

# ***THE GERMAN MINIMUM INCOME INCOME SYSTEM***

**BY**

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## 1 INTRODUCTION: THE MINIMUM INCOME SYSTEM IN GERMANY

### 1.1 The current minimum income system in Germany

The current minimum income schemes in Germany form a complex system of categorical benefit schemes. For a decade the minimum income benefit schemes of the last safety net have played a major role in the Social Protection System. Minimum income benefits are intended as the main instrument for preventing income poverty. They supplement the primary safety net of the social insurance and income maintenance system and provide means-tested financial support for those whose needs are not covered by other resources. At the same time, all schemes are designed in principle to help beneficiaries to mobilise their self-help capacities and to overcome their need situation. The basic income support for job seekers, targeted at people in need and capable of work, is especially aimed at supporting them to (re-)integrate into the labour market and employment system.

Traditionally, the German minimum income system consisted solely of a social assistance scheme - according to the Federal Social Assistance Act (*Bundessozialhilfegesetz*)<sup>1</sup>. The social assistance scheme offered benefits and services to all population groups and with all kinds of needs (not covered by the primary safety net). Since the beginning of the 1990s, the last safety net has been gradually expanded and differentiated into several categorical minimum income schemes, of which there are currently five:

- 'Basic income support for job seekers', under Social Code Book II,
- 'Current assistance towards living expenses outside institutions', under Social Code Book XII,
- 'Needs-based pension supplement in old age and in the event of reduced earning capacity', under Social Code Book XII,
- 'Basic support for asylum seekers', under the Asylum Seekers Benefits Act (*Asylbewerberleistungsgesetz – AsylbLG*), and
- 'War victim assistance', under the Federal Law on War Pensions (*Bundesversorgungsgesetz – BVG*).

In principle, people of working age (and family members cohabiting with them) can have access to each of these schemes:

- If they are capable of work<sup>2</sup>, they must apply for 'basic income support for job seekers'.
- People aged 18 and over who have suffered a permanent complete loss of earning capacity<sup>3</sup> must apply for the 'needs-based pension supplement in the event of reduced earning capacity'.
- Refugees and asylum seekers must apply for 'basic support for asylum seekers'.
- War victims must apply for 'war victim assistance'.
- All other groups have to apply for 'current assistance towards living expenses' (a rather small and heterogeneous group of people, such as people temporarily incapable of more than short-term work, people with long-term illnesses, severely disabled people, people in institutional accommodation, etc.). Some groups, like the mentally ill, drug addicts or homeless people, frequently switch between the minimum income schemes of Social Code Books II and XII, according to their health status.

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<sup>1</sup> Social assistance was and is completed by the war victim assistance, which includes all means-tested benefits of the social compensation law, but this scheme is of marginal quantitative importance.

<sup>2</sup> A person is capable of work if she/he can work a minimum of 3 hours per day under normal labour-market conditions.

<sup>3</sup> A person has permanently and completely lost his/her earning capacity when as a consequence of disease and disability she/he is not able to work three hours per day under normal labour market conditions and this cannot be resolved.

During the first decade of the new millennium, the German social protection system was profoundly restructured. A series of reforms has contributed to the fact that the primary safety net of statutory social insurance schemes and additional income maintenance schemes has been weakened and the last safety net has gained importance. The increasing importance of this last safety net can be deduced from the fact that the number of recipients of minimum income benefits has increased greatly during the last decade, from 2004, the year before the introduction of Hartz IV, to 2014 by 1,869 thousand or 51% to 7,553 thousand people (see tables 3, 4 and 5 in the annex). These 7,553 thousand people represented 9.3% of the population. The vast majority of beneficiaries were recipients of 'basic income support for job seekers' (6.026 million). The large regional differences with regard to the need for financial support is indicated by the fact that in 2014 the ratio minimum income benefit receipt in eastern Germany (13.1%) was almost twice as high as in western Germany (8.4%) (Statistisches Bundesamt 2015e<sup>4</sup>).

The massive increase occurred in 2005 and 2006, the years after the introduction of the 'basic income support for job seekers' through the so-called Hartz IV reform. Between 2009 and 2012, the number and ratio of recipients of social minimum income benefits went down from 9.5% to 9.0%; but in 2013 and 2014, the number and ratio started to rise again. While the number of recipients of 'basic income support for job seekers' has gradually decreased in recent years, the number of recipients of 'needs-based pension supplement in old age and in the event of reduced earning capacity' has increased continuously. According to the Federal Statistical Office, public expenditure on social minimum income schemes amounted in 2013 to €40.8 billion – that is, €508 per inhabitant (see table 8 in the annex).

The development in recent decade shows a clear trend towards a system of categorical minimum income benefit schemes. The formerly unified system of minimum income benefit schemes in the context of social assistance has become more and more differentiated with regard to different categories of living situations and population groups. Even if the social assistance scheme and the basic income support with regard to the benefit scheme show a high degree of uniformity, the trends seems rather towards diversity than towards uniformity or even unification.

## **1.2 The 'Hartz IV' reform**

### **1.2.1 Background and activation concept of the Social Code Book II**

Since the mid-1990s, many European countries have debated and implemented welfare reforms inspired by the idea of 'activation'. Such was the case in Germany as well, where a sequence of labour market and social policy reforms began in the 1990ies and ended in 2005 with the coming into force of the 'Fourth Act on Modern Labour Market Services'.

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<sup>4</sup> This total number does not include the number of recipients of current assistance towards living expenses living in institutional accommodation and people receiving 'help in special life situations' in the context of Social Code Book XII; see table 6 in the annex).

TABLE 1 Single components of the Hartz reforms

|           | Subject  | Year of legislation | In effect |
|-----------|--|---------------------|-----------|
| Hartz I   | De-regulating employment contracts e.g. facilitating agency work, and temporary employment)  | 2002                | 2003      |
| Hartz II  | Reforming and facilitating minor employment (mini and midi-jobs)   | 2002                | 2003      |
| Hartz III | Reorganisation of the Federal Employment Agency  | 2003                | 2004      |
| Hartz IV  | Unifying unemployment assistance and social assistance into one comprehensive outdoor relief scheme for able-bodied persons and their household members (with one-stop local job centre) | 2003                | 2005      |

Source: Alber, Heisig, Wörz 2011

The so-called 'Hartz reforms', adopted by the Federal Legislator between 2002 and 2003, included a series of four reforms aimed at re-orientating the existing labour market and social policy and introducing the 'activating welfare state' paradigm. The first three laws were focused on the reform of the labour market integration instruments and the Federal Employment Agency in the context of unemployment insurance and employment promotion under Social Code Book III. The fourth law introduced a fundamental reform of the social protection for unemployed people in Germany. This so-called 'Hartz IV reform' included the abolition of the former unemployment assistance and the splitting up of the former social assistance scheme in two schemes for those capable of work and those not capable of work. At the same time, a part of the people already living on unemployment assistance and the social assistance beneficiaries capable of work became entitled to the newly-created 'basic income support for job seekers' under Social Code Book II.

The 'Fourth Act on Modern Labour Market Services', which was adopted in December 2003 and (main parts of which) came into force on 1 January 2005, constituted the fourth and last component of a fundamental reform package aimed at a profound transformation of labour market and social policy. The reform act was based on the proposals of an expert commission which had been appointed by the ruling Red-Green coalition federal government. With this law, a paradigm shift was initiated towards the activating welfare state model.

The reform was designed against the background of a continuously high unemployment rate, accompanied by a disproportionately high long-term unemployment ratio and a constantly rising number of unemployed social assistance recipients. So-called poverty and unemployment traps were identified as a main reason for the failure to integrate – above all long-term - unemployed into the labour market and reduce or end their need for social benefits. The constantly high long-term unemployment was traced back to disincentive effects of the existing social protection system for the unemployed, which allegedly contributed to motivational and behavioural problems on the part of the unemployed beneficiaries.

From the perspective of economics, the usual assumption<sup>5</sup> is that out-of-work income from social benefit schemes compensates for income losses due to unemployment and alleviates poverty. At the same time that income weakens work incentives, especially for persons whose earnings potential is limited as they suffer from lack of formal skills or a depreciation of their qualifications due to long-term unemployment. To defuse this potential conflict,

<sup>5</sup> In Europe we had this debate in the 1990ies in the context of the OECD job strategy (Hanesch 1999).

labour market and social policy can use demanding and/or enabling elements to lower the hurdles to employment (see Eichhorst, Konle-Seidl 2008):

- On the one hand, policies to increase job search activity and the probability of accepting a job, even a low-paid one, can be implemented. Emphasis on a fast (low-wage) entry into employment by way of demanding elements can be regarded as a “work first” strategy.
- On the other hand, policies to raise individual employability and productivity can be used to make job searchers more attractive to potential employers and to increase potential wages. This alternative to “work first” strategies for people with a weak position on the labour market means stronger investment in human capital to improve their employability in the longer run.

In the ‘basic income support for job seekers’ a mixed activating concept was implemented which was less focused on the removal of structural integration barriers and sustainable integration into the labour market and society. Instead a work-first oriented activating approach is dominant, combining

- monetary incentives of limited scope (employment allowance) with
- economic pressure (reduction of the level of social benefits, at least compared to the former unemployment assistance),
- an expansion of employment-related services in combination with
- high priority of control and sanctions.

Thus, the Social Code Book II is primarily intended to assert pressure on the unemployed to intensify their efforts to end their benefit receipt. The underlying activation concept follows a workfare approach, according to which as a counterpart to the receipt of minimum income the recipients have to be ready to look actively for a job or accept any work opportunity (Koch, Stephan, Walwei 2005). With the introduction of the law, such a workfare-oriented approach was applied to the group of young adults under the age of 25 years, but with the further development of the law, it was tightened and extended to all groups.

While enabling elements like fiscal incentives, job search support and counselling, labour market integration measures and social integration service played a rather secondary role, the demanding elements are dominating: Stricter eligibility and availability criteria come along with more intense monitoring and sanctioning, which is facilitated by a more individualised approach to case management.

The guiding principle of the new minimum income scheme was and is the strengthening of individual responsibility and the support of the persons in need in overcoming their need situation, above all through taking up and keeping employment. For this purpose, the provision of labour market related services under Social Code Book II has precedence over monetary benefits aimed at assuring a subsistence livelihood.

### **1.2.2 Main goals and principles of the ‘basic income support for job seekers’**

In the justification of the reform bill, the federal government highlighted, above all, the following four goals of the new benefit scheme:

- (a) Fast and tailor-made job-placement of the beneficiaries capable of work;
- (b) Adequate means-tested social protection of the unemployed;
- (c) Efficient and customer-oriented administration;
- (d) Fair share of burdens between the levels of the federal state;

ad a) The service and measures for the integration into the labour market should have priority over the provision of benefits. They should be in accordance with the principles of thrift and cost-efficiency. In general, the measures should be aimed at integration into the labour market. For this purpose, the labour market instruments of the Social Code Book III (unemployment insurance and employment promotion) as well as special instruments of the



Social Code Book II are available. If integration into the regular labour market is not (directly) possible, employability should be promoted and work opportunities in special publicly-subsidized jobs should be made available. To guarantee a maximum of success, the integration measures should be tailor-made according to the individual problems and needs of the beneficiaries.

Ad b) In general, every person is primarily responsible to cover his/her needs and the needs of his/her dependent family members by own efforts and resources. Only if he/she is not able, it is up to the state to accept the respective responsibility. In these cases, a life lived according to the principle of human dignity has to be guaranteed to the claimants and the family members who live them in a household community (in the law: needs community). A livelihood at the level of a socio-cultural subsistence level should be ensured.

Ad c) Originally, the federal state wanted to bundle the competence for the benefit scheme at the Federal Employment Agency and their local employment agencies, which were already competent to provide benefits and services according to Social Code Book III. Only through pressure from the states in the legislation process was the federal state willing not only to accept a dual institutional structure with two providers of services and benefits (see chapter 2), but also an experimental clause allowing a limited number of municipalities to become the sole provider. Nevertheless, the provision of services and benefits remained under the legal requirement to give priority to an economical and cost-efficient use of the public funds. By this, a business control logic received priority over a (macro-)economic or even social logic.

Ad d) The regulation should not lead to a unilateral financial load displacement between the state levels and state actors. Because the federal state had to carry the fiscal burden of the already existing unemployment assistance and the municipalities the burden of the social assistance, these two state levels and actors had to share the costs of the new 'basic income support for job seekers'. In addition, through the payment of contributions to the health and the long-term care insurance for the beneficiaries capable of work, the federal state also included the social insurance system in the new benefit scheme.

After the new Social Code Book II was adopted by the Federal legislator, the law now contains a list of goals derived from these objectives:

- The benefits should be aimed at preventing or removing the need for support through employment. The duration of benefit receipt should be shortened and the volume of need for financial support should be reduced.
- The employment of beneficiaries should be maintained, improved and/or re-established.
- The employability of persons in need should be maintained, improved and/or re-established.
- Gender-specific disadvantages of persons capable of work should be reduced.
- The family-specific living conditions of beneficiaries capable of work who take care of children or care for family members in need of long-term care must be taken into account.
- Disadvantages of disabled people must be overcome.

In the context of agreements on objectives between the federal state and the service and benefit provision at local level, these goals are transformed into a set of outcome and procedural goals, among which the following three play a major role:

- Reducing the total number of beneficiaries and particularly beneficiaries capable of work.
- Reducing of the duration of benefit receipt.
- Raising the participation in activating measures (indicator: activation rate) and raising integration into gainful employment (indicator: integration rate).

The outcome with regard to these and other goals will be discussed in chapter 6.

### 1.2.3 Reforms of the reform since 2005

Since 2005, the Social Code Book II has been reformed many times. Major changes to the legal framework of the Social Code Book II are outlined in table 2.<sup>6</sup>

While in 2005 a series of laws came into force which were aimed at completing the legal framework of the Social Code Book II, the following years were characterized by repeated amendments of the law in order to correct errors or ambiguities of law and/or to cut benefits and tighten the conditions for benefit receipt. The first changes were necessary because a hitherto unknown wave of (administrative) objections and lawsuits as well as the jurisprudence of the social courts demonstrated that the law was in high need of change. The later changes were in response to the unexpected increase in the number of beneficiaries and the fiscal costs. Many of the following amendments were aimed at curbing this development.

At the end of the decade, further reforms were necessary because the Federal Constitutional Court had declared the institutional design of the joint institutions to be unconstitutional. The same occurred with regard to the legal framework for determining the level and structure of the standard benefit under Social Code Book II and XII. Despite the profound criticism of the Federal Constitutional Court, the necessary reforms brought neither a fundamental change in the institutional design nor a widely accepted procedure for determining the standard benefit.

Another group of reforms was aimed at further developing the labour market integration instruments under Social Code Book II and III and changing the framework conditions for the use of these instruments by the local job centres. Even if these reforms were announced as a means to improve the effectiveness of the integration measures, they were in fact primarily intended to lower the costs of (and expenditure on) integration policy and to limit the decision-making scope of the job centres with regard to the use of the integration instruments in favour of highly standardized instruments.

Currently, the federal government has presented a new reform bill to the Federal Parliament. The bill, which has been in preparation by a working group of representatives of the federal state and the states since 2013, includes a series of very heterogeneous measures intended to simplify the benefit law and the performance law of Social Code Book II. Even if labour unions, welfare associations and labour market experts have conceded that the bill contains a number of positive new regulations and measures, it has still received a lot of criticism because many of the reform elements would exacerbate the situation of the beneficiaries.

Even if this almost uninterrupted series of reforms has contributed to eliminating errors and improving legal clarity and unambiguity, many of the reforms have not contributed to reducing the controversial assessments and ratings of the law.

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<sup>6</sup> A complete list of all the reforms to the Social Code Books II and XII with short descriptions can be found under <http://www.portal-sozialpolitik.de>.

**TABLE 2**

| Year | Law  | Content   |
|------|--|---|
| 2005 | Fourth Act on Modern Labour Market Services  | The law regulated the introduction of the Social Code Book II.  |
|      | Act on Municipal Option  | The law regulated details of the experimental clause and the conditions for approved municipal providers.   |
|      | Act on Amending the Social Code Book II  | The law regulated the share of the federal state in the coverage of housing and heating costs. Similar acts for readjusting the federal share were adopted over the following years.  |
| 2006 | Act on Amending the Social Code Book II and Other Laws                                     | The law introduced benefit cuts and tightened conditions for benefit receipt for young adults under 25 years. It also introduced a unified benefit level for east and west Germany.   |
|      | Act on the Further Development of the Basic Income Support for Job Seekers                 | The law included around 50 amendments to the Social Code Book II. These related to corrections to legal faults as well as to further benefit cuts and a tightening of the access conditions for Unemployment Benefit 2.   |
| 2007 | Act on Amending the Social Code Book II – Job Perspective                                  | The law contained changes with regard to labour market integration measures.  |
| 2008 | Regulation of Unemployment Benefit II and Social Benefit                                   | The law introduced further changes to the benefits and the conditions for benefit receipt.  |
| 2009 | Act on Re-orientation of Labour Market Integration Instruments                             | The law introduced profound changes to the labour market integration instruments  |
| 2010 | Amendment to the Basic Law   | Following a ruling by the Constitutional Court, an amendment to the Basic Law and a reform of the job centres in 2010 established an adequate constitutional framework for the job centres by introducing the possibility of exemption from the prohibition of mixed administrations.   |
| 2011 | Act on Further Development of the Organisation of the Basic Income Support for Job Seekers | The law re-established the job centres as joint institutions for the provision of benefits and services, eliminated the temporal limitation on the experimentation clause and increased the number of municipalities eligible to participate.   |
|      | Act on Determining the Standard Benefit and on Amending Social Code Books II and XII       | Following a ruling by the Constitutional Court, the rules for determining the standard benefit in Social Code Books II and XII were reformed. Furthermore, an education and participation benefit for children and young people was introduced, and the partial earnings disregard for recipients of basic income support for job seekers was reformed. |
| 2012 | Act on Improving Integration Chances on the Labour Market                                  | This law brought a reform of the labour-market integration instruments in Social Code Books II and III.   |

At the same time, the leeway for decision-making by the local job centres was narrowed.

Hardly any other policy area and policy reforms have been better evaluated than the Hartz reforms between 2002 and 2005. Nevertheless, it is not possible to speak of an 'evidence-based policy'. Labour market policy and the closely related minimum income scheme of 'basic income support for job seekers' cannot be labelled as a 'learning system'. Between July 2004 and December 2008 alone, the Social Code Book II was amended 32 times. These amendments did not happen in the context of the performed evaluation research. Instead the political reform process developed in an independent way and did not wait for the results of the evaluation research. The reverse was the case: The evaluation research was constantly confronted with the instability of the objects under investigation as a consequence of repeated political and administrative interventions, which took place without an evidence base. A survey of political reforms and evaluation research on Hartz IV came to the conclusion that the way the policy system with evaluation results has been dealt with has been characterized by an attitude of 'politicians don't make mistakes'. In most cases evaluation results were only considered insofar as they were consistent with the political beliefs of the acting parties (Bartelheimer et al. 2012). Many of the follow-up reforms were aimed at correcting legislative mistakes<sup>7</sup> and attempting to eliminate unwanted results. In general, evaluation results had little impact on these reforms. Evaluation results being pursued.

### 1.3 The focus of this report

The present report is focussed on the main element of the minimum income system in Germany, the basic income support for job seekers. In the following, main aspects of this benefit scheme will be described and analysed. In a first step, the institutional design of the Social Code Book II is outlined (chapter 2). In a second step, the benefit scheme is described in a differentiated way (chapter 3), supplemented by a survey of the benefits in the context of the social protection system (chapter 4). In step four, the activating services and measures are described (chapter 5). This survey of the service and benefits scheme is followed by a differentiated analysis of the outcome of the 'basic income support for job seekers' (chapter 6). After a short excursion on the development of this benefit scheme (chapter 7), the report offers a summarising assessment of the cost-effectiveness of this scheme (chapter 8) and ends with a chapter on lessons learned and recommendations (chapter 9).

## 2 THE INSTITUTIONAL DESIGN OF THE BASIC INCOME SUPPORT FOR JOB SEEKERS

### 2.1 Introduction

The regulation of the social minimum income schemes in Germany lies within the legal competence of the federal legislator. Because the states and municipalities are directly concerned, legal acts of the Federal Parliament have to be agreed by the Federal Council, which represents the interests of the states, according to the Basic Law, at the same time represent the interests of the municipalities).

With regard to their institutional structure, the five schemes of the minimum income system are designed in different ways:

- 'Current assistance towards living expenses outside institutions' and 'needs-based pension supplement in old age and in the event of reduced earning capacity', both

<sup>7</sup> The 'Fourth Act on Modern Services on the Labour Market' is considered, technically, to be one of the worst laws in existence. The mistakes and inconsistencies were mainly due to the haste with which the law was adopted and to the complicated negotiations and the last-minute agreement between the federal state and the states. The Social Code Book II has a record number of administrative contradictions and lawsuits. The latter are often successful because the administration at the job centres is overtaxed by the complicated law. These facts have hardly been changed by the follow-up reforms in recent years.

under Social Code Book XII (social assistance) are provided by the welfare offices of the district-free cities and the districts.<sup>8</sup>

- The provision of 'basic support for asylum seekers', under the Asylum Seekers Benefits Act, is in the legal competence of the states and normally delegated by them to the district-free cities and districts.
- The provision of 'war victim assistance', under the Federal Law on War Pensions, is in the legal competence of the welfare authority of the states, which normally have delegated this task to the district-free cities and districts.
- While the institutional design of these four schemes is rather simple and clearly defined, the fifth scheme, the 'basic income support for job seekers' under Social Code Book II, is characterised by a specific institutional design which will be described and assessed in this chapter.

