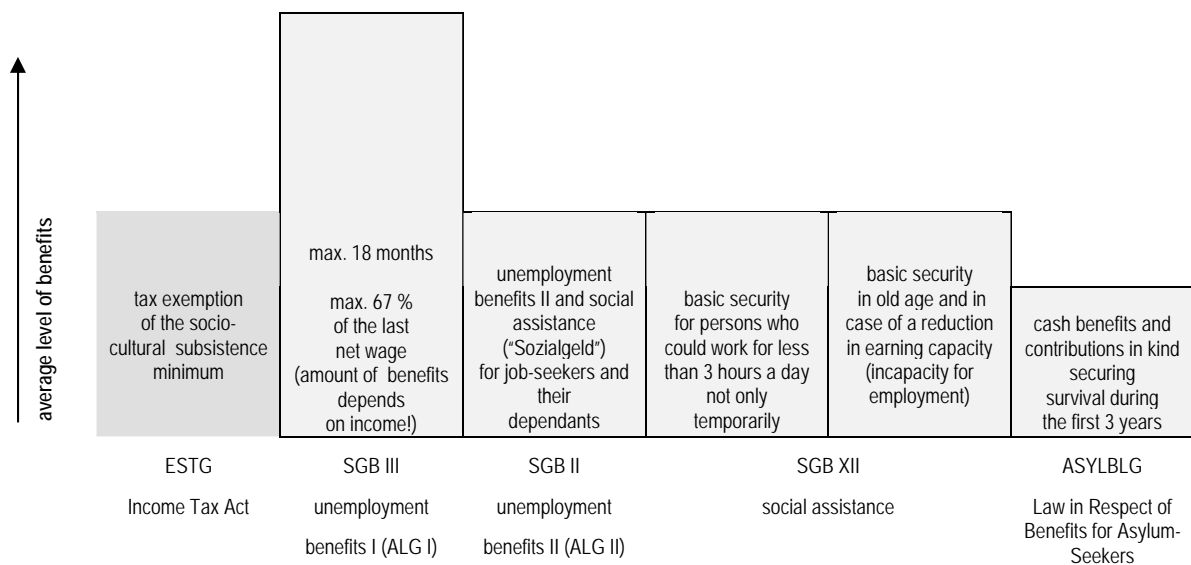
⁴⁵ Richter, Ronald: Gesundheitsreform – Das GKV-Wettbewerbsstärkungsgesetz, URL: <http://beck3-gross.digibib.net/bib/bin/schow.asp?vpath=%2Fbibdata%2Fzeits%2FDSt...>

- Parental benefits are the first example for a genuine benefit in lieu of wages. Together with an extension of care for children under 3 years of age, this programme is to lead to a situation where women make a conscious decision for children, because the better reconciliation of family and job is made easier for them.
- The Gender-Mainstream is an issue in current politics, but without enjoying the important role so far that it was given earlier. Gender by doing!
- No clear trend exists in the current situation of deep-rooted change, because the further reduction of benefits and the creation of new benefits exists side-by-side. In this context, the "partners" of the grand coalition at least one of whom is participating in the respective *Land* governments and the coalitions on the local level are by no means acting uniformly. In general, the question arises whether and in how far the actors aiming at a strengthening of inclusion are collaborating more strongly and cooperating in the various political fields. Recognisable are so far before all Non-Governmental Organizations filling the gaps – see the "tables" as example – opened up by government policies.
- But it is evident that such local, regional and free initiatives also have repercussions on the national political level. It is the local level where social problem situations become the subject of discussion and are made public as demand on politics.

Annex: Minimum income schemes to help people escape extreme poverty

Different instruments to achieve minimum security exist in the Federal Republic of Germany which is geared to persons who are gainfully employed or not gainfully employed for different reasons (age, disability and unemployment). In this context, the benefits of social assistance according to SGB XII (Sozialgesetzbuch, Code of Social Law)⁴⁶ serve as “last safety net” of social security and at the same time as reference system for an assessment of the subsistence minimum. In accordance with § 28 SGB XII, they comprise the normal requirement for the expenses of daily life in the form of a standard rate graduated according to age groups, and under § 29 SGB XII the appropriate costs of rent and heating. § 30 SGB XII establishes a claim to particular extra requirements in case of special contingencies in life (e. g. special nutrition, pregnancy, single parents). Finally, § 31 SGB XII provides for the granting of non-recurring benefits (e. g. initial furnishing of a flat and basic provision of clothing). Through the SGB XII, all citizens in Germany substantively have a legal claim and access to social transfers providing minimum security.