## 2.2 Overview: The double dual institutional design of the basic income support for job seekers

The 'basic income support for job seekers' is characterised by a double dual institutional structure:

- According to the Social Code Book II, the provision of benefits and services is in the legal competence of two different institutional providers, the Federal Employment Agency and the municipalities (more precisely: district-free cities and districts).
- At the same time, the law contains two variants of benefits and service provisions: the 'regular variant, in which the two mentioned providers are responsible for service provision, and the so-called 'experiment clause', in which 'approved municipal providers' act as the sole providers.

### (a) Regular variant: 'Joint institution'

The tasks of the 'basic income support for job seekers', according to Social Code Book II, have to be carried out in the 'regular variant' by two different groups of institutions – the public employment services and the municipalities – which have to cooperate in the local job centres as joint institutions. The public employment services function as authorised local service centres of the centralised Federal Employment Agency. The municipalities, as self-governing bodies, are coordinated and controlled in formal terms by the states. The provision of benefits and services is organised at the local level by the job centres; these are normally joint institutions of the local employment agencies and the municipalities.

The division of tasks according to the Social Code Book II is as follows:

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<sup>8</sup> For comparison: The 'current assistance towards living expenses outside institutions':

The tasks of the 'current assistance towards living expenses outside institutions', according to SGB XII, have to be carried out by the district-free cities and districts. The funding of the 'current assistance towards living expenses outside institutions' is the responsibility of the municipalities. The fiscal burden of the 'needs-based pension supplement in old age and in the event of reduced earning capacity', also legally based on SGB XII, has been borne by the federal state since 2014. Social benefits are provided by the municipal social welfare offices. At the same time, the municipalities are responsible for funding, planning and coordinating the provision of social services. The organisational structure of welfare offices is the responsibility of the municipalities and varies greatly from one to another. Because the social services are normally provided by public or private agencies on behalf of the municipalities, there is close coordination and cooperation between the social welfare office and the service providers.

**TABLE 3** Division of tasks according to Social Code Book II

| A Federal Employment Agency:   | B District-free cities and districts:   |
|--|---|
| <ul style="list-style-type: none"> <li>- Employment service and active labour market integration measures</li> <li>- Standard benefits, fixed allowances and social insurance contributions</li> </ul> | <ul style="list-style-type: none"> <li>- Housing and heating costs</li> <li style="padding-left: 20px;">- One-off payments</li> <li>- Social integration service</li> </ul> |

(b) Experiment clause: 'Approved municipal providers'

In addition, the federal state and the states have agreed to introduce a so-called 'experiment clause'. According to this, a limited number of municipalities are authorised by the Federal Ministry of Labour and Social Affairs to carry out all legal tasks as 'approved municipal providers' and to run their own job centres.

In principle, the funding of the 'basic income support for job seekers' is divided between

- the federal state, which has to carry the fiscal burden of the unemployment benefit II and the social benefits, the activation measures and a smaller part of the coverage <sup>9</sup>of the housing and heating costs, and
- the municipalities, which have to bear the major part of the coverage of housing and heating costs, their own administrative costs and the total cost of the social integration measures.

The two providers, which normally have to cooperate as joint institutions in the local job centres, are free to decide on the organisational structure of the job centre and on the administrative procedures of providing benefits and services. Because the local job centres have established different types of benefit and service provision, there is some degree of heterogeneity between the job centres in Germany. Basically, the job centres are designed as one-stop shops for all job seekers who are capable of work and who have no, or insufficient, social insurance protection. It is the centre's responsibility to offer various kinds of benefits and services to this target group – including the vast majority of the long-term unemployed – and to coordinate all actors in the field of labour market and social inclusion. In practice, the job centre's support is focused on benefits and labour-market integration services and measures.

### 2.3 Differentiated description of the institutional design

(1) Controversial debates about institutional structure and dual structure of the law

A main topic in the debates accompanying the introduction of the Social Code Book II concerned the question of who should have the responsibility for providing the benefits and services (see e.g. Konle-Seidl 2009). Because of the expectation that the number of beneficiaries and the costs of the benefit scheme would be considerably higher than the already existing social assistance, there was a broad consensus that the federal state should have to carry (at least the largest part) of the fiscal burden. As a consequence, the federal state, as funder of the benefit scheme, demanded that the federal level should determine the provision of benefits and services. The Federal Employment Agency, with its decentralised structure of local employment agencies, was selected as provider. This institution showed traditionally high expertise in developing and providing labour market integration programmes. But experiences in the 1980s and 1990s had demonstrated that the Federal Employment Agency was not very competent in bringing the long-term unemployed back to the labour market, which led to more and more initiatives by the cities

<sup>9</sup> The federal state's share of the coverage of the housing and heating costs as well as the federal state's share of the administrative costs of the joint institutions are agreed between the federal state and the states and legally fixed by federal regulations.

to create own labour-market integration programmes for their (long-term) unemployed social assistance recipients. Furthermore, the employment agencies had no experience with means-tested benefits and social services. Therefore, another proposal called for the municipalities and their local welfare offices to provide the new benefits and services because they were experienced in providing benefits and services to marginalised social groups and – at least in the big cities – had experience in implementing labour-market integration programmes and activation measures.

The solution which was found in the law was a problematic compromise that combined both concepts:

(a) The 'joint institutions' as regular variant

As a regular variant, the so-called 'Arbeitsgemeinschaften' (or 'ARGE') were introduced as 'joint institutions' of the Federal Employment Agency and the municipalities. Both partners had clearly defined tasks according to the law. At the same time, both partners were committed to cooperate in the 'joint institution'. In each municipal district, a 'joint institution' had to be created by an agreement between both parties. In that agreement the structure and the functioning of the joint institution had to be fixed. Even if the Federal Employment Agency wanted to have one unique structure for this institution, the differing interests of the municipalities led to these joint institutions having a rather heterogeneous structure.

(b) The 'experimental clause'

The states (and many municipalities) were interested in having a second form included in the law, which became the so-called 'option variant'. It was introduced by a so-called experimental clause which allowed the implementation of two different institutional forms, which should be evaluated and should contribute to the further development and improvement of the implementation of the tasks of the law. In the 'option variant' a limited number of district-free cities and districts were allowed to apply to the Federal Ministry of Labour and Social Affairs for the option to be the single provider of benefits and services (activation and social services) in their district. The number of these option municipalities was limited to 69, which were approved for a period of six years.

(c) Separate task implementation

In practice, a third variant has also become a reality: the variant of a separate task implementation. According to the law, the Federal Employment Agency and the municipalities had to find an agreement for their local 'joint institution', but at the same time both partners were free in their decisions and nobody could force them to sign an agreement they did not want. So in a small number of cases the local partners were not able or willing to find an agreement and decided to fulfil the different tasks of the law in a separate way. In these cases, no 'joint institution' was implemented and the two partners confined themselves to a form of loose cooperation.

(2) Evaluation of the dual structure

From the beginning, the implementing of the Social Code Book II was associated with competition between the two institutional variants, and with the order to the scientific evaluation to find out which institutional model performed better in fulfilling the legal aims and tasks. Several evaluation research projects were commissioned and several research reports were published (Deutscher Bundestag 2010; IAW und ZEW 2008; ifo and IAW 2008; ISG 2007; ISR, IAJ, infas, Simmons 6 Partner and WZB 2008); ZEW, IAQ, TNS EMNID 2008).

The difficulty of the evaluation research was that there were not only two different institutional variants (de-facto three variants), but that each institutional variant showed a great degree of heterogeneity because – as a consequence of the strong influence of the municipalities as partners or as sole providers – the organisational structures were not the same within each variant. In many ways, the heterogeneity within both variants was even higher than between the variants. This made it very difficult or almost impossible to find clear evidence with regard to the question of which of the two variants performed better in fulfilling the aims and tasks of the law.

Nevertheless, the evaluation reports came to the conclusion that the joint institutions performed better in bringing the beneficiaries into the labour market and into gainful

employment. At the same time, the municipalities as sole providers were more successful at raising the employability of the beneficiaries and improving their social integration. But the differences between the two variants were not big enough and the heterogeneity within the variants was so high that a significant winner of the competition could not be identified (Deutscher Bundestag 2008). The findings of the evaluation studies were controversially assessed and discussed not only by the involved governmental and non-governmental actors but also among scientists.

It must be emphasized that the introduction of competition between two provision variants did not contribute towards improving cooperation between the different provider and actor groups. As an example, the municipalities as sole providers have reported constant problems in their cooperation with the local employment agencies, who were not interested in transferring their information on job offers to the municipal job centres. By contrast, the Federal Employment Agency has repeatedly reported cooperation problems on the side of the approved municipal providers. Even today, the spirit of competition seems to be strong, even if the competition period between the two variants has ended. Generally, the staff of the municipalities seems to be more experienced and more interested in the long-term (labour market and social) integration of their clients, while in the office of the joint institutions, which are run by the local employment agencies, the short-term push into the labour market (mostly with short retention periods) has a longer and stronger tradition.

### (3) Federal Constitutional Court's decision and reform of the law

Even before the debate on the results of the evaluation studies could start, the institutional dualism of the law was declared to be unconstitutional by the Federal Constitutional Court on 20 December 2007 because under the basic law, federal and municipal institutions were not allowed to build joint, in the sense of mixed, institutions. The Federal Legislator had to amend the law by the end of 2010. After two years of again very controversial debates, the federal state and the states could not reach agreement on the first or the second of the existing variants or on any other option. Therefore, the Basic Law was amended so as to allow the joint institutions in the future. Furthermore, the "Act on the Further Development of the Organisation of Basic Income Support for Job-Seekers" ("*Gesetz zur Weiterentwicklung der Organisation der Grundsicherung für Arbeitsuchende*") of 3 August 2010, which came into force on 1 January 2011, has not changed the existing regulation in Social Code Book II very much. Above all, it has confirmed and only slightly modified the dual institutional structure; only the de-facto third variant of a separate task implementation was excluded.

The steering structure of the two institutional variants has remained extremely complex (Ruschmeier and Oschmiansky 2010; see Figures 1 and 2):

In both variants, the local job centres are embedded in the framework of steering and coordination bodies: At national level, a coordination committee between the federal state and the states is aimed at discussing and agreeing central questions related to the implementation of the 'basic income support for job seekers'. At state level, a coordination committee between the federal state and this state exist which is aimed at coordinating the practical implementation of this scheme.

The steering of the local job centres is mainly by means of target agreements. Such agreements are concluded

- between the Federal Ministry of Labour and Social Affairs and the Federal Employment Agency,
- between the Federal Employment Agency and the respective municipality on the one hand, and the manager of the respective joint institution on the other,
- between the Federal Ministry of Labour and Social Affairs and the Highest State Authority of each state,
- between the Highest State Authorities and the approved municipal providers.

All job centres have a local board which includes local actors and providers and is aimed at coordinating the activation and integration policy at local level. These coordination and co-operation networks include institutions like the local employment agency, the municipality (in some districts several municipalities), public and private social service



agencies, training and further training agencies, representatives of employers and labour unions, etc.

(a) Joint institution

The structure of the task implementation for the joint institutions (the reformed law has dropped the term "Arbeitsgemeinschaft" and has replaced it by 'joint institution') is as follows: The Federal Ministry of Labour and Social Affairs is responsible for the legal and technical supervision of the Federal Employment Agency as the first provider and – in agreement with the highest states authority – the legal supervision of the joint institutions. If the states do not agree, an agreement has to be found in the cooperation committee.

The joint institution is not a legal institution in its own right, but performs the legal tasks of the two providers. It guarantees that benefits and services are provided "by one hand", but at the same time the different legal responsibilities of the Federal Employment Agency and the municipalities according to the Social Code Book II remain unchanged. The two institutions (institution groups) bear the responsibility for the legal and effective provision of benefits and services according to the law. Therefore, they are responsible for the legal and technical supervision of the joint institution.

The partners' meeting of the joint institution consists of three representatives of the Federal Employment Agency and three representatives of the respective municipality. They elect the chairman and decide on the organisational structure and the procedures. They appoint and dismiss the managing director. The managing director manages the joint institution according to the instructions of the partners' meeting; he represents the joint institution in and out of court; he is head of the staff and is elected for five years.

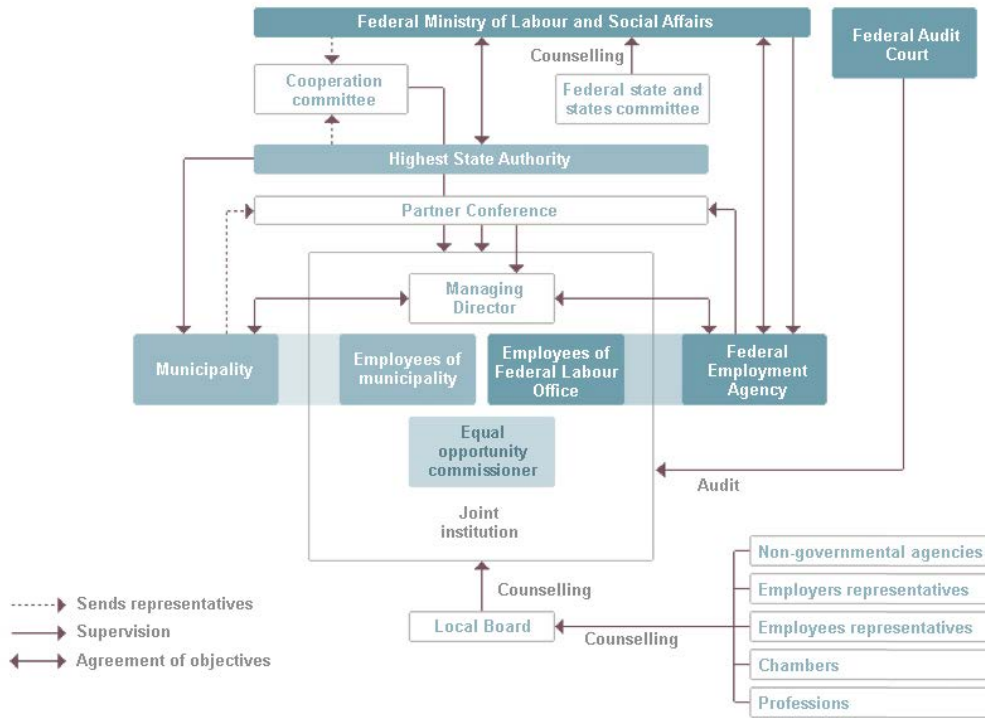
The Federal Ministry of Labour and Social Affairs concludes target agreements with the highest states authorities with regard to the tasks of the municipalities, and with the Federal Employment Agency with regard to the tasks of this institution. And in each joint institution the representatives of the municipality and of the Federal Employment Agency conclude a target agreement with the manager of the joint institution.

(b) Approved municipal providers

According to the new regulation, the already existing number of 69 municipalities was expanded by another 41 to 110 municipalities on 1 January 2012. As a result, 25% of all district-free cities and districts have the right to opt for this variant. And while before this date they had a time-limited approval in the context of the so-called 'experimental clause', they can now work without a time limit.

The steering and coordination structures are as complex as in the regular variant: The approved municipal provider takes responsibility for all tasks and obligations according to the law in its municipal district, including the tasks of the Federal Employment Agency. The legal supervision of the approved municipal provider lies with the respective state. The legal supervision of the highest states authorities lies with the Federal Ministry of Labour and Social Affairs with regard to the tasks of the Federal Employment Agency. In this variant the Federal Ministry of Labour and Social Affairs and the highest states authorities also conclude target agreements with regard to the whole range of tasks according to the law. And each state and the respective approved municipal providers also conclude such target agreements.

**FIGURE 1** Joint institutions

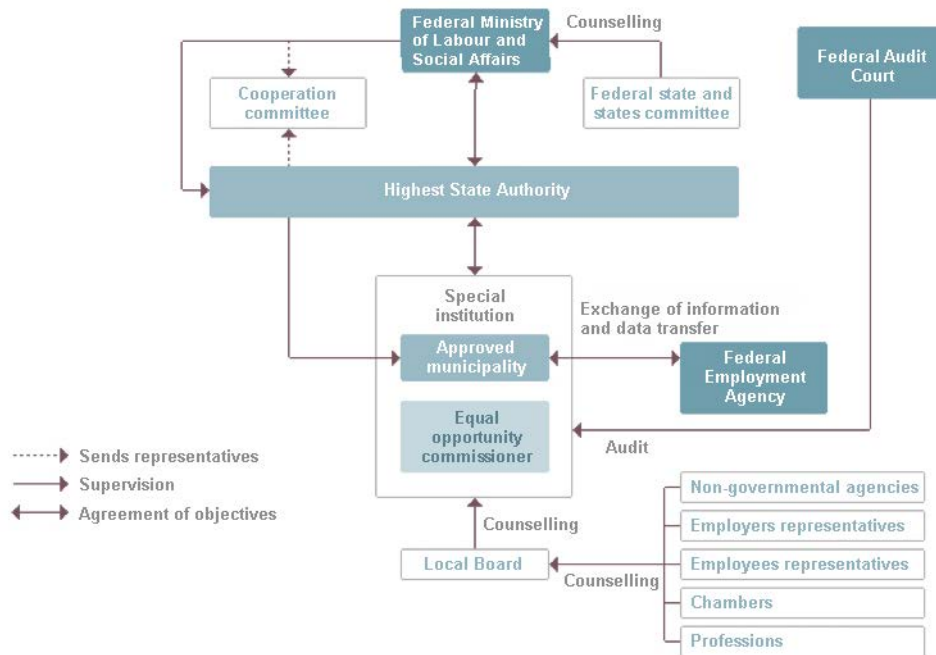


Quelle: Ruschmeier, R. / Oschmiansky, F. (2010): Die Würfel sind gefallen! Organisationsnovelle des SGB II – Die Neuregelungen im Überblick. In: Zeitschrift für das Fürsorgewesen 8/2010, S. 171  
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Source: Ruschmeier and Oschmiansky 2010

**FIGURE 2: Approved municipal providers**



Quelle: Ruschmeier, R. / Oschmiansky, F. (2010): Die Würfel sind gefallen! Organisationsnovelle des SGB II – Die Neuregelungen im Überblick. In: Zeitschrift für das Fürsorgewesen 8/2010, S. 174  
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 Bundeszentrale für politische Bildung, 2011, www.bpb.de



Source: Ruschmeier and Oschmiansky 2010

## 2.4 Assessment of the institutional structure

The current institutional structure of the Social Code Book II in Germany is characterised by the fact that

- according to the law, two institutional groups – the Federal Employment Agency and the district-free cities and districts - are the legal providers of benefits and services, which at the same time represent two different state levels, and
- in three-quarters of all district-free cities and districts joint institutions, and in one quarter, the municipalities as sole approved providers are providing benefits and services.

This institutional complexity has contributed to an extreme lack of transparency and to making the performance and outcome difficult to assess. Both variants ('joint institutions' and 'approved municipal providers') show different vertical structures of steering and control and at the same time show a high degree of horizontal heterogeneity within as well as between the variants. There is no single organisational structure for either type of Social Code Book II job centres. Instead, organisational structures and procedures vary considerably between and within both types of job centres.

The question whether the German institutional structure is more centralised or more decentralised is difficult to answer, not only because of the different variants, but also because of the complex structure of steering and coordination between the state levels and the different actor groups. In any case, it is a centralised structure because of the strong role of the federal state as funder and as partner in target agreements with the state and (indirectly) the local level. Also the very strong role of the Federal Employment Agency suggests speaking of a centralised model. At the same time, the municipalities have a strong role as local partners in the joint institutions and – even more - as sole approved providers. Also the states play an important role as supervisors and coordinators of the municipalities and as strong partners in federal legislation. Therefore, with regard to the institutional structure of the Social Code Book II, many scientists speak of 'decentralised centralisation' (Konle-Seidl 2008 and 2009; Wagner 2010; Fertig 2012; Kupka, Lobato 2012).

In practice, the tension between centralisation and decentralisation has always played an important role in the planning and implementation of the Social Code Book II, and it has not yet ceased. There were always controversial debates with regard to the question of whether a centralised or a decentralised service structure is better for fulfilling the legal aims and tasks.

Major problems with regard to the institutional design of the 'basic income support for job seekers' are the following:

(1) Basically, the fast and effective re-integration of unemployed people with massive integration barriers and the prevention of long-term unemployment are hampered by the splitting of social protection and activation for unemployed people into two separate systems (legally based on Social Code Book III (unemployment insurance and employment promotion)<sup>10</sup> and Social Code Book II (basic income support for job-seekers)) with differing regulations, administration and funding. The two systems result in double structures with many interfaces which offer counselling, placement and integration services and whose differences impede effective solutions. Even if unemployed people with massive integration barriers are assessed by the employment service at the beginning of their unemployment spell and classified as clients with special integration support needs, they normally get adequate support only after transition to the job centre and the jurisdiction of the SGB II. What is required is comprehensive and integrated promotion, starting as early as possible and including all kinds of support according to the specific problems and needs of the unemployed. This requires above all better cooperation between local employment

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<sup>10</sup> Benefits and services for the unemployed in line with Social Code Book III are provided by the Federal Employment Agency, which is a centralised institution with local employment agencies functioning as authorised local service centres.

agencies and all the job centres. It would be desirable to establish a real one-stop-shop for the provision of services for all the unemployed.

(2) The funding of the local job centres by the federal state (see chapter 8.1) is characterised by a fundamental difference between 'active' and 'passive' funds: While the job centres get fixed budgets for integration measures and administration (which can be used in a mixed way), the passive funds are provided on the basis of individual cases. As a result, it is not possible for the job centres to use 'passive' funds for activating measures (or vice versa). Therefore, the relationship between 'active' and 'passive' benefits or services is determined at national and not at local level.

(3) The complex regulating of the funding of the job centres by the federal state and the municipalities (see chapter 8.1) can lead to conflicts not only with regard to the share of the fiscal burden between the two partners, but also with regard to local activating strategies. If the income of the beneficiary is taken into account, the funding by the federal state (unemployment benefit, social benefit etc.) is reduced in a first step and only in a second step is the funding of the municipality (coverage of housing and heating costs) reduced. As a consequence, the federal state profits if a beneficiary takes up a job even if he has to top-up the earned income by basic income support. By contrast, the municipalities only profit if the beneficiary leaves their payroll (Hartmann 2013).

(4) While the Federal Employment Agency has the right to directly assign and control the activities of the joint institutions (at least with regard of the tasks, which are by law in the competence of the Federal Employment Agency), the steering and control of the approved municipal providers are only possible in an indirect way. For this purpose, target agreements play a major role. Furthermore, the Federal ministry of Labour and Social Affairs has the right to control the efficiency of the use of federal funds. In the case of inefficient use of the integration budget, funding may be reclaimed. As a consequence, not only joint institutions but also approved municipal providers cannot use these funds for individually tailored integration measures. Instead they have to implement highly standardised programmes and measures which are often not appropriate to the special needs of the beneficiaries. The prioritization of short-term fiscal efficiency is thus hampering sustainable integration strategies at local level.

(5) According to Social Code Book II, the labour market integration services of the job centres should be complemented by social integration services, which are in the competence of municipalities. Not only are there deficits in many municipalities regarding the scope and availability of these services, but also the cooperation between job centres and municipalities (or other service providers) is not well developed. The objective of interlinking professional and social services and providing integrated support from a single source ("one-stop shop") has not become a reality in Germany so far (Adamy, Zavlaris 2014).

(6) Currently, the job centres are designed as one-stop-shops for all job-seekers capable of work who have no, or insufficient, social insurance protection. It is the centre's responsibility to offer all kinds of benefits and services for this target group - including the vast majority of the long-term unemployed - and to co-ordinate all actors in the field of labour market and social inclusion. In practice, the job centre's support is focused on benefits and labour market integration services and measures. Labour market integration measures are normally provided by public or private agencies on behalf of the job centre. The social services are normally provided by public or private agencies on behalf of the municipalities. This requires close coordination and co-operation between job centres and municipal health offices, social welfare offices or youth welfare offices, which does not always function well.

(7) Until now, no quality standards have been established for employment services or social services delivered to the long-term unemployed in job centres. Therefore there are large variations between regions, municipalities and job centres. But in recent years, efforts have been made to improve the quality of services offered by job centres. In 2014, the Federal Employment Agency adopted a new counselling concept for the basic income support for job-seekers (Bundesagentur für Arbeit 2014b). And in 2015, the ISG published the first results of a research project on behalf of the Federal Ministry of Labour and Social Affairs on the quality standards and quality management in job centres, which is intended to contribute

to the further development and dissemination of quality standards (ISG 2015). In principle, the Federal Ministry of Labour and Social Affairs steers the implementation of basic income support for job-seekers through agreements on targets reached with the Federal Employment Agency and with the states, which oversee the local authorities. It was 2013 before the Federal Employment Agency started to regularly provide national data on the degree to which targets in Social Code Book II have been achieved (Bundesagentur für Arbeit 2013a).

### 3 THE BENEFIT SCHEME OF THE BASIC INCOME SUPPORT FOR JOB SEEKERS

#### 3.1 Benefit level and structure

##### (1) Introduction

'Basic income support for job seekers' includes two monetary benefits:

- 'Unemployment benefit II' (*Arbeitslosengeld II*) is offered to those people in need who are capable of work,
- while 'social benefit' (*Sozialgeld*) is offered to cohabiting family members not capable of work (mostly children and adolescents).

The level of these minimum income benefits aims to guarantee a socio-economic subsistence level which enables recipients to participate in normal social life; at the same time, the benefit level should provide a financial incentive to seek gainful employment. Benefits are not subject to taxation.

The benefit level of 'current assistance towards living expenses outside institutions' and of the 'needs-based pension supplement in old age and in the event of reduced earning capacity' also aims to guarantee a socio-economic subsistence level which enables recipients to participate in normal social life. The benefit level of these two social minimum income schemes does not need to provide a financial incentive to seek gainful employment, because beneficiaries are not capable of work and therefore not subject to activation policy. Nevertheless, the benefit level is the same as in the 'basic income support for job seekers'. Only the benefit level offered by the 'Act on Asylum Seekers Benefits' includes a reduced benefit level.

##### (2) Components covered by minimum income schemes

The 'basic income support for job seekers' – like the other minimum income schemes - provides benefits which include the following income support elements:

- a) Standard benefit covering the current minimum subsistence.
- b) Fixed allowances to meet additional requirements for certain groups or need situations (e.g. for single parents).
- c) One-off payments according to specific actual needs (a few one-off payments are listed in the law; beneficiaries can claim for credit to cover additional needs);
- d) Actual housing and heating costs are covered to a reasonable extent.
- (e) While in receipt of benefits according to Social Code Books II, beneficiaries are subject to compulsory insurance in the statutory health and long-term care scheme. If free co-insurance as a family member is not possible, social insurance contributions are paid by the job centres. If beneficiaries are not insured in the statutory insurances, their contributions to private insurances are refunded. From January 2005 until December 2010 beneficiaries capable of work were obligatorily insured in the statutory old age pension insurance scheme and the contribution was paid by the job centre. In 2005 and 2006, the contribution was based on a monthly wage of €205, and between 2007 and 2010 on a wage of €400. Starting in January 2011, the obligation to pay contributions was abolished and the funding by the job centre discontinued.

- (f) Between January 2005 and December 2010, a time-limited graded supplement to unemployment benefit II was paid for a maximum period of two years, which was aimed at easing the income reduction from the former earned income to the level of the basic income support for job seekers. In January 2011, this supplementary benefit was abolished.
- (g) Starting in January 2011, beneficiaries living with dependent children in their needs community can apply for 'benefit for education and participation'. This benefit is non-cash and is aimed directly at helping needy children and young people. It includes, for example, paying expenses for mid-day meals in schools, extra tuition and participation in a sports club or music lessons (see chapter 4.2).
- (3) Level and structure of minimum income benefits for different individuals and households

The standard benefit is calculated for each member of the needs community and varies for the different individuals in the needs community (see table 15 in the annex). The law distinguishes six standard needs levels:

- Standard needs level 1 = single or single parent
- Standard needs level 2 = couple per head
- Standard needs level 3 = additional adult in a needs community
- Standard needs level 4 = young people from 14 to 18 years
- Standard needs level 5 = child between 6 to 14 years
- Standard needs level 6 = child 0 to 6 years

Until 30 June 2006 there was one uniform standard benefit for all children under 14 years. And until 31 December 2010 one uniform standard benefit existed for young people over 14 years and for all adults for whom the standard needs levels 1 or 2 did not apply.

The benefit level of 'basic income support for job seekers' in 2016, according to SGB II, for four selected household types, is as follows:

|     |  |             |
|-----|--|-------------|
| (a) | Single adult without children                          | €404.00 +   |
| (b) | Married couple without children                        |             |
|     | €364 + €364 =  | €728.00 +   |
| (c) | Married couple with two children (aged 14 and 7 years) |             |
|     | €364 + €364 + €306 + €270 =                            | €1,304.00 + |
| (d) | Divorced single adult with one child (aged 2 years)    |             |
|     | €364 + €237 + €145,44 =                                | € 786.44 +* |

Notes: + = plus rent and heating costs; \* = including fixed allowance to meet additional requirements for single parents: €145.44.

- (4) Fixed allowances for needs not covered by the standard benefit

The law includes a list of fixed allowances for needs which are not covered by the standard benefit. This list includes

- Expectant mothers, employed and in need, who get a fixed allowance of 17% after the 12<sup>th</sup> week of pregnancy. The amount is calculated as a percentage of the standard benefit of a single person.
- A person who lives with and takes care of one or more minor children gets a fixed allowance for single parents. The amount of the allowance varies according to the age and number of children:
  1. 1 child under 7 years: 36%; 2 children under 16 years: 36%; 3 children under 16 years: 36%.
  2. 12% of the child-specific standard benefit for each child, if the sum of percentages is higher than with 1., but not more than 60% of the standard benefit for the single person.

- Employed disabled persons, who get labour market integration support, get a fixed allowance of 35%.
- Persons in need, who are in need of expensive food for medical reasons, get a fixed allowance in an appropriate amount.
- A person gets a fixed allowance who clearly has an undeniable current additional need (cases of hardship).
- A person gets a fixed allowance if, in the case of decentralised warm water provision he or she therefore gets a reduced amount of the standard benefit (reduction of the amount for warm water provision).

(5) Housing and heating costs

The regulation of the coverage of housing and heating costs is one of the most controversially assessed topics of the Social Code Book II. The reason is that the federal legislator has said in the law that "the need for housing and heating are accepted to the amount of the actual expenses, insofar as they are reasonable" (§22 Abs. 1 SCB II). The legislator has left it to the municipalities to find and establish rent limits with a view to adequacy on the local housing market.

In the case where the housing and heating costs of an applicant exceed the local rent limit of the job centre, the applicant is asked to reduce these costs, if necessary, by moving to another flat within a maximum of six months. The job centre can refund the costs of the move and the procurement of the flat and can cover the deposit as a loan. If the applicant is not ready to reduce the housing and heating costs, the job centre will reduce the refunding in keeping with the local rent limit. The excessive rental costs have to be borne from the basic income support for job seekers (e.g. by using part of the standard benefit for housing costs). In principle, it is at the discretion of the local job centre to establish the local rent limit and to decide how strictly it handles this limit. Young adults under the age of 25 years must ask the job centre for permission to take an apartment of their own. This permission is normally given when it helps to activate and integrate the beneficiary.

The main reason for delegating competence to the municipalities to establish rent limits concerning the adequacy of housing and heating costs is that – at the point in time of adopting the Social Code Book II – it was agreed that the municipalities would have to carry the fiscal burden of this benefit element. This decision was revised soon afterwards and the federal state agreed to carry a share of the fiscal burden because the number of beneficiaries and the volume of costs exceeded the expected magnitudes by far. And up to now, the volumes of the federal and the municipal share have been renegotiated and readjusted every year.

In principle, this regulation follows the tradition of the social assistance scheme, which includes a similar regulation. While the municipalities had always wanted to get a lump-sum determination of the housing (and heating costs) refund because of the high administrative expense and to have more legal certainty, this solution was rejected because of possible negative consequences for the beneficiaries.

In practice, the establishment and results of these rental limits have been, and still are being, heavily criticized in many cities, and a large proportion of the hundreds of thousands of administrative objections and lawsuits are focussed on these issues. Very often the lawsuits are successful because the social courts do not accept the municipal measures. In practice, the municipalities tend to fix the limit for the refund of housing costs in the lower to middle rent level of their local housing market, to limit the costs of their refunding. But very often they neglect to make sure whether there are flats available at these rates. This is required by the social courts, because if the individual housing costs are higher than the fixed refund, there must be an opportunity to find another flat at this rental level. In recent years, due to an increasing scarcity of affordable housing, especially in the metropolitan areas, the municipalities have not been able to prove that accommodation is available at this rate. As a consequence, the rent limits are rejected by the courts again and again. While the municipalities are still hoping for a lump-sum solution through a reform of the Social Code Book II, more and more experts tend to opt for a refunding of the actual volume,



independently of the individual level, at least as long as the tight housing markets continue (Empirica 2014).

### 3.2 Method of setting the level of the standard benefit

Basically, the legal determination of the level and structure of the standard benefit is – according to § 20 Social Code Book II - derived from the Social Code Book XII, and since January 2011 the level of the ‘current assistance towards living expenses outside institutions’ under SCB XII has been legally defined by the ‘Standard Benefit Determination Law’ (Regelbedarfs-Ermittlungsgesetz - RBEG<sup>11</sup>). This law has replaced the former regulations according to § 28 Social Code Book II.

The standard benefit is aimed at covering the need for food, clothing, personal hygiene, household goods, household energy<sup>11</sup> and personal needs of daily life. Among the personal needs of daily life are reasonable expenses incurred towards an involvement in social and cultural life in the community. The ‘standard benefit’ is provided as a monthly lump sum. It is up to the beneficiaries to use the benefit to meet the actual needs; at the same time, they have to reflect the possible occurrence of irregular incidental needs.

The ‘standard benefit’ of Social Code Books XII and II is determined by the so-called ‘statistical standard method’. According to this method, the benefit level is deduced from the volume and patterns of consumption expenditure of lower-income households, measured every five years by means of the ‘Income and Consumption Sample’ (ICS). In the years in between, the benefits are updated every year according to a mixed price and wage index. In the mixed index, the rate of change of the development in prices accounts for 70% and that of the development of net wages and salaries for 30%. In both cases, the rate of change is considered over two 12-month periods. The results of the statistical standard method for the social minimum income schemes in the context of SGB XII have to be transferred to the standard benefit of ‘unemployment benefit II’ and the ‘social benefit’ of the ‘basic income support for job seekers’ under Social Code Book II. The same applies to the method of updating.

The basis of the assessment of the need to which the standard benefit corresponds are special evaluations of the ‘Income and Consumption Sample’, a sample of official statistics collected every five years. For the construction of the reference groups, two populations are selected; one including all single person households, and one including family households with two adults and one child. Deducted from these are households receiving minimum income benefits according to Social Code Book II or XII so as to avoid a circular argumentation, because the standard benefit of minimum income beneficiaries cannot be derived from their own consumption volume and pattern. For the determination of the standard benefit, the lower 15% of the single person households and the lower 20% of the family households are selected as reference households. Without going into further detail on this method (see Becker 2010; Becker, Schüssler 2014), some of the main problems must be highlighted:

- The databases still include persons not making use of their entitlement to minimum income benefits. Because of the high non-take-up rate in minimum income schemes, a circular argumentation can therefore not be excluded.
- The consumption expenditures of the two reference groups are divided into several groups of consumption goods. In a first step, every group is asked whether the consumption of these goods is part of their subsistence need. In a second step, each consumption good of each group is assessed as to whether this good is part of the subsistence need or not. In this procedure, some of the groups and some of the goods within the groups are exempted from the total of groups and goods. The sum of expenditure for the remaining goods constitutes the volume of need covered by the standard benefit, differentiated for the two reference groups.

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<sup>11</sup> Without the shares allotted for heating and the production of hot water, which are part of the separately calculated and refunded housing and heating costs.

- A further problem lies in the fact that there is a time-lag between the point in time of the data collection and the point in time of determination of the standard benefit. The standard benefit for 2011 was based on data from 2008. And in the five years until the updated database of the 'Income and Consumption Sample' is normally available for a new determination, the volume and structure of needs and the consumption patterns can change considerably (eg. because of a dramatic increase in energy prices or the increased consumption of new goods like smartphones). In the time in between, these changes cannot be taken into account because the standard benefit (based on 2008 data) is only updated annually with the mixed price-wage index.
- Finally, a major problem lies in the fact that certain low income groups are underrepresented in the database of (ICS). This is true e.g. for young children and for migrants. As a consequence, the needs of these groups are not adequately represented in the patterns of consumption expenditures.

To sum up: The method applied for determining the standard benefit suffers from the data's lack of representativeness, the time-lag problems, elements of a circular argumentation, and the arbitrary selection and reduction of consumption expenditures. In the end, it is not the total volume of the expenditures of the two reference groups that is taken into account for the standard benefit. Instead these expenses are reduced on the basis of normative decisions. As a consequence, the so-called statistical standard method is a mix of a strict derivation of empirical findings and normative decisions.

The described procedure has been heavily criticized for many years by welfare associations and experts. It has been shown that if at least some of the problematic procedures were avoided and replaced by method-consistent alternative procedures (by reducing the populations of the two reference groups by persons with hidden entitlements, and by avoiding the exclusion of certain consumption expenditures), the statistical standard method would lead to a considerably higher benefit level (e.g. Paritätischer Wohlfahrtsverband 2015; Becker, Schüssler 2014). The methodological criticism is partly linked to the political assumption that the federal government uses the actual mix of methods to limit an increase in the benefit level and secure an employment-oriented benefit level. According to the Paritätische Wohlfahrtsverband, in 2016 the level of the standard benefit – calculated with a corrected statistical standard method - would have to be raised from €404, by €87 or 21.5%, to €491 for a single person.

The ongoing criticisms were picked up by social courts and led to the decision by the Federal Constitutional Court in which this method was declared to be unconstitutional so the Court asked the Federal Legislator to adopt a reform of the procedure until the end of 2010. The above-mentioned 'Standard Benefit Determination Law', which came into force retroactively on 1 January 2011 brought some modifications of the procedure introduced in 2004, but did not change the method at all. Becker and Schüssler (2014) have shown that the modified method was even more restrictive and led to lower results than the method used before. It is no wonder therefore that the critical debate has not come to an end so far (Lenze 2016).

### 3.3 Eligibility conditions

#### a) Capability to work:

'Those eligible for 'unemployment benefit II' under Social Code Book II are persons of working age who are capable of work and who are not able to cover their living costs from their own resources. Also eligible are family members not capable of work who live with them in a 'community of needs' (*Bedarfsgemeinschaft*) and who can apply for 'social benefit'. Employment status is of no importance for eligibility.

Each member of the 'community of need' has an individual right to claim. According to the law, it is normally assumed that a claimant capable of work is authorised to claim for all members of the 'community of need', but each member can revoke this and submit her/his own application for benefits. Normally, the benefits are paid monthly.

People of working age (and family members living with them in a community of need) who are temporarily incapable of more than short-term work and who are not able to cover their living costs from their own resources are eligible for 'current assistance towards living expenses', according to SGB XII. People aged 18 and over (and their family members in the 'community of need') who have suffered a permanent complete loss of earning capacity are eligible for the 'needs-based pension supplement in the event of reduced earning capacity' (according to SGB XII).

b) Age:

'Basic income support for job seekers', according to SGB II: those eligible are persons of working age (from age 15 until the statutory standard retirement age). Children in need of special assistance who live with them in a community of need can claim in their own right.

All age groups are eligible for social minimum income benefits, according to SGB XII: all persons aged under the statutory standard retirement age can claim 'current assistance towards living expenses'; persons aged between 18 and the statutory standard retirement age can claim a 'needs-based pension supplement in the event of reduced earning capacity'; persons aged over the statutory standard retirement age are eligible for a 'needs-based pension supplement in old age'.

c) Nationality:

The receipt of 'basic income support for job seekers', according to SGB II, is not linked to nationality: excluded from benefits are foreigners who are neither employed/self-employed in Germany, nor fall under the free movement provisions of national or EU law, and also their family members for the first 3 months of their stay. Foreigners (as well as their family members) whose stay in Germany is dictated solely by a job search are also excluded.

The receipt of social minimum income benefits according to SGB XII: those eligible are German nationals and citizens of those countries that are signatories to social security agreements (e.g. most of the EU Member States); also eligible are other foreigners (with benefit entitlement restrictions) and specific categories of people (civil war refugees).

For refugees and asylum seekers a special benefit system applies under the Asylum Seekers Benefits Act (*Asylbewerberleistungsgesetz, AsylbLG*).

d) Residence:

Recipients of social minimum income benefits according to Social Code Books II and XII: those eligible are persons who have their habitual residence in Germany.

e) Apprentices and students:

Apprentices and students who are entitled to benefits under the Employment Promotion Act or the Federal Training Assistance Act are excluded from minimum income benefits.

f) Means-related conditions:

Beneficiaries and cohabiting family members are treated as members of a 'community of need', sharing all income and assets in the household context.

There is no uniform definition of income within the social minimum income schemes. Salary, social security benefits (such as 'unemployment benefit I', 'child benefit' or 'parental allowance') and ongoing maintenance payments are always considered as income. Any entitlement to other social benefits and maintenance claims must first be exhausted. Exempt income includes pensions or allowances under the Federal Compensation Law, the basic pension under the Federal Assistance Act on Pensions to War Victims, and also (under certain strict conditions) assistance from charitable organisations.

For the 'assistance towards living expenses' and 'needs-based pension supplement in old age and in the event of reduced earning capacity', the equivalent of 30% of income from dependent or independent work by the beneficiary are deducted, within a limit of 50% of the standard benefit. Beneficiaries of 'basic income support for job seekers' who are working can deduct €100 of the monthly earned income. For earned income between €101 and €1,000, 20% is deducted; for earned income between €1,001 and €1,200 (or €1,500 for families with children) 10% is deducted.

All realisable assets (movable and immovable goods, claims and other rights) are taken into account. In the 'basic income support for job seekers' assets, for example, an adequate piece of real estate used by the claimant, adequate household equipment, and certain state-funded pension capital or smaller cash savings, are exempted. The realisable assets are reduced by a basic allowance for each member of the community of need (which amounts to €150 for every year of that person's age with a minimum of €3,100 for each member). Also exempted are state-funded pensions, if the beneficiary does not retire early. The same applies to pensions that cannot be used due to a contractual obligation (€750 per year of age).