Selected social security benefits in the Federal Republic of Germany



Subsequently, three types of minimum security are distinguished:

- Combination of minimum security and (re-)integration into working life (SGB II)
- Securing of minimum benefits in cash without an obligation to cooperate relating to gainful employment (SGB XII)
- Securing the subsistence of asylum-seekers (AsylBLG)

The subsistence minimum is fiscally protected in the Federal Republic of Germany. According to rulings by the Federal Constitutional Court, the tax burden imposed on income by direct taxes must not jeopardise the necessary level of subsistence or lead to the situation that a claim for social security benefits arises. The amount of the subsistence minimum to be protected fiscally

⁴⁶ Compendium of mostly all laws for the social security system, No. 1 – No. 12 (SGB I – SGB XII)

can be determined by the legislator at his discretion. In practice, the benefits under the law of social assistance according to SGB XII are taken as norm.

With effect from 1 January 2005 the *Social assistance according to SGB XII* was integrated into the Code of Social Law as Twelfth Book. The group of persons covered by it is not, or no longer, available to the gainful employment market. Insofar, a corresponding obligation to cooperate is inapplicable here. The previous systematic differentiation of benefits into subsistence grants and assistance to meet special contingencies in life was dropped, but the contents of the benefits were kept. With the entry of the basic security for job-seekers in accordance with SGB II on 1 January 2005, most of the previous recipients have been transferred from the legal sphere of SGB XII to that of SGB II. Their number has decreased by ca. 90 %. Consequently, the SGB XII has assumed again its original function as special service in the individual case coming under the responsibility of the municipalities and being financed by them.

Basic Security Act (GSiG) was passed in 2003 for one in order to get before all older persons with small pension payments out of "bashful poverty" by increasing the limit for recourse to the income of the children or the parents to Euro 100,000 p. a., and, secondly, to give persons with disabilities a stronger legal position of their own vis-à-vis their parents and the public authorities. Since 1 January 2005, the law has been integrated without amendments to contents as 4th chapter into the Twelfth Book of the Code of Social Law (SGB). Insofar, there is no more separate agency responsible for the provision of basic security; it rather has to be provided now by the local authority responsible for income support. The amount of benefits follows the regulations for social assistance under SGB XII.

The law in respect of benefits for asylum-seekers form a special system of minimum security. In the first three years of their stay in Germany they do not have a claim to benefits under SGB XII, but receive reduced benefits in kind and pocket-money. As basic supply, benefits in kind to cover the necessary needs for food, accommodation, clothing and articles of hygiene are granted. In exceptional cases it is possible to grant these benefits in the form of cash payments or vouchers. Medical care is limited to cases of acute illness and conditions of pain. Recipients of benefits who are capable of gainful employment, but not employed are obliged to accept a job opportunity offered to them without contractual basis. Finally, income (taking into consideration allowances) and assets which might be available must be used for securing one's own living, before falling back on the law providing benefits for asylum-seekers.

After the reform of social assistance and unemployment assistance for persons without an income securing their subsistence which went into force on 1 January 2005, access to minimum security benefits still continues to be generally guaranteed as *Unemployment benefit II* (SGB II). The new system of entitlement to benefits from minimum security now differentiates on the basis of the principal capability of a person to be gainfully employed and no longer on the basis of expectant rights to draw benefits from unemployment insurance. Following the approach of activating and of promoting and demanding pursued by governmental social policy, those groups of persons are also entitled to the services of an active labour market policy under SGB III now who were previously excluded from these instruments and referred exclusively to the promotion of employment by the local authorities due to being assigned to social assistance according to the Federal Social Security Act.