### 3.4 Conditionality rules

The receipt of minimum income benefits is tied to the fulfilment of certain cooperation obligations. For applicants able to work, the receipt of 'basic income support for job seekers' on the legal basis of SGB II is tied to a personal integration agreement (*Eingliederungsvereinbarung*), which is concluded between the applicant and the local job centre. Beneficiaries must actively look for a job and must be available for activation and integration measures offered by the job centre, unless they have a valid reason not to work because of family obligations, like child care (of a child under the age of three) or long-term care of a family member, etc. If the beneficiary fails to fulfil her/his obligations, she/he faces a range of sanctions laid down by law.

### 3.5 Duration

According to Social Code Books II and XII, the social minimum income benefits are paid for an unlimited period of time, as long as the need remains. Eligibility criteria are generally reviewed after shorter periods of time (SGB II: 6 months; SGB XII: 12 months).

### 3.6 Transitions

The transition to employment is of special importance for recipients of 'basic income support for job seekers' (SGB II): the transition to benefit receipt occurs normally as a consequence of unemployment. This may happen if the claim to unemployment benefit I (according to unemployment insurance) has been exhausted. It also occurs if the individual does not meet the conditions for receipt of unemployment benefit I or if the benefit is not sufficient to raise the household income above the neediness threshold. In this case, unemployment benefit I can be topped up by 'basic income support for job seekers'.

The transition from benefit receipt to employment is supported by the requirement that benefit recipients capable of work actively look for a job or participate in activation and labour-market integration measures. When a job is taken up, only a small part of the earnings is disregarded when it comes to withdrawal of benefits.

### 3.7 Earnings disregard

In general, when applying for unemployment benefit II, all kinds of income are taken into account; the basic income support (like social assistance) is subordinate to other income, like earned income, interest, rental income, social benefits, etc. The receipt of earned income is treated in a special way:

- Beneficiaries who are working can deduct €100 of the monthly earned income.
- In addition, for earned income between €101 and €1,000, 20% are deducted,
- in addition, for earned income between €1,001 and €1,200 (or €1,500 for families with children) 10% are deducted.

A single wage earner with a net earned income of €1500 can ask for an allowance of €100 + €180 + €20 = € 300. With a child in the needs community, the third element rises to €50 and the result adds up to €330. This amount tops-up the individual unemployment benefit.

The employment benefit was and still is aimed at ensuring a monetary incentive for the transition from unemployment to gainful employment. During the first decade after introduction of the Social Code Book II, the earnings disregard was reformed once. The intention was to raise the disregard level to strengthen the incentive effect. But simulation studies have proved that the raising of the disregard would have unintended effects, because it expands the number of entitled beneficiaries and therefore also raises the costs of the basic income support for job seekers. Because the public funding bodies were not ready to provide the respective money, the reform - which came into force in 2011 - was limited to a technical modification and a minimal raising of the disregard (Bruckmeier, Feil, Walwei, Wiemers 2010).

### 3.8 Sanctions

In the demanding activation approach that Germany takes, a decisive role is played by the threat to sanction any unwillingness to cooperate and actively look for a job or accept activation measures. Sanctions are therefore a core element of the German activation concept of 'demanding and promoting' implemented in the Social Code Book II. They correspond with two guiding principles: Every applicant of basic income support for job seekers has not only to be capable of work, but also ready to accept any work opportunity. The qualification and professional status does not play a role anymore and unfavourable working conditions have to be accepted. Applicants and beneficiaries have to prove motivation to look actively for work. If they do not show individual responsibility and motivation, they have to be activated. These obligations correspond with the threat that benefits can be reduced for a certain period of time if the beneficiaries do not fulfil their obligations.

According to the law, there are several situations which lead to sanctions:

(1) Reporting failures: If beneficiaries miss a date at the job centre without an important reason (e.g. medical cert) their standard benefit is cut by 10%.

The other sanctions correspond with heavier violations of duties:

(2) Personal integration agreement: Beneficiaries who refuse to fulfil the duties agreed in the personal integration agreement are confronted with a sanction.

(3) The same applies to beneficiaries who refuse to accept a reasonable job, training or work opportunity.

(4) The same applies to beneficiaries who refuse to participate in an integration measure or cancel the measure or give reason for the cancelling of participation.

(5) Sanctions are also imposed if a beneficiary reduces his/her income or assets so as to become entitled to benefits, or who continues uneconomic behaviour.

(5) or if (in the case of beneficiaries topping-up unemployment benefit I by unemployment benefit II) a sanction has been imposed according to Social Code Book III.

In the cases (2) to (5) a first breach of duties is answered with a reduction of the standard benefit by 30%, a second (within one year) with a reduction by 60% and a third by the complete suspension of unemployment benefit II. If the beneficiary is aged under 25 years, the first breach of duties leads to a complete loss of the standard benefit and the second to the complete loss of unemployment benefit II. If the standard benefit is reduced by more than 30% the job centre can provide additional benefits in kind. If minor children live in the needs community, additional benefits in kind have to be provided. The reduction of standard benefits is normally imposed for three months. During this period of time, the beneficiary cannot alternatively apply for social assistance.

In the year 2014, around 1 million sanctions were newly imposed. Among them, reporting failures were dominant, with 748,000 sanctions, while the other 252,000 sanctions spread over the other more severe types of breach of duties. The number of beneficiaries with a minimum of one sanction among the whole group of recipients of unemployment benefit II was around 132,000. The percentage of all beneficiaries was 3.2%, the respective percentage for beneficiaries aged under 25 years was 4.6% (see Table ... in the annex).

According to the data, the number of sanctions has increased in recent years and has reached a considerable volume. But most of the sanctions were related to the less severe reporting failures, which lead to a reduction of the standard benefit by 10%. The more severe sanctions with greater benefit reductions remained at a distinctly lower level. And most of the sanctions concentrated on a rather small group of beneficiaries. The number of beneficiaries with one or more sanctions was only 132,000 in 2014, and the rate was also surprisingly low at 3.2%. The same applied to beneficiaries aged under 25 years, who are confronted with stricter sanction rules. Since 2007 this low sanction rate has hardly changed. So even if the total number of sanctions has risen steadily in recent years, the number of sanctions for serious violations of the beneficiaries' obligations (e.g. refusing to sign the integration contract or to accept a job or work opportunity) has remained at a remarkably low level (Wolf 2014; Vom Berge et al. 2015; DGB 2013).

The Social Code Book II is the law with the highest rate of legal disputes: In 2014 1,001,000 new sanctions were imposed by the job centres in Germany. In the same period of time (exactly: April 2014 – March 2015) 640,000 beneficiaries entered administrative objections (35% were accepted and 54% were rejected) and 127,000 suits were filed in court (around 40% were successful) (Verdi 2015).

The imposition of sanctions has been discussed among politicians and experts extremely controversially. On the one hand, sanctions have been seen as a main instrument to activate the beneficiaries and to develop an adequate labour market oriented motivation and attitude among them. On the one hand each sanction leads to a reduction of the standard benefit below the subsistence level and has therefore a profound impact on the income and living situation of the household of the beneficiaries. Profound negative impacts can result for minor children living in these households (in recent years around 15% of all children under 15 years). Unfortunately, no data are available on the number of total sanctions with the time-limited total loss of benefits.

Even if the law does not include scope of discretion, it is up to the case managers to decide in every single case whether a sanction has to be imposed or not. In the first years after introduction of Hartz IV, politicians had the impression that the job centres and the case managers were not following the law and were imposing too few sanctions. This was because they had expected that the large majority of benefit claimants and recipients would diminish quite fast as a consequence of the threat of sanctions. When this did not happen, several follow-up reforms were adopted, in which, among other things, the sanction rules were tightened and legal and administrative pressure put on the job centres. Up to now, however, this had little impact on the numbers of sanctions and beneficiaries.

So far, the results of the evaluation research on the attitude of beneficiaries towards work and the impact of sanctions are among those which are mostly neglected by the political actors. The findings have provided evidence that the vast majority of beneficiaries capable of work are highly motivated to look for a job. The assumption that the large number of people capable of work who are in need of welfare results from motivational or behavioural problems was not based on empirical data, either before or after the introduction of Social Code Book II. Against this background, the threat of being sanctioned or the imposition of sanctions had only a moderate impact on the beneficiaries. They have contributed towards improving the readiness to fulfil the legal duties and cooperate with the job centres. At the same time, severe sanctions can contribute not only towards deteriorating the living conditions of the beneficiaries and their family members, but also towards worsening their labour market integration chances. A survey among case managers has come to the conclusion that there should be wider scope for discretion in imposing sanctions, especially with regard to beneficiaries aged under 25 years. Many of the sanctioned young adults end their agreement with the job centre and disappear into the large number of unregistered people in need. In most cases the intended educative effect is not being achieved. Apart from the case managers, many experts have also recommended weakening the sanctions, especially for young adults (IAB 2010, 2014, 2015).

Since last year a new reform of the Social Code Book II is being prepared and the role of sanctions is playing a major role in this reform debate. But proposals to ease the catalogue and the conditions of the sanctions have not been agreed so far.

### **3.9 Rights-based versus discretionary benefits**

All current social minimum income schemes rely on a rights-based approach, but also include elements of discretion. The same applies to the basic income support for job seekers according to Social Code Book II. The benefits of this scheme and their components, the method of determining and upgrading the benefit level, as well as the activation process and the integration instruments, are legally fixed. At the same time, there is some degree of discretion with regard to the assessment of the reasonable volume of housing and heating costs. The same applies to the determination of the adequacy of activation and social integration measures.

In general, the Social Code Book is characterized by a certain tension between the aim of an individually tailored support process, which is the basis of the employment oriented case management, and a high degree of standardization in procedures and programmes, which was intended by the federal legislator and the implementation of the law by the administrative bodies. According to the tradition of providing benefits and services in the context of poor relief and later of social assistance, each case of need had to be assessed and treated individually for more than a century. But with the new benefit scheme, the procedures and the outcomes should be more transparent, easier to steer and control and lead to more cost-effective outcomes.

## **4 BENEFITS IN THE OVERALL PROTECTION SYSTEM**

### **4.1 Minimum income benefits and other tax and benefit schemes**

Following a decision of the Federal Constitutional Court on 25 September 1992, the benefit level of social assistance (and since 2005 of basic income support of job seekers) must correspond with the basic income tax allowance. This is to prevent that individual net income can be driven down below the socio-cultural subsistence level through taxation and so create a need for social support. With this procedure, it is accepted that the tax reduction effect is higher, the higher the individual income and the tax rate. Since 1995 normally every two years the Federal Government has issued a report on socio-cultural subsistence (Bundesregierung 2015), which provides data on the recent development of minimum income benefits for adults and children as a basis for the adjustment of the tax allowance by the Federal Parliament.

The benefit level of minimum income schemes is not linked with the statutory minimum wage or with the benefit level of the social insurance system. In general, the primary safety net of social insurance schemes and other income maintenance schemes hardly includes any minimum income elements (exemptions e.g. insolvency law, civil law of maintenance). This function is exclusively delegated to the last safety net of minimum income schemes.

### **4.2 Relation to other means-tested benefits**

Generally, persons in need are only entitled to minimum income benefits if they have exhausted their claims to the social benefits of the primary safety net.

The receipt of minimum income benefits and of other social benefits are mutually exclusive:

a) Housing allowance (*Wohngeld*):

Because housing and heating costs are covered to a reasonable extent within the social minimum income schemes, there is no access to additional housing allowances.

The provision of a housing allowance contributes towards preventing low-wage earner households from becoming entitled to 'basic income support for job seekers'. The financial support for the housing and heating costs improves the financial resources of low income households. The allowance covers only a limited part of these costs and varies according to the household size, the level of household income and the level of rent or goods subsidies. In addition, the allowance varies according to the classification of the municipality into 6

grades of rental prices. One problem is that up to now the housing allowance has not been annually adjusted to the development of rental prices. After a new adjustment of the allowance, some of the benefit recipients of basic income support for job seekers are entitled to the precedent housing benefit and are lifted out of the last safety net. But in the following years they fall back to this scheme as a consequence of no further adjustment. Furthermore, the housing allowance only covers part of the housing costs, while the basic income support covers the total costs, to a reasonable extent. Even if the last reform and adjustment of the housing benefit introduced the provision that in future the benefit should be assessed and eventually adjusted every two years, there is still a need for better coordination between the two schemes (Derutscher Städtetag 2014).

b) Child benefit (*Kindergeld*):

Because the basic subsistence of children is covered by the minimum income schemes, child benefit is offset against the minimum income benefit.

Also the provision of child benefit (or child tax allowance) contributes towards raising the income of households with children. And in this case too, the child benefit only covers a part of the costs of raising a child/children, while the basic income support covers the total volume of the subsistence costs of a child/children. The coverage of child cost by the state, to a limited extent with family and child related benefits, contributes towards the fact that households with children have a disproportionate risk of being confronted with financial poverty (AGJ 2015).

c) Supplementary child benefit (*Kinderzuschlag*):

Families on low income can apply for supplementary child benefit, which is paid subject to the following conditions: children aged under 25 must be living with their parents in the same community of need; and income and assets are sufficient for the parents to live on, but not enough to support the children as well. The level of the supplementary child benefit depends on the parents' income and assets, but the maximum is €140 per child per month.

This benefit is aimed at preventing low income families from becoming entitled to basic income support for job seekers, but it hardly provides better income and living conditions than the last safety net. The main justification is to limit the number of beneficiaries in Social Code Book II. The introduction of this benefit has therefore been criticized as inadequate and insufficient by child, family and welfare associations. Social scientists have also critically rated this benefit (Becker, Hauser 2010).

Finally, there is one special benefit aimed at topping-up minimum income benefits:

d) Benefit for education and participation (*Leistungen für Bildung und Teilhabe*):

Children and young people in households living on social minimum income benefits have access to this non-cash benefit, which is aimed at improving the educational and social participation of children and young people from low-income families.

If benefits from the first safety net, like e.g. unemployment benefit or old-age pension, are not sufficient to cover the (socio-cultural) subsistence, they can be topped-up by minimum income benefits.

### 4.3 Passport to other services and benefits

Benefit recipients in social minimum income schemes in general have access to social services which are funded and coordinated by the municipalities and are supplied by the social and youth welfare offices, as well as by private, mostly not-for-profit providers.

## 5 RELATIONSHIP BETWEEN PROTECTION AND ACTIVATION IN THE SOCIAL CODE BOOK II

The introduction of the 'basic income support for job seekers' on the legal basis of Social Code Book II was intended to provide not only minimum income protection for those



capable of work, but also integration services and measures for benefit claimants based on a restrictive workfare-oriented activating approach.

The job centres offer not only counselling and job placement, but also a wide range of integration programmes and measures regulated by Social Code Books II and III.

### 5.1 Labour market integration service

The receipt of basic income support for job-seekers within Social Code Book II for applicants capable of work is legally tied to the signing of a 'personal integration agreement' ("*Eingliederungsvereinbarung*"). This contract is concluded between the applicant and the respective local job centre. It includes, among other things, an integration plan, which is updated regularly. Furthermore, it includes specific requirements and obligations on the part of the benefit claimant. Based on the specific personal integration barriers, these can include making use of health or social services, obtaining a driving licence, etc. The integration contract is also the basis for sanctions in case the benefit recipient fails to fulfil his/her obligations. The 'personal integration agreements' were intended to improve labour market integration through the agreed design of individually tailor-made integration plans. But in practice, the aims and content of the integration contracts are highly standardised, not well enough explained to the claimants and insufficiently individually tailored. Finally, promoting and demanding elements are not adequately balanced (Schütz et al. 2011).

According to § 14 Social Code Book II, the job centres are obliged to support the job-seekers in a comprehensive way, according to their specific needs, with the aim of integrating them into the employment system as well and as quickly as possible. For this purpose, the job centres have to provide a personal contact person for every job-seeker (and their family members who live with them in a joint household as a 'needs community'). In the first phase of the counselling and placement process, the claimants are assessed and classified in different activation categories according to their specific integration barriers, for which different kinds of advice and support are defined. Case management is provided above all for those user-groups with major integration barriers, labour-market entrants and the long-term unemployed. Furthermore, the job centres offer special activation support for young people and young adults aged under 25 and for so-called "best!agers 50+".

A main element of the 'Hartz IV reform' was the expansion and improvement of labour market integration services. By increasing the number of people in employment, the volume of the caseload should be reduced and the quality of support improved. The volume of the appropriate caseload is still under discussion between the federal state and the job centres and is the subject of on-going evaluation research (BearingPoint 2015). The case management in the 'basic income support for job seekers' is based on a so-called "employment-oriented case management", which was designed by experts before the respective law came into force (Bundesagentur für Arbeit 2004; Baethge-Kinsky 2007), but no uniform professional standard has evolved until now. Employment-oriented case management is defined as a sequence of steps, including contacting, basic counselling, building a working alliance, diagnosis and assessment, personal integration agreement and agreement on support services, control and monitoring of services. Case management must be based on mutual trust so as to enable useful co-operation. An individually tailored advice and support process has to be designed and agreed upon based on the specific needs situation. At the same time, it is the task of the case manager to steer and control the integration process, to decide on integration measures and sanctions, especially if the client is, or seems to be, unwilling to look for or accept a job opportunity.

Case managers have to fulfil several tasks which are of high priority for the activation paradigm. As international experience has shown, activation programmes are highly effective when professional case managers provide intensive counselling and support during the job-search process. In Germany empirical studies have demonstrated that the framework conditions and the concepts of case management differ widely between job centres. Because only few evaluation studies are available so far (cf. for example, Kolbe, Reis 2008; Strotmann et al. 2010; Bartelheimer et al. 2012; ISG 2013), it is not yet possible to

provide a comprehensive assessment of the impact of this core element of the activation and integration process for the (long-term) unemployed in Germany.

The employment-oriented case management is characterised by the ambivalence of offering helpful advice and support, on the one hand, and being obliged to monitor and sanction the integration behaviour of the client, on the other. This difficult task requires great professional competence, as well as a setting which enables an intensive process of advice and support. These conditions are often not fulfilled. Many case managers have to work under precarious working conditions. Their case load is so heavy that an individual support process is possible only in isolated cases. Even if personal commitment is high, user-oriented work is only possible to a limited degree.

In summary: experience to date has shown that successful case management requires an appropriate institutional setting, highly qualified and committed case managers and a limited volume of cases. This means adequate public investment in case management.

## **5.2 A two-tier system of activating the unemployed**

The introduction of the 'basic income support for job seekers' represented the continuation of the dual tradition of social protection and activation of unemployed in Germany. The former dualism - between unemployment insurance and employment promotion under Social Code Book III, on the one hand, and the social assistance under Social Code Book XII on the other hand - now became a dualism between unemployment insurance and employment promotion under Social Code Book III and the newly introduced 'basic income support for job seekers' under Social Code Book II. As in the past, people who have become unemployed again are normally entitled to, and have to apply for, benefits and services of the unemployment insurance under SCB III at the public employment agency (with the exemption of entrants and returners to the labour market, who are normally not entitled to unemployment benefit 1 under SCB III). If they are unemployed for longer than twelve months (elderly unemployed up to 24 months), they have to apply for unemployment benefit II under Social Code Book II at the local job centre. The problem is that claimants who are assessed in the employment agencies as unemployed with severe integration barriers are normally not included in intensive integration support measures. Instead, they have to wait until they move to the job centres under Social Code Book II before they are subject to intensive integration support.

This two-tier system is closely linked to two separate funding and business calculation systems. Because invested funds for integration measures normally do not pay off within the twelve-month eligibility period, these groups are de facto excluded from activation and integration services and measures, as long as they stay in the competence of the SCB III. Only after the transition to the job centres is an intensive activating process initiated according to the SCB II principles of promoting and demanding. This 'perverse effect' results from the fact that the Federal Employment Agency as well as the local employment agencies are less interested in a fast and tailor-made integration service, and more in cost-effective procedures which enable them to focus on the beneficiaries with the best success rates in the short term.

To prevent this effect, the legislator had imposed a penalty payment on the Federal Employment Agency for every unemployed person, who moves directly from the Social Code Book III to SCB II (Fichte 2007; Stephan, Zickert 2008). However, this penalty was not high enough to change the framework conditions for the described business calculation and prevent the exclusion strategies of the public employment agencies. Between January 2005 and December 2007, the penalty payment was a fixed per capita amount totalling twelve times the average expenditure for unemployment benefit 2 plus social security contributions. From January 2008 to December 2012, the penalty was transformed into a payment that was dependent on the amount of spending on integration measures for the individual beneficiary capable of work. Starting in January 2013, this penalty was abolished (as compensation for the abolition of the federal subsidy for labour market policy according to Social Code Book III).

### 5.3 Labour market integration programmes and measures

The local job centres offer a wide range of activation and labour market integration programmes and measures regulated by Social Code Books III and II. In principle, all unemployed beneficiaries have access to activation support in the form of counselling and job placement, but only a limited number has access to further activation and integration programmes/measures.

The majority of unemployed beneficiaries have low or no professional qualifications and are often characterized by severe integrations barriers. For most of the beneficiaries, therefore, an improvement of their professional qualifications and of their employability is of high importance. Active labour market integration measures are aimed and designed to fulfil this task.

#### (1) Development of labour market integration measures

In principle, most of the integration instruments of the Social Code Book III as well as the new instruments of the Social Code Book II can be used by the job centres for the integration process. The decision to use the instruments is up to the case manager and is part of the personal integration agreement, which has to be signed by the case manager and the job seeker. While in the initial phase, the list of integration instruments under Social Code Book II was contained in one single paragraph. The range of instruments and the number of paragraphs was increased through a reform of the instruments in 2009, and was later reformed again.

In the first years of the Social Code Book II, the task of labour market integration had only low priority, because the number of recipients was considerably higher than expected and the financial resources of the federal government were needed to fund the benefit payments and the necessary administration staff. Therefore, the integration measures could only be expanded step by step, following the requirements of the law, which demands priority for activation measures as opposed to benefit payments. As a consequence, the number of benefit recipients, which had gone up dramatically in 2005 and 2006, started to decline in 2007 much more slowly than expected. The political answers to this development were repeated reforms of the benefit and sanctioning conditions and of the activation instruments. Moreover, the reform of the activation instruments in 2009 was, among other things, intended to strengthen the centralized steering of the local job centres with the aim of improving their activating and integration performance.

In 2010, the federal government decided to drastically cut back the funds for integration measures for long-term unemployed people. As a consequence, a new reform of the integration instruments under Social Code Book II was adopted by the federal government in 2011. At a hearing of the Federal Parliament's Committee for Labour and Social Affairs, the experts almost unanimously pointed to the risks of this reform (Deutscher Bundestag 2011a), which represented the main element of the federal government's consolidation package and was therefore primarily aimed at reducing fiscal costs rather than improving the effectiveness of labour market policy. Above all, the heavy cuts in the integration budget for unemployed job seekers in the context of the Social Code Book II has contributed to reducing the opportunities and prospects of young entrants and long-term unemployed with regard to becoming integrated in the labour market (Hanesch 2011).

After introduction of the basic income support for job seekers, the number of participants in active labour market policy measures greatly increased in a first period between 2004 and 2008. However, in the following period between 2008 and 2014, the number of participants went down again continuously. In the total period between 2006 and 2014 the number decreased by 272,000 or 40% from 672,000 to 400,000 people (see table 19 in the annex). This relative decrease outnumbered by far the decrease in unemployed recipients of unemployment benefit 2 (- 19.6%), the main target group for these measures.

The 'activation ratio' is used by the Federal Employment Agency as an indicator of the activation of beneficiaries capable of work. While 'activation ratio 1' is related to unemployed beneficiaries capable of work, 'activation ratio 2' is related to all beneficiaries capable of work (see Table 19 in the annex). Between 2006 and 2014 these indicators showed the following picture:

- 'Activation ratio 1' increased between 2006 and 2009 from 19.3 to 28.0%. After a sharp drop from 2009 to 2010 (from 28.0 to 24.9%) the ratio showed a slow but continuous decline until 2014. At 16.1% in 2014, the ratio was considerably lower than in 2006 at 19.3%.
- The development of 'activation ratio 2' shows a similar picture at a lower level: The ratio increased between 2006 and 2009 from 12.5 to 16.8%, dropped sharply between 2009 and 2010 from 16.8 to 14.6% and continued to decline until 2014 to 7.9%. Because the number of recipients of unemployment benefit 2 declined slower than those of unemployed recipients, the decline in ratio 2 was stronger than in ratio 1.

According to these figures, an activating effect can only be identified for the first years of the Social Code Book II until 2009, while the following years were characterised by a continuous reduction in the activation thrust. This development corresponds with the decline in unemployed-benefit recipients, but, at the same time, contradicts the growing need for activation and integration support. With the transition of the unemployed beneficiaries with the best integration prerequisites into the labour market, the remaining stock of recipients is characterised more and more by recipients with severe integration barriers. Thus the need for activation and integration measures has increased in recent years. That the actual development goes in the opposite direction results from the primacy of fiscal considerations when determining funds for active integration policies (see also chapter 8.1).

Interesting is also the development of the integration ratio with regard to active labour market measures under Social Code Book II: The integration ratio indicates the share of transitions into employment among all the exits from active labour market measures. Between 2006 and 2014 the ratio increased from 23.1 to 31.6% with the main jump between 2010 and 2011. The rising share of participants in integration measures who have passed on to gainful employment is officially rated as an indicator of great success. One must take into account however that this improvement in the integration ratio is accompanied by an increasing concentration of integration measures on those groups with the best chances and perspectives on the labour market.

In 2012, the Federal Court of Auditors (Bundesrechnungshof 2012), summarising the results of its evaluation of the integration policy in selected job centres, emphasised that the integration practice focused mainly on the promotion of those unemployed who have the best chances on the labour market, while those who have little chance are hardly promoted at all. This fatal setting of priorities was the result, among other things, of a short-term performance and financial efficiency orientation, which was determined by regulatory instructions from the Federal Employment Agency. A necessary re-orientation of the integration policy, in the context of SGB II, towards sustainable integration success has not taken place so far and should still be on the agenda.

In December 2014, 411,000 beneficiaries were participating in active labour market policy measures under Social Code Book II (see table 20 in the annex). The great majority of participants could be found in activating and professional integration measures (including further training), 54% of all participants. 24% participated in employment-creating measures, 14% in the promotion of job take-up, 5% in career choice and vocational training measures and 4% in other measures. Compared to the year 2006, not only the number of participants decreased from 0.682 to 0.411 million people, but also the distribution of participants over the different types of measures changed. While employment creating measures have lost quantitative importance, activation and professional integration measures have gained in importance.

Active labour-market policy measures have been evaluated regularly by the Institute for Employment Research. According to Heyer et al. (2014) and the results of this evaluation research can be summarised as follows: most of the instruments contribute towards improving the employment chances and prospects of the participants. Because the impact varies for different groups of participants, there is a need to improve the selection of participants according to the objectives of the measures. Placement services by private providers do not generally improve the participants' chances of finding regular work. Positive results can be found in relation to hiring subsidies for employers, subsidising start-ups,

moves out of unemployment and short-term in-firm training, but there is a risk of producing deadweight, substitution and displacement effects. Further vocational training and short-term classroom training also contribute towards improving the employment prospects of participants, but with a time delay. Traditional job-creation schemes in the public and non-profit sector are well suited to improve the integration chances for hard-to-place groups far removed from the labour market.

## (2) Long-term unemployed as a target group

Who were and are the main target groups of active integration measures? In the year 2013, 101,000 participants in active labour market programmes/measures. At 18% of all participants, compared to 36% of all registered unemployed, the long-term unemployed were definitely underrepresented in active labour-market programmes/measures (Deutscher Bundestag 2015). 96,000 participants (95%) were funded by basic income support for job-seekers in line with Social Code Book II, and 5,000 participants (5%) by unemployment insurance in line with Social Code Book III.

The long-term unemployed were over-represented in measures for activation and professional integration (36,000, or 23% of all participants in this measure) and in work opportunities without a regular labour contract (26,000 or 24%). 18,000 or 13% participated in further training measures, and 3,600 or 27% participated in local activation measures designed by the job centres. Around one fifth (21.3%) of former long-term unemployed participants leaving active labour-market programmes/measures between July 2012 and June 2013 were in employment subject to the payment of contributions six months later, compared to 38.4% of all participants. In all the programmes/measures, the integration success of the long-term unemployed was lower than that of all unemployed people. The highest integration rate was achieved by the integration grant (paid to the employer to stabilise an already existing employment relationship), followed by further training measures. But not all activation programmes/measures were and are aimed at immediate integration into the labour market. This is especially true for those programmes/measures which pursue the objective of maintaining or enhancing the employability of those furthest from the labour market, such as measures for activation and professional integration (integration rate of long-term unemployed: 19.3%) and work opportunities without a regular labour contract (integration rate of long-term unemployed: 6.2%) (Deutscher Bundestag 2015).

## 5.4 Access to qualitative social services

According to Social Code Book II, the labour market integration services of the job centres have to be complemented by social integration services, which fall within the competence of the municipalities.

The integration services include, above all, childcare, long-term care, debt counselling, addiction counselling and psycho-social care. The services are offered by municipalities or by the private agencies of welfare associations on behalf of the municipalities. In fact, the success of the integration service of the job centres with regard to the long-term unemployed is dependent to a great extent on these social integration services, because these services respond individually and accurately to the different integration barriers and the specific needs of job-seekers.

These integration services are discretionary benefits, meaning that they can be provided by the municipalities, but the beneficiaries are not legally entitled to them. The volume and range of services are mainly dependent on the volume of funds the local authorities are able and willing to provide. Therefore, the volume and scope of integration services vary considerably among the municipalities. There is the risk that economically weak municipalities with major labour-market problems do not provide a sufficient volume of services.

Unfortunately, hardly any data on the service provision of the municipalities are available (Adamy, Zavlariis 2014). Recently, the Federal Employment Agency has published data on participants in those measures referring to the fact that around 30% of the involved municipalities do not collect such data. According to this, around 48,000 beneficiaries

participated in social integration measures in the year 2014 (Bundesagentur für Arbeit 2015a). (Arbeitsmarkt 2014)

## **6 OUTCOME: STRENGTHS AND WEAKNESSES OF REDUCING POVERTY AND SUPPORTING EMPLOYMENT**

### **6.1 Coverage and take-up of benefits**

#### (1) Coverage

The German system of social minimum income schemes basically covers almost all legally resident population groups at risk in Germany. Only apprentices and students, who are entitled to benefits under the Employment Promotion Act or the Federal Training Assistance Act, are formally excluded. In practice, there are certain groups that have a higher risk of failing to gain access to adequate support. This is especially true for groups in extreme poverty who are affected by multiple aspects of poverty and deprivation, like homeless people, drug addicts, etc. Even if these groups have formal access to minimum income benefits and services, the specific volume and nature of the needs are often either not covered or not adequately covered (Mingot and Neumann 2003). Similar problems are reported for asylum seekers and refugees who live on benefits and services under the Asylum Seekers Benefits Act, but who have only limited access to treatment and care for health problems. Despite recent reforms of the Asylum Seekers Benefit Act in 2014, this situation has remained unchanged (BAGFW 2014; Hanesch et al. 2015c).

#### (2) Take-up of benefits

The non-take-up rate of minimum income benefits has traditionally been high in Germany (Becker 2007). This finding has been confirmed in recent years by several micro-simulation studies which have attempted to determine the extent of non-take-up of minimum income benefits. Bruckmeier and Wiemers (2010) found a volume of 39% (on the basis of Socio-Economic Panel data from 2007). Depending on varying assumptions in the micro-simulation model, Bruckmeier et al. (2013) found a range of between 34% and 43% (on the basis of Income and Consumption Survey data from 2008). In two micro-simulation variants, Becker (2013) also found non-take-up rates of 35% and 42% (on the basis of Socio-Economic Panel data of 2007). To sum up, micro-simulation studies on the non-take-up of social minimum income benefits in Germany agree that between a third and two-fifths of all those eligible do not apply for the benefits. With regard to people aged 65 plus, Becker (2012) came to the conclusion on the basis of Socio-Economic Panel data from 2007 that up to 68% of the eligible population did not receive minimum income benefits.

There are many reasons for people failing to apply for social minimum income benefits. Lack of knowledge of the legal entitlement to minimum income benefits can play a part. In the case of low top-up benefit amounts, cost-benefit considerations may lead people to waive their entitlement. Furthermore, institutional arrangements and administrative procedures can act as barriers to claiming benefits. Finally, negative perceptions and experiences of reactions in the social environment, as well as fear of stigmatisation, may encourage people to forgo the benefits.

In the case of social minimum income schemes in Germany, no reliable findings are available, but there is strong evidence that all four reasons play a role. While employed people are often not aware that they are entitled to 'basic income support for job seekers', (long-term) unemployed people and job entrants are deterred from claiming by the restrictive workfare-oriented conditions of benefit receipt under SGB II. Fears with regard to negative perceptions and reactions play a major role, especially among elderly potential beneficiaries; while the decision to waive small top-up amounts can occur within all groups of entitled people.

### **6.2 Number of beneficiaries and duration of benefit receipt**

#### **6.2.1 Development of beneficiaries**

### (1) Composition of beneficiaries

In the year 2014, 6.098 million people living in 3.303 million households (to be precise, the law speaks of 'needs communities'), were recipients of 'basic income support for job seekers'. This total number was the sum of two main subgroups: 4.387 million beneficiaries capable of work and 1.711 million recipients not capable work (mostly children and young people living in so-called 'needs communities' with their parents). The biggest subgroup, the beneficiaries capable of work, was again composed of three sub-subgroups: unemployed beneficiaries (1.877 million or 43%), employed beneficiaries (1.306 million or 30%) and other neither unemployed nor employed beneficiaries (1.204 million or 27%). According to the Federal Employment Agency, this last sub-subgroup of beneficiaries consists of the following heterogeneous groups:

|  |    |
|--|----|
| - participants in school or higher education                       | 7% |
| - people taking care of children or family members in need of care | 6% |
| - disabled people  | 6% |
| - people in early retirement and                                   | 4% |
| - people for other or unknown reasons                              | 8% |

From these figures and subdivisions it should be clear that not all beneficiaries of 'basic income support for job seekers' are unemployed and are looking for a job. Part of them are either employed but still in need of additional financial support, or are capable of work but are - in agreement with the respective job centre - involved in other activities.

### (2) Development of beneficiaries

A main objective of the Social Code Book is to prevent or reduce the need for 'basic income support for job seekers'. Therefore, the development of the number of beneficiaries is a main indicator of the effectiveness of this benefit scheme. In the following, a short survey will provide information on how the total number of beneficiaries and the numbers of the different subgroups have developed in the last decade since the introduction of the Social Code Book II in 2005 (see Table 9 in the annex)<sup>12</sup>:

- In the time period between 2005 and 2014 the number of recipients of 'basic income support for job seekers' under Social Code Book II declined from 6.756 in 2005 to 6.098 million people in 2014. This decline of 0.658 million people meant a decrease of 9.7%. A closer look reveals that the number of beneficiaries rose in the first two years to 7.347 million people (2006), while it gradually declined in the following years until in 2014 a renewed small rise took place.
- Different developments can be registered for relevant subgroups of beneficiaries. Above all, recipients capable of work declined in this period from 4.982 in 2005 to 4.387 million people in 2014, i.e., by 0.595 million people or 12.0%. In contrast, the number of beneficiaries not capable of work has hardly declined, only going down from 1.774 in 2005 to 1.711 million people in 2014, a decline of 0.063 million people or 3.6%.

While the development of beneficiaries not capable of work depends on the labour market and the earning status of the member of the needs community capable of work, the total development is determined by the structure of those capable of work. This subgroup is composed of three groups:

- Unemployed beneficiaries: The number of this subgroup decreased from 2.770 in 2005 to 1.877 million people in 2014 and showed the strongest decrease of 0.893 or 32.3%.

<sup>12</sup> It must be emphasized that the Federal Employment Agency, as the sole provider of data on this national benefit and service scheme, does indeed provide a lot of data, but in a form which makes it extremely difficult to get a clear picture of the volume and structure of this scheme, frequent changes in the system of reporting included. Long-term data **series** therefore are hardly available.

- Employed beneficiaries: In contrast, the number of this subgroup increased from 0.783 in 2005 by 0.523 (or 66.8%) to 1.306 million people in 2014.
- Neither unemployed nor employed beneficiaries: This residual group decreased from 1.429 in 2005 to 1.204 million people, or by 0.225 million people or 15.7%.

(3) Subgroups of beneficiaries

(a) Unemployed beneficiaries

If we try to assess the first subgroup, it is important how unemployment on the labour market developed in this decade:

- The number of unemployed on the basis of the ILO concept declined in this time period from 4.127 to 1.950 million people, by 2.090 million people or 49.2%.
- The number of registered unemployed declined in this period from 4.381 to 2.898 million people, by 1.483 million people or 33.8%, and thus declined considerably less than the unemployed on the basis of the ILO concept.

Social protection for the unemployed comprises an insurance-funded (Unemployment Benefit I) and a tax-funded system (Unemployment Benefit II). Unemployment Benefit I on the legal basis of Social Code Book III is provided for formerly insured employees and is managed and implemented by the Federal Employment Agency<sup>13</sup>.

According to table 9 and 10 in the annex, the number of recipients of unemployment benefit 1 has declined greatly in the decade from 2005 to 2014 (from 1.728 to 0.888, by 0.840 million people or 48.6%). The large majority of these beneficiaries were unemployed and their number went down from 1.428 to 0.775 million people, by 0.563 million people or 45.7%.

In contrast, the number of recipients of unemployment benefit 2 declined less, by 0.595 million people or 11.9%, from 4.982 to 4.387 million people. This also applied to unemployed recipients of unemployment benefit 2, whose number went down by 0.849 million people or 31.1% from 2.726 to 1.877 million people.

According to these figures, the decrease in unemployment on the German labour market over the last decade had a strong impact on the development of recipients of unemployment benefit 1, whose number dropped strongly in this period. The improving labour market conditions have eased the integration of this group of beneficiaries. There was also a decline of unemployed recipients of unemployment benefit 2, but it was significantly lower than that of recipients of unemployment benefit 1. Thus the recipients of means-tested benefits have benefitted significantly less from the positive labour market development.

(b) Other subgroups of recipients:

In the time period from 2005 to 2014, the number of employed beneficiaries capable of work increased considerably from 0.783 to 1.306 million people. Their share of all beneficiaries capable of work increased from 16 to 30%. This increase occurred in the period between 2005 and 2008, while in the following years the numbers fluctuated around this level.

While on the one hand the number and share of unemployed recipients decreased in this time period, this effect was at least partially eliminated by the number and share of employed beneficiaries. While a considerable subgroup of unemployment beneficiaries capable of work left the benefit receipt, the number of employed in need of additional financial support increased. This development corresponded to the growing significance of precarious forms of employment on the German labour market.

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<sup>13</sup> This benefit, whose level is 60% (with children: 67%) of the last net wage, is paid if the jobless person has contributed to the unemployment insurance fund for a minimum of one year within the last three years. The regular maximum period for benefit receipt of twelve months is prolonged for older unemployed people, with 15 months of benefit payments for people aged over 50 years, 18 months for people aged over 55 years and 24 months for people aged over 58 years. Furthermore, the benefit receipt is linked to the readiness to actively look for a job and to availability for the job placement efforts of the employment agency. The latter include the obligation to participate in activating measures offered by the employment agency.



The number of the third subgroup, beneficiaries neither unemployed nor employed, hardly changed in this decade. It decreased from 1.429 in 2005 to 1.204 in 2014; the respective share only went down from 28 to 27% of all beneficiaries capable of work.

#### (4) Beneficiaries and target groups for activation

In 2014, 6.098 million people were recipients of 'basic income support for job seekers'. How many of them are subject to activation measures?

Excluded from activation measures are, on the one hand, beneficiaries not capable of work who live in needs communities with beneficiaries capable of work (in 2014, 1.711 million people). Also excluded are beneficiaries capable of work who are neither unemployed nor employed. In 2014 this group contained 1.204 million people. Those beneficiaries who are employed and top-up their earned income with unemployment benefit 2 are also normally not subject to activation measures. However, they can get different kinds of in-kind support to improve their labour market participation and their earned income. Subject to activation and integration measures are, therefore, only unemployed beneficiaries who in 2014 at 1.877 million people represented only 43% of the beneficiaries capable of work and 31% of all beneficiaries. In contrast to the high priority given to activation policy in the law and in the political rhetoric, only a minority of all beneficiaries (30%) and also of the beneficiaries capable of work (43%) are subject to activation and integration measures. This discrepancy is normally not discussed in the public debate.

A research report by the Institute on Employment Research on solidified unemployment has come to the conclusion that the life of recipients of basic income support for job-seekers is characterised by a high degree of mobility and flexibility. The diverse activities of recipients, even at their own initiative, clearly contradicts the public image of a passive recipient of transfers who feels that it is desirable to live on welfare benefits. It is quite apparent that achieving biographical stability in gainful employment is a major goal for the long-term unemployed (Hirseland, Lobato 2010).

## 6.2.2 Long-term unemployment and duration of benefit receipt

### (1) Long-term unemployed in the last safety net

One main objective of the 'basic income support for job seekers' was to reduce the number and share of long-term unemployed in Germany. In the new double structure of social protection for unemployed, the task of this minimum income scheme is mainly to provide benefits and services for this target group.

In the year 2014, the total number of registered unemployed of 2.898 million people was composed of 1.821 million short-term and 1.077 million long-term unemployed. Over-represented among them were unemployed people without a professional qualification, unemployed people of foreign nationality and unemployed aged 55 plus. The long-term unemployed were split up into 0.126 million people in the competence of Social Code Book III and 0.951 million in the competence of the Social Code Book II.

- In the year 2014, the number of long-term unemployed according to the ILO concept was 0.919 million people, which compared to the year 2005 (2.180) meant a reduction of 1.261 million people or 57.8%. Also the share of all unemployed fell from 52.8 to 44.3%.
- The number of registered unemployed also went down between 2005 and 2014, however, the decline from 1.681 to 1.077 of 0.604 million people or 35.9% was significantly lower. The share of all registered unemployed only declined from 38.4 to 37.2%.

According to these figures, a significant reduction in long-term unemployment has been achieved, if we refer to the ILO concept. With regard to the national indicator of registered unemployment, the reduction was much smaller. And the share of all registered unemployed has hardly declined, from 38.4% in 2005 to 37.2% in 2014. While the number and share increased between 2005 and 2007, it decreased again in the following years.

The small reduction in the number and the continuously high share of registered long-term unemployed indicate that despite the positive development on the labour market labour market policy had difficulties fulfilling the task of re-integrating this group into the labour market. There are still big differences between regions and municipalities with regard to long-term unemployment.

## (2) Duration of benefit receipt

During the year 2014, a stock of recipients of unemployment benefit 2 of 4.39 million people were registered. In the same year, 1.73 million people capable of work entered this benefit scheme. Among them, 31% had already been in benefit receipt within the last 3 months, 48% had been in benefit receipt within the last twelve months. Finally, within the same year, 1.85 million beneficiaries left the benefit receipt, 25% of them returned within the following three months (Bundesagentur für Arbeit 2015, 'Hintergrundinformationen zur Grundsicherung April 2015').

The total risk of being a recipient of 'basic income support for job seekers' can be divided in two partial risks (Bundesagentur für Arbeit 2013): the entry risk of becoming a recipient of 'basic income support for job seekers', and the risk of remaining a benefit recipient. Table 11 presents data for the stock, entrants and finished durations of benefit receipt in 'basic income support for job seekers' in 2011 for all beneficiaries and for selected subgroups:

- In the year 2011, 9.8% of the population aged under 65 received 'basic income support for job seekers'. Children under 15 years and foreigners had above-average rates of benefit receipt.
- The entry rate of the total population under 65 years was 3.9% in 2011. Children and young adults (under 25 years) and foreigners had above-average rates.
- The finished duration of benefit receipt in 2011 – measures in median months – was 15 months. 23% of finished durations included a benefit receipt of 4 and more years. Elderly and foreign people had above-average median months. The same groups had the highest shares of finished durations of 4 and more years.

The median unfinished duration of benefit receipt of actual beneficiaries was 42 months in the same year. Among them, 47% received benefits for 4 years or longer. The median duration of the actual beneficiaries was three times higher than the finished duration of the exits in 2011, because the stock of beneficiaries is characterised by an increasing concentration of long-term recipients (Table 12).

The Social Code Book II includes, among other things, the legal objective to prevent long-term receipt of benefits. According to the law, this objective has to be measured for beneficiaries aged 18 years and more and capable of work on the basis of the definition that long-term receipt exists when a person has received benefits for 21 months within the last 24 months.

According to this legal definition, 3.04 million or 70% of the 4.36 million recipients of unemployment benefit 2 (of 18 years and more) were long-term recipients in the year 2015. Among them 1.30 million or 43% were unemployed, and among them 0.533 million or 41% were short-term unemployed and 0.767 million or 59% were long-term unemployed. The Federal Employment Agency has drawn the conclusion from these figures that most benefit recipients are permanent beneficiaries (Bundesagentur für Arbeit 2013b, 2015c and 2016).

Long-term recipients of 'basic income support for job seekers' are not all long-term unemployed. The reason is that this benefit is paid independently of unemployment in the following situations for people capable of work:

- A person is working more than 15 hours per week but is in need of unemployment benefit 2 because of low earning and/or of a large number of persons in the household.
- A person is capable of work but is not obliged to look for work because he/she takes care of children or cares for a family member, participates in training or attends an educational institution.

- A person capable of work, aged more than 58 years and benefit recipient for more than one year does not have to be available for the labour market and is at the same time not counted as a registered unemployed person.
- A person capable of work who participates in a labour market integration measure is not counted as a registered unemployed person.

Thus long-term receipt can result for different reasons and from different life circumstances. Many of the long-term recipients have switched back and forth in their biography between the different employment status positions (unemployment, employment, neither unemployment nor employment). Elderly people and single parents have an above-average risk of becoming long-term recipients.

The Institute for Employment Research has analysed the motivation to work on the basis of an annual survey of beneficiaries aged 15 to 64 (December 2007 until July 2008). The researchers found that the great majority of beneficiaries were very involved in different kinds of activities: 29.3% were employed (most of them in 'mini-jobs'), 10.2% were in vocational training and 10.1% participated in activation measures offered by the job centres. In total, almost half of them were employed or participating in employment-related measures. Furthermore, 28.8% were involved in child care and 6.9% in long-term care. In total, 65.5% of the beneficiaries (women 77.2%, men 53.0%) were in one of these employment or family-related forms of activity. At the same time, the survey provided evidence that motivation to look actively for a job was high, as was readiness to make concessions and to accept difficult working conditions (low pay, unfavourable working hours, long commutes, etc.). The researchers found only a small group of beneficiaries who – although committed – did not actively look for a job; many of them lived in regions with few job vacancies, were elderly workers or had repeatedly participated in activation measures (Beste et al. 2010).

Even if most beneficiaries of the 'basic income support for job seekers' are long-term recipients, it is not appropriate to speak of 'welfare dependency' in Germany. The large majority of beneficiaries are actively involved in employment and family-related activities and show great motivation to work, even under precarious conditions. Even if beneficiaries do not seem to be motivated, this attitude is less a result of a general reluctance to work, and more an outcome of their own recent experiences and a realistic assessment of their labour-market chances. Significantly, these people have rarely been threatened with sanctions. Financial aspects seem to play only a minor role in the behaviour of beneficiaries, compared to other aspects of the work-life balance. Most likely, the 'mini-jobs' are poverty traps which contribute to low work intensity in low-income households. Therefore, many labour-market experts and welfare associations call for a reform of this and other precarious forms of employment.

### **6.3 Adequacy and impact on poverty prevention**

#### **6.3.1 Adequacy**

The benefit level of social minimum income schemes in Germany is aimed at guaranteeing a socio-economic subsistence level which enables recipients to participate in normal social life; at the same time, the benefit level should provide a financial incentive to seek gainful employment. This is only of relevance, however, for those recipients of 'basic income support for job seekers' who are capable of work. The conditions of benefit receipt are also designed so as to guarantee that these benefit schemes serve only as a last resort.

##### (1) Methodology

The following assessment of the adequacy of the benefit level of the social minimum income schemes in Germany is based on MIPI, a model family database of the tax and benefit systems in the European Union (Van Mechelen et al. 2011; Bradshaw and Marchal 2015).

- As a first step, we look at the net disposable income package of four standard household types living on minimum income benefits. Table 4 presents the results for the net income of households living on minimum income benefits in local currency terms, in Euro purchasing power parities, as well as in per cent of the at-risk-of-poverty

threshold, derived from the EU-SILC for 2013 and using the OECD modified scale (minimum income case).

- As a second step, we look at households living on the minimum wage. Table 5 presents the results for the net income of a single-earner family on the minimum wage (minimum wage case).

**TABLE 4** Net annual income on basic income support for job seekers in the year 2012 in Euros

|                                   | Minimum income benefits local currency | Minimum income benefits € ppp | Minimum income benefits as % of at-risk-of-poverty rate |
|-----------------------------------|--|-------------------------------|---|
| Single                            | 6,828                                  | 6,705                         | 58  |
| Couple                            | 10,428                                 | 10,240                        | 59  |
| Couple 2 children (aged 7 and 14) | 18,204                                 | 17,876                        | 67  |
| Single parent 1 child (aged 2)    | 11,672                                 | 11,461                        | 76  |

Source: CSB MIPI Version 3/2013.

**TABLE 4a** For Comparison: Minimum income benefits and poverty thresholds in 2013 in Euros

| Household types                   | Monthly minimum income benefits local currency | Monthly at-risk-of-poverty threshold (60% median) PASS 2013 | Monthly at-risk-of-poverty threshold (60% median) EU-SILC 2013 | Minimum income benefits as % of at-risk-of-poverty threshold PASS | Minimum income benefits as % of at-risk-of-poverty threshold EU-SILC |
|-----------------------------------|--|---|--|---|--|
| Single                            | 682  | 880   | 979  | 77.5%   | 69.6%  |
| Couple                            | 1,064  | 1,320   | --   | 80.6%   | --   |
| Couple 2 children (aged 7 and 14) | 1,744  | 1,848   | 2,056  | 94.4%   | 84.6%  |
| Single parent 1 child (aged 2)    | 1,158  | 1,144   | --   | 101.25  | --   |

Source: Own calculation of the base of Bertelsmann-Stiftung 2015 and Statistisches Bundesamt.

**TABLE 5 Net annual income of a single-earner family on the minimum wage in the year 2012**

|                                   | Net minimum wage local currency | Net minimum wage € ppp | Net minimum wage as % at-risk-of-poverty rate |
|-----------------------------------|---------------------------------|------------------------|---|
| Single                            | 11,911                          | 11,697                 | 101   |
| Couple                            | 14,028                          | 13,775                 | 80  |
| Couple 2 children (aged 7 and 14) | 21,923                          | 21,528                 | 81  |
| Single parent 1 child (aged 2)    | 12,258                          | 12,037                 | 80  |

Source: CSB MIPI Version 3/2013.

## (2) Results

The MIPI data show a considerable gap for all household types between the net household income provided by minimum income benefits and the household-specific at-risk-of-poverty thresholds. At 58% and 59%, the gap is higher for single and couple households, and is significantly lower for couples with two children (67%) and for single parents with one child (76%). The MIPI benefit levels for the four household types are considerably lower than the results published by the Bundesagentur für Arbeit (2013a) for the same year.<sup>14</sup>

Table 4a presents data on monthly benefits on the basis of the Federal Employment Agency and on at-risk-of-poverty threshold on the base of two different data sources (PASS and EU-SILC). The results for the minimum income benefits as a percentage of the 60 per cent threshold are in general lower, but show the same structure as comparable micro-simulations undertaken for Germany in recent years, but the level of this rate depends on the used data source (Bertelsmann Stiftung 2015; Statistisches Bundesamt: [https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/EinkommenKonsumLebensbedingungen/LebensbedingungenArmutsgefaehrdung/Tabellen/EUArmutsschwelleGefaehrdung\\_SILC.html](https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/EinkommenKonsumLebensbedingungen/LebensbedingungenArmutsgefaehrdung/Tabellen/EUArmutsschwelleGefaehrdung_SILC.html); see also Lietzmann et al. 2011; Munz-König 2013; Tophoven et al. 2015).

The results for a single-earner family on the minimum wage have to be carefully assessed, because a statutory minimum wage did not exist at that time. The MIPI data calculation was based on a virtual minimum wage that was (and still is) well above the minimum wage, which was introduced by law in Germany in January 2015. The data in table 2 are therefore hardly realistic. The new gross statutory minimum wage of €8.50 per hour lifts the full-time working single household and the two-earner couple household without children above the poverty line. But with only one earner and/or the presence of children in the household, the need to top up this low wage with 'basic income support for job seekers' is higher than is shown in Table 2 (Bruckmeier and Wiemers 2014). Because of the short period since its introduction, no evaluation results are currently available on the impact of the statutory minimum wage on income and employment.

The adequacy of the benefit level of the last safety net – as well as the conditions for benefit receipt – are the subject of a long and controversial debate in social science and social policy in Germany. The operationalization by the Federal Government of the statistical standard as a method for determining the level of the standard benefit in Social Code Books XII and II has, in particular, been criticized repeatedly by social scientists (Becker 2010; Lenze 2010; Spindler 2010) and welfare associations. As a consequence of the Decision of the Federal Constitutional Court on standard benefits according to SGB II of February 2010, in which the court ruled the procedure for determining these standard benefits by the legislature to be at least partially unconstitutional, the Federal Parliament and the Federal

<sup>14</sup> Because the standard benefit and the allowances for certain groups or need situations are fixed by law, the different levels can only result from different assumptions with regard to the coverage of housing and heating costs.

Council had to adopt a new Act on the Determination of Standard Benefits and on Changes to Social Code Books II and XII (*Gesetz zur Ermittlung von Regelbedarfen und zur Änderung des Zweiten und Zwölften Buches Sozialgesetzbuch*) in March 2011. Since then, a number of social science and social policy experts have criticised the fact that the new law has not eliminated the shortcomings and weaknesses criticised by the Federal Constitutional Court (see e.g. Becker and Schüssler 2014). In a new decision of September 2014 on the same topic, the Federal Constitutional Court came to the conclusion that these shortcomings fall within the discretion of policy makers, and so decided not to force the legislature to revise the law. Certainly, this new decision will not end the critical debate on procedural issues related to the determination of the standard benefit in Social Code Books II and XII; but it has reduced the legal requirements for the legislature.

### 6.3.2 Impact on poverty prevention/reduction

#### (1) Impact of minimum income schemes on poverty

The impact of the social minimum income schemes on poverty in Germany is determined by two decisive facts:

- The benefit level of the existing social minimum income schemes is significantly lower for all household types than the at-risk-of-poverty threshold.
- A significant proportion of those entitled to minimum income benefits do not apply; therefore, the non-take-up rate is continuously high.

As a consequence, the growing risks of (relative) income poverty are not adequately covered by this last safety net, and the number and ratio of relative-income poor have increased slowly but steadily in recent years. A sustained reduction in severe material deprivation has also not occurred.

EU-SILC data show that in 2014, almost one person in every six was living at risk of poverty in Germany – 16.7% of the population, or around 13 million people. The number and rate of people at risk of poverty have continuously increased in recent years; the rate went up between 2005 and 2014 by 4.5 %-points.

The people who have been affected to an above-average degree by the risk of income poverty are, above all, unemployed people (67.4%), single-parent households (32.9%) and people with lower education (29.1%) (Statistisches Bundesamt 2014, 2015d). Analyses of data from the Socio-Economic Panel show that the dynamics of income poverty have decreased in recent years. As a consequence of this solidification of poverty, the chances of escaping income poverty have deteriorated (Goebel et al. 2013). The continuous extremely high at-risk-of-poverty rate among the (long-term) unemployed and the growing rate of in-work poverty are the main objects of serious concern.

The minimum income schemes of the last safety net, jointly with the protection schemes of the first safety net, have contributed to a reduction in the number of people at risk of poverty in Germany. But the compensating effect of state transfers on the development of the poverty risk has weakened over the past decade. In 2014, social transfers reduced the at-risk-of-poverty rate among the population from 25.0% before transfers to 16.7% after transfers, thereby lifting 8.3%-points above the poverty threshold. In 2005 this reduction was still stronger, at 10.9%-points. The depth of poverty, measured by the relative median at-risk-of-poverty gap, has also tended to increase (from 18.9% in 2005 to 23.2% in 2014; see Table 27 in the annex). In their present form, the minimum income schemes are not appropriate for preventing the occurrence of income poverty in Germany.

#### (2) Minimum wage and minimum income benefit

On 1 January 2015, a statutory minimum wage of €8.50 was introduced in Germany. The statutory minimum wage applies in principle to all regions, branches, types of employment and groups of employees in Germany. However, several exceptions and transitional arrangements until 31 December 2016 have been inserted. Up to now, the introduction of the minimum wage can be described as a notable success: an estimated 3.7 million employees in the low wage sector have benefited from wage increases. At the same time,

the number of people in work has continued to increase and the number of unemployed has decreased.

According to the new law, a single employee with an average collectively agreed weekly work time of 37.7 hours and the statutory minimum wage of €8.50 per hour has a monthly gross wage of €1,388.62. The net wage after taxation and social insurance contribution payment is €1,040.27. In addition, he/she is entitled to housing benefits, whose amount depends on the volume of housing and heating costs. At the same time, the single employee is entitled to basic income support for job seekers. The average benefit level in 2016 is €1,053.00 and by this only around €13 higher than the net minimum wage level. The benefit level is composed of the standard benefit of €404 and of the coverage of agreeable housing and heating costs of a nationwide average amount of €349, as well as an employment allowance of €300. Because the agreeable amount of accommodation and heating costs is assessed on the basis of the local rental rates, the benefit level varies considerably between the different regions and municipalities. Above all in the metropolitan areas housing costs are higher and thus also the accepted housing costs of benefit recipients. Therefore, the level of basic income support for job seekers is higher than the before-mentioned amount. Generally, low wage households are primarily entitled to housing benefits, a means-tested benefit, which depends on the household income, the household structure and the housing and heating costs. But in 2016 this wage of the single employee is too high to for an entitlement to any housing benefit. In other household types (or types of 'need communities') the level of basic income support for job seekers is higher because of the standard benefit of the other household members and higher housing and heating costs. At the same time, these households can apply for housing benefits and – in households with children - for child benefit. The difference between net household income and minimum income benefit varies according to household size and composition, as well as to housing and heating costs. But a statutory wage will normally not be sufficient to prevent households with several household members from becoming entitled to basic income support for job seekers. First evaluations by the Institute for Labour Research have shown that the number of beneficiaries who top-up their wages with unemployment benefit II has only slightly decreased. Up to now, the impact of the statutory minimum wage on the minimum income scheme has been marginal (Bruckmeier, Wiemers 2016).

Because of the small difference between the net household income situation of a statutory minimum wage earner and of a minimum income benefit recipient, a discussion is in progress about raising the statutory minimum income level. According to the law, the level of the statutory minimum wage has to be reviewed every two years by an advisory commission and the federal government has to decide whether and how much the level is adjusted (starting in January 2017) (Bäcker 2014 and 2015).

#### **6.4 Impact on labour market integration**

The Hartz IV reform of 2003 and the introduction of the 'basic income support for job seekers' were mainly intended to restructure social protection in a more employment-friendly way and to improve the activation and labour-market integration of beneficiaries.

According to the Federal Ministry of Labour and Social Affairs, the Hartz IV reform has contributed in a decisive way to the so-called 'employment miracle' of the past decade. Also in the national as well as the international labour-market and social-policy debate, the German labour market reform package from the beginning of the millennium, and especially the so-called 'Hartz IV reform', are widely rated as a success model. This assessment is mainly determined by the positive development of the labour market and the employment system in Germany in the recent decade. The employment rate, which used to hover around 65%, rose continuously between 2005 and 2015 from 69.4% to 78.0% and thus reached a post-war peak. In the same time period, the total unemployment rate (based on the ILO concept) declined from 10.4% to 4.6%. The number and share of long-term unemployed also went down. The rate of registered unemployed showed a similar development, while the number and share of registered long-term unemployed has only declined slightly. Not even the international economic crisis between 2008 and 2010 was able to interrupt or change this development. This 'German employment miracle' has been

attributed mainly to the previous reform of activation and social protection of the unemployed.

But the positive development in employment and unemployment is only one side of the development of the German labour market. At the same time, the structure of employment has changed considerably and the gap between the total number of jobs and the standard form of employment has widened, at least until the end of the first decade, and remained at this level since then. While the number and share of regular jobs went down, the number and share of atypical and in most cases precarious forms of employment has gone up. This development was promoted by the first two Hartz reform acts, which were aimed at promoting the low-wage sector in Germany. Correspondingly, the number and share of atypical and low paid jobs has increased.

The Hartz IV reform was aimed at activating the (long-term) unemployed beneficiaries, among other things, by allowing them to combine the low earned income from work with the newly introduced minimum income benefits. Therefore the growing low-wage sector (2010: 20.4% compared to 2006: 18.6%) was an officially welcome effect of the reform package as a prerequisite for integrating at least part of the unemployed into the low-wage sector with a 'combined income package'. While the growing number of low-wage earners working in precarious jobs who have access to additional minimum income benefits was officially rated as a positive development, as 'low-paid work is better than no work', more and more labour market experts see this model not as a solution but as a new challenge in overcoming (long-term) unemployment.

Evaluation research by the Institute for Employment Research has demonstrated that only a small proportion of the long-term unemployed are successful in moving from unemployment benefit receipt to employment and most of them only find a precarious, low-paid job. The main problem is that only a small number is able to move to a better paid job. Instead of being a springboard, precarious and low-paid jobs, like mini-jobs, have become the new poverty traps on the German labour market (DGB 2012). This is the result, among others, of a job placement strategy by the job centres aimed at getting unemployed beneficiaries into work as fast as possible. For the job centres and the public funders of the basic income support for job seekers, the combination of low wage and additional benefit receipt leads to long periods of benefit receipt. Many long-term benefit receipt careers show repeated and interchanging periods of employment and unemployment. The introduction of a statutory minimum wage in 2015 defused this problem, but up to now the number of precarious jobs in general, and mini jobs in particular, has not decreased significantly.

The implementation of the Hartz reforms and the uninterrupted series of follow-up reforms have been evaluated comprehensively on behalf of the Federal Ministry of Labour and Social Affairs. Above all, the Federal Institute for Employment Research (*Institut für Arbeitsmarkt- und Berufsforschung* – IAB) is mandated by the Federal Government to continuously evaluate and monitor labour-market development and labour-market policy in Germany, and it has repeatedly provided assessments of the integration instruments. In addition, evaluations have been conducted by independent researchers.

In fact, evaluation results show a differentiated picture of the reform impacts, and to date there has been little consensus on the extent to which the labour-market reforms or the changing macro-economic framework conditions have contributed to the positive labour-market performance of the last decade (see for example, Möller et al. 2009; Akyol, Neugart and Pichler 2013; Launov and Wäldle 2013; Krebs and Scheffel 2013).

In fact, the positive development in employment was the result not so much of the Hartz IV reform, but more of the decrease in the working-age population and the increasing distribution of the labour volume over more employees. This was supplemented by economic growth mainly induced by the development of world trade and the weak Euro (Knuth 2014 and 2015).

The information compiled in this report suggests that a rather small influence on the labour market development should be assumed:



- Of the large number of beneficiaries, only a small subgroup – unemployed recipients of unemployment benefit 2 - was and is subject to activating policy, while other subgroups are either not capable of work or are already employed or legitimately involved in other activities.
- A reduction in the number of beneficiaries occurred in the last decade mainly through the decrease in the number of unemployed beneficiaries. This reduction in the number of unemployed beneficiaries can be linked to the improved employment-related service of the job centres.
- The specific activating approach of 'Hartz IV' was focused on bringing the unemployed into employment as quickly as possible. One consequence of this was a higher fluctuation on the labour market and a short duration of the new employment.
- At the same time, the number and share of employed beneficiaries has increased and the reduction of unemployed recipients partly compensated. Most of these employed recipients are employed in precarious and low-paid forms of employment.
- From the start of the 'basic income support for job seekers', the funding of activation and labour-market integration measures was not adequate given the high priority of the activation objective.
- The effect of active labour market integration measures on the integration of unemployed beneficiaries seems to be rather limited. The activation ratio increased only in the first period after introduction and went down in the following years to a lower level than before.
- The integration ratio of participants in these measures has risen, but only at the expense of beneficiaries with major integration barriers. This 'creaming policy' contributed to a better success rate, but contradicted major objectives of the law.
- Long-term unemployment (on the basis of the ILO concept) has declined greatly in the recent decade. But registered long-term unemployed have declined significantly less. In general, they have hardly profited from the positive development on the German labour market.
- The integration practice focused mainly on the promotion of those unemployed who have the best chances on the labour market, while those who have little chance are hardly promoted at all. This fatal setting of priorities was the result, among other things, of a short-term performance and financial efficiency orientation, which was determined by regulatory instructions from the Federal Employment Agency. A necessary re-orientation of the integration policy, in the context of SGB II, towards sustainable integration success has not taken place so far and should still be on the agenda.
- Also the segmented structure of the labour-market integration service for unemployed people with a legal status in accordance with SGB II or III hinders successful integration in the case of those who have a weak labour-market position. What would help would be the introduction of an integration service system based on a one-stop shop principle, offering individually tailored integration service regardless of the legal status and type of benefit being received by the unemployed person.

## **7 COST-EFFECTIVENESS OF THE SYSTEM AND OF MEASURES**

### **7.1 Public expenditure: From passive to active policy?**

#### 1) Questions and data problems

How have public expenditures on this minimum income scheme developed since the introduction of 'Hartz IV' in the year 2005? The attempt to find an answer to this question was confronted with the astonishing fact that there is not a single statistic available in

Germany that indicates the development of the volume and the structure of the costs and expenditures of the basic income support for job seekers. This fact contrasts sharply with the high priority given by the federal government of that time to the financial aspects of the reform of the benefit scheme.

One main goal of the reform was to improve the cost-effectiveness of the provision of minimum income for people capable of work. This goal was closely linked to another goal of the reform, to shift the focus from providing 'passive benefits' to 'active integration measures'. Correspondingly, the importance of funds for activation measures should be strengthened. The lack of valid data on the total costs and public expenditures on the basic income support for job seekers raises the question of whether the political actors behind the reform were really interested in its outcome. In the justification of the law, a third fiscal goal of the reform can be found according to which there should be a fair sharing of the fiscal burden of the new benefit scheme between the state level and the actors. It seems that for the assessment of the fiscal outcome of the reform the federal actors were only interested in the development of the fiscal burden of the federal state, while the states and the municipalities were only interested in the share of fiscal costs for the municipalities.

The double dual structure of benefit and service providers of this benefit scheme is one main reason for the data problems: Because the federal state and the states/municipalities could not reach agreement on who should be the provider, they agreed on the compromise to share the responsibility between two levels of the federal state: the federal state level and the level of the municipalities. At the same time, they agreed to allow a limited number of 69 municipalities to become the sole providers of benefits and services. This number was greatly enlarged in the year 2011 to 110, thus to around 25% of all municipalities (402 districts and district-free cities).

As a consequence, the Federal Ministry of Labour and Social Affairs was and is primarily interested in data on the federal expenditure on this benefit scheme. The Federal Employment Agency became responsible for collecting data on the benefit and service provision in the joint institutions. It also became responsible for collecting the data of the approved municipal providers, but it was years before this cooperation functioned, and so far data have only been published in an incomplete form<sup>15</sup>.

## (2) Development of costs and expenditures

Table 21 provides differentiated information from the Ministry of Labour and Social Affairs on the expenditure of the federal state on basic income support for job seekers. In total, the volume of federal expenditures covers all cost elements which have to be carried by the federal state, in the job centres as joint institutions, as well as in the job centres of the approved municipal providers. The volume of total cost is split into two the main groups:

- On the one hand, there are the 'passive benefits', including unemployment benefit II and social benefit, as well as the federal share of the costs of accommodation and heating. This share was and is annually negotiated between the federal state and the states (as formal representatives of the municipalities); therefore, the federal share has changed from year to year and has even varied between the different states. In total, the magnitude of this share hovered around 30% of the total costs of accommodation and heating. These costs of 'passive benefits' are refunded by the federal state (respectively the Federal Employment Agency) according to the actual amounts.
- The second group of expenditures includes the so-called integration budget (with funds for labour market integration measures) and the administration budget (with funds for the administrative staff, including case managers). Both budgets are adopted annually by the federal state and allocated to all job centres. The job centres are free to use the funds of each of the two budgets to fund the other one. The use of the money is monitored by the federal Employment Agency.

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<sup>15</sup> Even the Institute for Employment Research, the research institute of the Federal Employment Agency, is not able to provide reliable data. Unofficial data on the basis of own calculations are published by the Bremer Institut für Arbeitsmarktforschung und Jugendberufshilfe e.V.

Table 22 provides data on the municipal expenditures on 'basic income support for job seekers' which are not published in any official statistics, but can be received from the national associations of the municipalities. Included is information on the municipal share of housing and heating costs, and administrative costs. Furthermore, there is data on the in-kind 'benefit for education and participation', but no information is available on the social integration measures (also funded by the municipalities).

Table 23 and 24 provide data on the total costs of benefits and services under Social Code Book II (without social integration measures) in absolute and relative figures. These two tables are based on own calculations using the data of the federal state and the municipalities shown in the two tables mentioned above. The Federal Ministry of Labour and Social Affairs publishes data annually on the total volume of public expenditures on the 'basic income support for job seekers' (total volume and share of gross national product without further differentiation) which are considerably lower than the results presented here, because they include only a part of the municipal expenditures (the municipal share of the housing and heating costs), while other cost elements are not taken into account (see e.g. BMAS 2015).

### (3) Public spending on labour market integration measures

Since the beginning of the millennium, expenditure on active labour-market policies has been declining almost constantly – with a short-term exception during the economic crisis in 2008 and 2009. During all those years, this expenditure was considerably lower than that for the income protection of Social Code Books III and II (Kluge 2013).

With the shifting of the registered unemployed from the jurisdiction of Social Code Book GB III to II, expenditure on labour market integration measures was shifted respectively to the means-tested 'basic income support for job-seekers'. On the one hand, the decreasing costs and participants in active labour-market policy reflected the decline in the number of registered unemployed. On the other hand, it reflected a conceptual re-orientation of active labour-market policy in Germany from sustainable training and integration programmes towards short-term work and budget consolidation measures. The implementation of activation policies in the labour market did not result in either a rising activation ratio or a re-focusing on those groups with the highest need for integration support. As a consequence, the number and rate of the registered long-term unemployed have remained high and the average period of benefit receipt in 'basic income support for job-seekers' has continued to be extended; most of the benefit recipients are permanent beneficiaries (Bundesagentur für Arbeit 2013b).

Between 2010 and 2015 only, actual public expenditure on labour-market integration measures for recipients of 'basic income support for job-seekers' was reduced by around €2.8 million or 46.7% (see table 23 in the annex). This expenditure reduction on integration measures was accompanied by modest expansion in expenditure on administrative staff (including case managers) of €0.7 million, because job centres had to use part of the activation budget to cover administrative costs (Sell 2014). The cutting of expenditure for activating measures by €2.1 million was accompanied by an enforced concentration on those groups with the lowest integration barriers who promised the highest success rates. In 2012, the Federal Court of Auditors (Bundesrechnungshof 2012), summarising the results of its evaluation of the integration policy in selected job centres, emphasised that the integration practice was mainly focused on supporting those unemployed who have the best chances on the labour market, while those who have only poor chances are hardly supported at all. This fatal setting of priorities resulted, among other things, from a short-term orientation around performance and financial efficiency which was imposed by regulatory instructions from the Federal Employment Agency. A necessary re-orientation of the integration policy, in the context of SGB II, towards a sustainable integration success has not taken place up to now and should still be on the agenda.

### (4) Assessment and conclusions

According to table 23, between the years 2005 and 2015, the total volume of costs/expenditures on basic income for job seekers decreased slightly by 0.5 billion, from 44.1 to 43.6 billion Euros. Within this time period, periods of increase and periods of decrease alternated. Parallel to the sharp increase in the number of recipients, the total volume of

costs also went up in 2005 and 2006, followed by a strong decrease in 2007 and 2008. After an increase again in 2009 and 2010, there was again a sharp decrease in 2011 and 2012, followed by an increase again between 2013 and 2015. While the federal government had expected to be able to greatly reduce not only the number of benefit recipients capable of work, but also the volume of costs/expenditures with the Hartz IV reform, this hope has not been fulfilled: The reduction of total expenditures by 1.1% in this decade was very modest. In the same period, the federal expenditures have also only slightly declined by 1.7 billion (or 4.7%) from 35.2 to 33.5 billion Euros. Both federal and total expenditures have declined less than the number of beneficiaries in this decade, because the latter declined by 9.7%.

The assessment of these trends must keep in mind that the legal framework of the basic income support for job seekers has been reformed again and again in this time period. Most of these reforms were aimed at preventing a further increase in public expenditures. In fact, the tightening of entitlement to and conditions of benefit receipt and the repeated cuts in the integration budget etc. contributed to the small reduction of expenditures.

In the same time period, the shares of the federal state and of the municipalities in the total volume of costs/expenditures have fluctuated constantly. This development reflects the results of the ongoing negotiations on and adjustments to the shares of the fiscal burden between the two state levels. In total, the federal state was successful, reducing the share of the federal expenditures (from 79.7 to 76.9%), while the municipalities suffered from an increase in their fiscal burden (their share went up from 20.3 to 23.1%).

More interesting was and is the development in the passive and the active segment of the total expenditures. During the first eleven years of Social Code Book II, the large majority of spending went to passive, income protection related benefits, while only a small part of the spending went to activating services and measures. While in 2005 15.9% and in 2006 only 18.0% of public expenditures were invested in active measures, this proportion was raised until 2010 to 23.4% and went down again continuously in the following years to 20.4% in 2015. Only in the first years did this rise in the proportion of activating measures corresponded to an absolute increase in expenditure (up to 11.0 billion Euros in 2010), while in the following years this investment in activation went down again to a level close to that of 2006. If we neglect the first two years, when the local job centres were mainly involved in implementing the new scheme and providing the subsistence benefits, the 'active budget' has fluctuated around 20% of the total expenditures. The increase in active expenditures was capped especially between 2010 and 2011.

At the same time, the relationship between the integration budget and the administration budget was shifted towards the latter. This resulted from the need of the local job centres to use this money for the funding of more administrative staff. Through this, the necessary improvement in the funding of the counselling and placement service was at the expense of the provision of integration measures. Despite the slight decrease in the number of beneficiaries, the expansion of the labour market integration service was necessary because – as a consequence of the successful integration of short-term and well trained unemployed - the composition of the beneficiaries shifted towards a growing proportion of persons with severe integration barriers. As a consequence, the budget for labour market integration measures was under constant pressure and declined until 2015 to a level below that of 2004.

To sum up: The relationship between the 'passive' and 'active' budgets has not changed in any distinct way. A shift of fiscal priorities from passive to active measures has not been implemented in this time period. The shift towards an activating policy has been more rhetorical than real.

The comparison between the stagnating development of public expenditures on activation and the decreasing development of the number of unemployed recipients of unemployment benefit 2 shows a somewhat different picture. According to table 25 in the annex, not only has the amount of total expenditure per capita gone up by €7,007 or 44.0%, but also the sum of activating expenditures per capita has increased by €2,184 or 84.3%, and the expenditures of the integration budget per capita by €789 or 60.4%. These figures thus paint an impressive picture of rising public spending on activation under Social Code Book II. But again it must be kept in mind that this increase mainly took place in the first years

of Hartz IV, whereas in the following years the declining volume of spending was overcompensated by the even stronger decline in unemployed beneficiaries. Furthermore, the increase of per-capita spending was accompanied by a problematic targeting of integration measures, as most of the spending was on those groups with the best chances on the labour market.

The activating effect of the basic income support for job seekers could be improved even with an unchanged volume of costs/expenditures. The use of the funds for passive benefits for the funding of activating measures would be necessary. In Germany this approach is currently being discussed under the heading 'active – passive- exchange'. Up to now, the use of funds for 'passive benefits' for integration measures is strictly forbidden and technically not possible, because the job centres do not get a budget for these payments, as the funding is provided by the Federal Employment Agency on the basis of individual cases only. The Federal Ministry of Labour and Social Affairs fears that the introduction of budgets for benefit payments would weaken the national control of the job centres (and their use of federal money) and could possibly lead to an abuse of funds for tasks which are in the competence of the municipalities. The double dual institutional structure of the Social Code Book II in combination with the federal structure of the German state reinforce each other in hindering an effective use of public expenditure.

(5) Did the introduction of the SCB II at least mean an active turn' in labour market policy?

The development of federal expenditures on labour market policy in general and on active measures before and after the introduction of the Social Code Book II is of special interest. According to table 26 in the annex, the volume of federal expenditures on labour market policy under Social Code Book III and II increased from 2004 to 2005 from 74.5 to 82.9 billion Euros. While the expenditures for unemployment benefit I started to decline from 92.1 to 27.0 billion Euros, and those on unemployment assistance dropped from 18.8 to 1.5 (final payments) billion Euros, those on basic income support for job seekers jumped from 0.00 to 22.4 billion Euros. In total, the expenditures on 'passive benefit payments' went up from 47.9 to 50.9 billions Euros. Despite this increase, their share with regard to total federal expenditures went down from 66.1% to 62.9%, because the expenditures on unemployment benefit 1 went down and the volume of total expenditures increased. At the same time, the net expenditures on 'current assistance towards living expenses outside institutions' under Social Code Book XII dropped from 8.8 to 1.2 billion Euros.

From 2004 to 2005, the volume of federal expenditures on active labour market policy went down from 19.5 to 16.9 billion Euros; their share decreasing from 26.2% to 20.3%. The volume of expenditures on active labour market policy by the municipalities in the context of social assistance cannot be taken into account because no data are available at national level. A great number of municipalities had actually introduced active measures starting in the 1980s and 1990s because the number and share of unemployed among their social assistance recipients had dramatically increased (Hanesch 2003). These measures were stopped with the introduction of the 'basic income support for job seekers' and the provision of federal money for integration measures. But even if we neglect this part of active labour market policy measures and focus only on federal spending, the introduction of Social Code Book II was accompanied by a reduction in expenditures on active labour market measures, in absolute as well as in relative terms. At the same time, the expenditures on 'passive' benefits went up (absolute and relative) – which is hardly an indicator of an 'active turn' in labour market policy. This result would be even more negative, if we had data on the respective expenditures of the municipalities.

According to table 26, this development continued: In 2014, the volume of expenditures for passive benefits and active measures continued to go down, as did the respective shares. At the same time, the ratio between active and passive expenditures, which had jumped between 2004 and 2005 from 1 : 2.5 to 1 : 3.1, continued to go up, to 1 : 3.6 in 2014. In summary: over the total period from 2005 to 2014 the relationship between 'active' and 'passive' expenditures shifted towards the latter. If anything, we can speak of a shift from active to passive expenditures and to administrative expenditures (see also chapter 5.2).

## 7.2 Outcome and cost effectiveness

The results of output indicators as well as the results of the development of public expenditure on 'basic income support for job seekers' show a mixed picture:

### (1) Benefit receipt

Indicators of the volume and duration of benefit receipt demonstrate that the aim of rapidly reducing the volume and duration of benefit receipt has not been fulfilled.

- The share of recipients who are targeted by the integration services and measures is rather small compared with the total number of recipients. As a consequence, the total number of beneficiaries has only slightly declined in the last decade.
- The number of unemployed beneficiaries of unemployment benefit II (under Social Code Book II) has decreased, but much more slowly than the recipients of unemployment benefit 1 (under Social Code Book III).
- The decrease in the number of unemployed beneficiaries has partly been compensated by the increase in those in employment. Many of them are employed in so-called mini-jobs.
- The pushing of unemployed beneficiaries into employment as quickly as possible had only limited success. Many of them have moved to precarious forms of employment and have to top-up their earned income with minimum income benefit.
- At the same time, the duration of stay in employment is rather short, and switching between unemployment and employment is widespread. Also, the duration of stay has continued to go up. More **than 2/ of** beneficiaries are long-term beneficiaries.
- Labour market integration measures have only played a limited role with regard to integration into employment. The activation ratio has remained low. The integration ratio has gone up, showing a higher share of participants moving to employment. But at the same time, these measures were focused on those groups who had the best prerequisites for positive success rates.

### (2) Employment

These mixed results in the indicators of benefit receipt are completed by rather positive results with regard to employment:

- In the same period of time, the German labour market exhibited a very positive picture, with increasing employment rates and decreasing unemployment rates.
- This positive picture is clouded by a growing differentiation in the forms of employment, with precarious and low-paid jobs gaining in importance. These jobs have contributed to the fact that many transitions to work have not ended the benefit receipt.
- Even if the introduction of a statutory minimum wage has implemented a wage floor in 2015, the further development of this employment sector is still an open question. Because
- there is as yet no activation policy oriented towards a sustainable integration of the beneficiaries into the labour market.

### (3) Income poverty

What was and still is the impact of this benefit scheme on net household income and income poverty?

- During the last decade, the slow but steady increase in income poverty has continued. The 'basic income support has also not been able (and was not intended) to prevent the occurrence of income poverty. It has merely contributed towards reducing the poverty gap. However, the data show that the redistributive effect of all social benefits has declined in recent years.
- A main focus of concern is the fact that, above all, labour market related poverty shows worrying results: The income poverty rate among the unemployed hovers at a record level compared to other EU member states. And the rate of in-work poverty has steadily increased in recent years.

- The legal framework for determining the benefit level was aimed at guaranteeing a socio-economic subsistence level, but at the same time, the benefit level was not to contribute towards reducing the incentive to work. The avoidance of a poverty trap was a major goal of this benefit scheme.

- The benefit level in the German social policy debate was and still is the focus of controversial debates. There is actually a considerable difference in the individual household income of a single person between an average or even low-paid job and the situation of benefit receipt. Only if there are dependent family members in the needs community does the benefit level and the net household income ??come close together??. But this is mainly due to an inadequate system of family benefits.

- Generally, the role of monetary incentives in this benefit scheme is rather small. The impact of the earnings disregard was restricted in order to avoid additional costs. The main demanding impact results from the control and sanction regulation, not so much in the form of the actual sanctions, whose number is still rather low, as in the form of a permanent threat.

The goal of poverty prevention or reduction has never played a major role in the activation concept of the political actors in Germany with regard to the 'basic income support for job seekers'. The central idea of the activation concept of the Social Code Book II was the promise that a reduction in the social protection of beneficiaries capable of work would be compensated by all the efforts to support beneficiaries in ending their receipt of benefits as quickly as possible.

This promise has not been redeemed: While the benefit level for unemployed persons after expiry of the entitlement to unemployment benefit 1 is limited to a subsistence level, the chances for labour market integration for most of the beneficiaries have not been improved. In contrast, beneficiaries of 'basic income support for job seekers' have become a population group which is under threat of being excluded long-term or even permanently.

#### (4) Expenditures/costs and effectiveness

Compared with the high volume of public expenditure on 'basic income support for job seekers' these results are sobering. In contrast to many positive success indicators, the number of recipients has remained high and the duration of benefit receipt has not been shortened; the impact on employment and poverty are marginal. At the same time, the business logic of the system has led to a number of problematic effects and results.

According to the Social Code Book II, the provision of services and benefits is legally bound to give priority to an economical and cost-efficient use of public funds. At the same time, a business control logic has priority over a (macro-)economic or even social logic. In the context of the federal structure of the German minimum income system, this business logic is the cause of major problems which shall be highlighted in the following summarising chapter.

### **7.3 Main challenges of the German minimum income system**

The German minimum income system was developed and implemented under specific historical, socio-economic and political-institutional conditions and is therefore hardly a model for other countries. Above all, the specific framework conditions of the federal structure of the German political and administrative system determined the design of this system. This applies above all to the newly-introduced 'basic income support for job seekers', which is the focus of this report. The complex double dual institutional structure and the non-transparent volume and structure of funding, as well as the regulation of the benefit and service provision procedures are the result of the difficult interaction between the state levels and actors.

In this chapter some of the main problems and challenges of the German model are outlined once again. The question of which lessons can be learned from the German minimum income system will be answered by highlighting problematic options that should be avoided.

#### (1) Overall design of the benefit and service scheme

### (1.1) Two-tier system in the social protection and activation of the unemployed

The two-tier system of social protection and activation of unemployed people in Germany is closely linked to two separate funding and business calculation systems. As a consequence, those groups with major integration problems are de facto excluded from activation and integration services and measures as long as they stay in the competence of the SCB III. Only after transition to the job centres, is an intensive activating process initiated according to the principles of promoting and demanding under Social Code Book II. This 'perverse effect' results from the fact that the Federal Employment Agency and the local employment agencies are focused on beneficiaries with the best success rates in the short term. There are more areas where the division of labour between Social Code Book III and II and between the public employment agencies and the job centres leads to severe problems in the activation and integration of the unemployed (This also applies e.g. to the job placement and training of young job entrants),

### (1.2) Impacts of the double dual institutional structure

The double dual structure of this benefit and service scheme hampers successful work in many ways: In the regular variant of the joint institutions, cooperation with the local employment agency is eased as this agency is part of the joint institution. But at the same time, cooperation with the municipal social administration is normally difficult. With the 'approved municipal providers', cooperation between the job centre and the welfare office and other social departments is easier, while cooperation with the employment agencies is rather difficult because of the more or less latent competition between the two institutional variants. Within the joint institution, cooperation is also often rather difficult because the staff of these joint institutions are, in formal terms members, of their separate institutions (employment agency or municipality) and are only **lent out** to the joint institution, thus hindering a common philosophy and practice.

### (1.3) Intention to minimize the fiscal burden

The 'basic income support for job seekers' was introduced with the objective of making it possible to reduce public expenditures on passive benefits and activating measures. Since then, expenditures are authorized with the strict specification that the volume of expenditure should be reduced. As a consequence, the funding of labour market service and activation measures was adopted and provided at a minimum level, which contrasted with the far-reaching aims and goals enshrined in the law. In general, the federal funding never matched the integration goals and this conflict was passed on to the job centres and case managers. The focus of the follow-up reforms was also extremely short-term in orientation and never linked with the idea of investing in people so as to improve their long-term integration. Therefore, spending on integration measures was not so much the core element of the 'activation reform', but more a field for cuts so as to limit the development of overall expenditures.

## (2) Labour market service and integration measures

### (2.1) Short-term placement instead of sustainable integration

Despite the positive development in the employment system, the integration chances of beneficiaries capable of work have hardly improved. The long-term unemployed in particular have not profited from this German 'employment miracle', even if the job placement and counselling service are positive, especially if provided as an integrated part of labour market case management. However the job placement strategies of the job centres are aimed at bringing the beneficiaries capable of work into employment as quickly as possible. Yet most of the placed job seekers remain in their job only for a short period of time and many of them remain in, or return to, benefit receipt. What seems to be efficient in the short term proves to be rather ineffective in the mid- and long term. Better results could be achieved through an enabling activation strategy aimed at a sustainable integration of the beneficiaries.

### (2.2) Centralised and standardized instead of tailor-made activation measures

The legal framework of the 'basic income support for job seekers' includes a broad range of integration measures, but the small size of the integration budget has limited the volume



of integration measures. Furthermore, part of the integration budget had to be used for the funding of the labour market service. So labour market integration measures are of secondary importance in the German activating concept. The provision of integration measures by the job centres is characterized by the dominance of highly standardized programmes which are determined by the Federal Employment Agency for the job centres. In contrast to the aim of the law, there is hardly any leeway for individual tailor-made integration measures.

### (2.3) Efficient 'perverse selection' of participants in activation measures

The evaluation of participation in integration measures has provided evidence that in recent years the job centres have concentrated on beneficiaries capable of work with good chances and perspectives on the labour market, while those who are farthest from the labour market have the poorest chances of being activated and integrated. Characteristically, the long-term unemployed are clearly underrepresented among participants in integration measures. This 'perverse selection' of participants by the job centres is the result of the business logic pursued by the Federal Employment Agency in their requirements of the job centres. To be able to provide positive success rates to the political actors and the public, it is necessary to concentrate on those beneficiaries who are easiest to integrate.

## (3) Design of the benefit scheme

### (3.1) Generalised assumption of misuse of benefits

The German Hartz IV reform was mainly based on the assumption that a large group of unemployed beneficiaries of the former unemployment assistance and social assistance was not adequately motivated to actively look for a job, but were content instead to 'live in a social hammock'. Based on this assumption, the instruments for monitoring, controlling and sanctioning play a dominant role in the German activation concept. The assumption of a 'poverty trap' with regard to the social protection system for unemployed people also plays a major role in the justification of the reform and the design of the benefit scheme. This was and is all the more remarkable as no reliable empirical evidence for the relevance of such a 'trap' for the job search behaviour and for an assumed lack of motivation has been provided either before or after the reform. All available surveys show a high motivation to work before as well as after the reform was implemented (see e.g. Brenke 2010).

### (3.2) Capping the benefit level

Even if the German minimum income system is based on a **scientifically determined system**, the so-called 'statistical standard method', the Federal Ministry of Labour and Social Affairs has repeatedly modified this system to achieve a benefit level which was considered harmless from a labour market policy aspect. The determined benefit level is low enough to ensure a financial incentive to take up a job (with the exemption of larger needs communities). At the same time, the task of preventing income poverty has not been fulfilled. Minimum income benefit schemes contribute towards lowering the poverty gap but have not been able to stop the increase in income poverty (above all, among unemployed people). Even in the case of transition to a job, there is a high risk that many of those are precarious jobs and not sufficient to guarantee a living without additional benefits. These precarious jobs have become a new form of poverty or precarity trap.

### (3.3) Low take-up rate

Even if the non-take up rate of 'basic income support for job seekers' has declined compared to the social assistance scheme, it is still at a worryingly high level. If the non-take up rate was between a half and two-thirds before the Hartz IV reform, it went down to around 40% some years after the new benefit scheme was adopted (Bruckmeier, Wiemers 2011). This non-take up is not only due to a lack of information etc., but also the result of the demanding practice of providing benefits and services, above all, for young adults. The assumption that waiving is 'rational behaviour' because the costs of claiming benefits are too high compared to the potential advantage of receiving them (Riphon 2001) applies only to a small proportion of those entitled to benefits.

## 8 RECOMMENDATIONS

In principle, the implementation of the activation paradigm was and is still broadly welcomed and accepted in the political and academic debate in Germany. But the specific activation approach which was implemented in the Social Code Book II became the focus of extremely controversial debates. Up to now, this situation has not changed. A broad acceptance of HARTZ IV has not happened so far. In the following, some conclusions of the current debate and recommendations derived therefrom shall be outlined:

### (1) One-stop shop for all job seekers

Even if there is a two-tier system in the social protection of the unemployed, a two-tier activation system should also be introduced. What would be necessary is a one-stop shop for all job seekers who can apply for different protection schemes according to their individual prerequisites and needs. Through this, access to activation services and measures could occur at the earliest possible date. This would require that the local employment agencies and the job centres would have to be merged, with one activation division for all (unemployed) job seekers and combined with one single (or maybe two differentiated) administrations to process the application for benefits. Unfortunately, this solution is out of reach in Germany because of the federal structure of the protection system.

### (2) Adequate funding of the minimum income scheme

It should be made clear in the political and public debate that a thorough reform of social protection and activation for the unemployed requires adequate funding. Instead of scheduling the profit from the reform in advance, the planning and provision of funding should be adjusted to the needs of a successful implementation of the reform. A reform with the focus on activation services and measures should not be permitted to treat the integration budget as a residual issue for the balancing of the total budget. In this context, ??all ways should be proved?? (all possibilities should be tested?) to allow the use of money for passive benefit payments for activation measures.

### (3) Enabling activation for sustainable integration

A re-orientation towards an enabling approach to activation should focus on those groups with the weakest position on the labour market and place emphasis on stronger investment in human capital to improve their employability and their long-term integration. Even if such an approach is less cost-effective in the short-term, its mid- and long-term effectivity is higher than that of the demanding work-first approach because of improved chances for sustainable integration.

### (4) Focus activation on those with the highest need for support

Up to now, a real "activation agenda", i.e. investment in human resources by enabling schemes appropriate for empowering citizens to earn their living, has been postponed for the future. In fact, the role of the enabling elements in the German activation mix should be strengthened right now. The more the number of the unemployed declines, the more it can be assumed that the need for support of those who stay in benefit receipt will increase, and the more need there will be for an enabling approach to activations aimed at improving the employability and the long-term integration of these beneficiaries. Above all, the personal integration agreement must become more balanced towards genuine tailor-made integration measures for those groups with severe integration barriers,

### (5) Benefit level and trade-off

In Germany, like in most countries, the benefit level of minimum income schemes is limited with the intention of maintaining the financial incentive to work. This objective is legitimate, the practical consequences, however, depend on the answer to the question of how important financial goals are for the claimants affected. From my perspective, the importance of such incentives is systematically overestimated as long as non-financial motives and interests are not considered. If these are taken into account, the trade-off between the objectives of social protection and the incentive for gainful employment is mitigated and the scope for political action extended (Hanesch 1999).

### (6) Reduction in non-take up rate of benefits

A method-mix would be necessary to reduce the non-take up rate: raising public awareness of minimum income schemes and the conditions of entitlement would be helpful. Also emphasis on the receipt of minimum income benefits as a legal claim could contribute towards de-stigmatising the receipt of benefits. Finally, a change in the activation policy towards an enabling approach could lead to a higher take-up rate for 'basic income support for job seekers'.

(7) Other elements

A part of the need for minimum income benefits is related not to the labour market situation, but to the number of children and the volume of housing costs of the beneficiaries. An improvement in the housing situation, above all, in metropolitan areas (through the construction of affordable housing) and/or an improvement in housing benefits could reduce the need for minimum income benefits. The same applies to an improvement in family benefits.

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**ANNEX 1: SUMMARY TABLE**

| <b>Assessment of minimum income scheme: basic income support for job seekers</b>   |                      |                      |                     |                      |
|--|----------------------|----------------------|---------------------|----------------------|
|  | Assessment           |                      |                     | Evolution over time* |
| <b>Adequacy</b><br>How adequate is the level of minimum income (MI) benefits?  | Adequate             | Somewhat inadequate  | Very inadequate     |                      |
|  |                      |                      | <b>X</b>            | <b>SQ</b>            |
| <b>Coverage</b><br>How extensive is the coverage of people in need?  | Fairly comprehensive | Partial              | Very limited        |                      |
|  | <b>X</b>             |                      |                     | <b>SQ</b>            |
| <b>Take-up</b><br>How complete is the take-up of MI benefits by those entitled to them?  | Fairly complete      | Partial              | Quite limited       |                      |
|  |                      | <b>X</b>             |                     | <b>SQ</b>            |
| <b>Impact on Poverty Reduction (1)</b><br>What is the impact of MI provision in reducing the at-risk-of-poverty rate?              | Strong impact        | Partial impact       | Very limited impact |                      |
|  |                      |                      | <b>X</b>            | <b>SQ</b>            |
| <b>Impact on Poverty Reduction (2)</b><br>What is the impact of MI provision in reducing intensity/depth of poverty?               | Strong impact        | Partial impact       | Very limited impact |                      |
|  |                      |                      | <b>X</b>            | <b>SQ</b>            |
| <b>Link to ALMP</b><br>In practice, how effective are the links between MI scheme(s) and ALMP measures?                            | Very effective links | Moderately effective | Very ineffective    |                      |
|  |                      | <b>X</b>             |                     | <b>SQ</b>            |
| <b>Link to Adequate Services</b><br>In practice, how effective are the links between MI scheme(s) and access to adequate services? | Very effective links | Moderately effective | Very ineffective    |                      |
|  |                      |                      | <b>X</b>            | <b>SQ</b>            |

\* SQ = Status Quo

## ANNEX 2: TABLES AND FIGURES

**TABLE 1 Registered unemployed persons 2010 – 2015: Absolute figures in 1000 and percentages**

|  | 2005            | 2006            | 2007            | 2008            | 2009            | 2010            | 2011            | 2012            | 2013            | 2014            | 2015            |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Registered unemployed persons            | 4,861<br>(100%) | 4,487<br>(100%) | 3,761<br>(100%) | 3,259<br>(100%) | 3,415<br>(100%) | 3,239<br>(100%) | 2,976<br>(100%) | 2,897<br>(100%) | 2,950<br>(100%) | 2,898<br>(100%) | 2,794<br>(100%) |
| - Registered unemployed persons SGB III  | 2,091<br>(43%)  | 1,663<br>(37%)  | 1,246<br>(33%)  | 1,007<br>(31%)  | 1,190<br>(35%)  | 1,076<br>(33%)  | 0,893<br>(30%)  | 0,902<br>(31%)  | 0,970<br>(33%)  | 0,933<br>(32%)  | 0,859<br>(31%)  |
| - Registered unemployed persons SGB II   | 2,770<br>(57%)  | 2,825<br>(63%)  | 2,515<br>(67%)  | 2,252<br>(69%)  | 2,225<br>(65%)  | 2,163<br>(67%)  | 2,084<br>(70%)  | 1,995<br>(69%)  | 1,981<br>(68%)  | 1,865<br>(68%)  | 1,936<br>(69%)  |
| Unemployment rate*                       | 11.7%           | 10.8%           | 9.0%            | 7.8%            | 8.1%            | 7.7%            | 7.1%            | 6.8%            | 6.9%            | 6.7%            | 6.4%            |
| - Unemployment rate Social Code Book III | -               | 4.0%            | 3.0%            | 2.4%            | 2.8%            | 2.6%            | 2.1%            | 2.1%            | 2.3%            | 2.2%            | 2.0%            |
| - Unemployment rate Social Code Book II  | -               | 6.8%            | 6.0%            | 5.4%            | 5.3%            | 5.1%            | 4.9%            | 4.7%            | 4.6%            | 4.5%            | 4.4%            |

\* Proportion of total economically-active civil population

Source: Bundesagentur für Arbeit (Arbeitslosenstatistik)

**TABLE 2** Unemployed and long-term unemployed 2004 – 2015: Absolute figures in 1000 and percentages

|  | 2004  | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2015  |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Unemployed                               | 4,127 | 4,506 | 4,104 | 3,473 | 3,018 | 3,098 | 2,821 | 2,399 | 2,224 | 2,182 | 2,090 | 1,950 |
| Share of active population (ILO concept) | 10.4% | 11.2% | 10.1% | 8.5%  | 7.4%  | 7.6%  | 7.0%  | 5.8%  | 5.4%  | 5.2%  | 5.0%  | 4.6%  |
| Long-term unemployed                     | 2,180 | 2,400 | 2,265 | 2,012 | 1,623 | 1,447 | 1,380 | 1,189 | 1,043 | 1,009 | 0,919 | 0,851 |
| Share of all unemployed                  | 52.8% | 53.0% | 55.7% | 56.5% | 52.5% | 45.5% | 47.3% | 47.9% | 45.4% | 44.7% | 44.3% | 43.6% |
| Share of active population (ILO concept) | 5.5%  | 5.9%  | 5.7%  | 4.9%  | 3.9%  | 3.5%  | 3.3%  | 2.8%  | 2.4%  | 2.3%  | 2.2%  | 2.0%  |
| Registered unemployed                    | 4,381 | 4,861 | 4,487 | 3,761 | 3,259 | 3,415 | 3,239 | 2,976 | 2,897 | 2,950 | 2,898 | 2,795 |
| Share of active population               | 10.5% | 11.7% | 10.8% | 9.0%  | 7.8%  | 8.1%  | 7.7%  | 7.1%  | 6.8%  | 6.9%  | 6.7%  | 6.4%  |
| Registered long-term unemployed          | 1,681 | 1,759 | 1,864 | 1,733 | 1,327 | 1,138 | 1,140 | 1,068 | 1,047 | 1,070 | 1,077 | 1,039 |
| Share of all registered unemployed       | 38.4% | 36.2% | 41.6% | 46.1% | 40.7% | 33.3% | 35.2% | 35.9% | 36.1% | 36.3% | 37.2% | 37.2% |

## The German minimum income system

|  |      |      |      |      |      |      |      |      |      |      |      |      |
|--|------|------|------|------|------|------|------|------|------|------|------|------|
| Average duration of unemployment in weeks          | 64.9 | 63,4 | 68.4 | 78.7 | 75.0 | 64.6 | 64.4 | 65.6 | 65.4 | 66.3 | 68.7 | 70.3 |
| Average finished duration of unemployment in weeks | 38.1 | 38.4 | 40.1 | 45.6 | 42.1 | 36.9 | 37.9 | 37.1 | 37.1 | 37.4 | 38.1 | 38.0 |

Source: Bundesagentur für Arbeit (Arbeitslosenstatistik), BMAS

**TABLE 3** Recipients of social minimum income benefits at the end of years 2008 to 2014 (absolute figures)

|                   | 2005 | 2006 | 2007 | 2008  | 2009  | 2010  | 2011  | 2012  | 2013      | 2014  |
|-------------------|------|------|------|-------|-------|-------|-------|-------|-----------|-------|
| Germany           |      |      |      | 7,646 | 7,761 | 7,537 | 7,258 | 7,249 | 7,385     | 7,553 |
| - Western Germany |      |      |      | 5,242 | 5,394 | 5,275 | 5,089 | 5,118 | 5,270     | 5,459 |
| - Eastern Germany |      |      |      | 2,404 | 2,368 | 2,262 | 2,169 | 2,132 | 2,115,017 | 2,094 |

Source: Statistische Ämter des Bundes und der Länder.

**TABLE 4** Number of recipients of social minimum income benefits at the end of years 2008–2014 (% of total population)

|  | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|------|------|------|------|------|------|------|
|  |      |      |      |      |      |      |      |

The German minimum income system

|                   |      |      |      |       |       |       |       |
|-------------------|------|------|------|-------|-------|-------|-------|
| Germany           | 9.3  | 9.5  | 9.2  | 9.0*  | 9.0*  | 9.1*  | 9.3*  |
| - Western Germany | 8.0  | 8.2  | 8.1  | 7.8*  | 7.9*  | 8.1*  | 8.4*  |
| - Eastern Germany | 14.6 | 14.5 | 13.9 | 13.3* | 13.4* | 13.3* | 13.1* |

\* Based on data of the 2011 census.

Source: Statistische Ämter des Bundes und der Länder.

**TABLE 5** Number of recipients of social minimum income benefits according to benefit schemes at the end of years 2008–2014 (in 1000)

| Year | In total | Basic income support for job seekers (SCB II) |                         |                | Current assistance towards living expenses outside institutions (SGB XII) | Needs-based pension supplement in old age and in the event of reduced earning capacity (SGB XII) | Basic support for asylum seekers | War victim assistance |
|------|----------|---|-------------------------|----------------|---|--|----------------------------------|-----------------------|
|      |          | In total                                      | Unemployment benefit II | Social benefit |   |  |                                  |                       |
| 2004 | 3,684    | (2,194*)                                      |                         |                | 2,926   | 526  | 232                              |                       |
| 2005 | 8,024    | 7,101   |                         |                | 81  | 630  | 212                              |                       |
| 2006 | 8,243    | 7,284   |                         |                | 82  | 682  | 195                              |                       |
| 2007 | 7,995    | 7,020   |                         |                | 88  | 733  | 154                              |                       |
| 2008 | 7,646    | 6,612   | 4,799                   | 1,812          | 92  | 768  | 128                              | 46                    |
| 2009 | 7,761    | 6,737   | 4,908                   | 1,829          | 93  | 764  | 121                              | 46                    |
| 2010 | 7,537    | 6,469   | 4,701                   | 1,768          | 98  | 797  | 130                              | 42                    |
| 2011 | 7,258    | 6,120   | 4,427                   | 1,693          | 108   | 844  | 144                              | 42                    |
| 2012 | 7,249    | 6,037   | 4,357                   | 1,680          | 113   | 890  | 165                              | 34                    |
| 2013 | 7,385    | 6,041   | 4,350                   | 1,691          | 122   | 962  | 225                              | 34                    |
| 2014 | 7,553    | 6,026   | 4,322                   | 1,704          | 133   | 1,003  | 363                              | 29                    |

\* = Unemployment assistance

Source: Statistische Ämter des Bundes und der Länder.

**TABLE 6** Benefit recipients in Social Code Book XII 2010–2014, in December of year  
(absolute figures in 1000)

|  | 2010  | 2011  | 2012  | 2013    | 2014   |
|--|-------|-------|-------|---------|--------|
| Current assistance towards living expenses   | 319   | 332   | 343   | 370     | 382    |
| - outside institutions   | 098   | 108   | 113   | 122     | 134    |
| - in institutions  | 221   | 224   | 230   | 248     | 248    |
| Needs-based pension supplement in old age and in the event of reduced earning capacity | 797   | 844   | 900   | 962     | 1,002  |
| - in the event of reduced earning capacity   | 385   | 408   | 436   | 465     | 490    |
| - in old age   | 412   | 436   | 464   | 497     | 512    |
| Help in special life situations  | 1.261 | 1.341 | 1.295 | n.y.a.* | n.y.a. |
| - Assistance towards healthcare  | 030   | 029   | 030   | n.y.a.  | n.y.a. |
| - Integration assistance for disabled persons  | 770   | 821   | 788   | n.y.a.  | n.y.a. |
| - Assistance towards nursing care  | 411   | 439   | 423   | n.y.a.  | n.y.a. |
| - Assistance in overcoming special social difficulties                                 | 094   | 094   | 096   | n.y.a.  | n.y.a. |

\*n.y.a. = not yet available.

Source: Statistisches Bundesamt.

**TABLE 7** Recipients of basic support for asylum seekers 2008–2014

| Date       | Male    | Female  | Total   |
|------------|---------|---------|---------|
| 31.12.2008 | 75,117  | 52,748  | 127,865 |
| 31.12.2009 | 71,649  | 49,586  | 121,235 |
| 31.12.2010 | 76,791  | 53,506  | 130,297 |
| 31.12.2011 | 84,634  | 59,053  | 143,687 |
| 31.12.2012 | 99,404  | 65,840  | 165,244 |
| 31.12.2013 | 137,873 | 87,120  | 242,993 |
| 31.12.2014 | 230,364 | 132,486 | 362,850 |

Source: Statistisches Bundesamt.

**TABLE 8** Public expenditure on social minimum income schemes in 2013  
(billions of Euros)

| Minimum income schemes  | Public expenditure in billions of Euros |
|---|---|
| Basic income support for job seekers (SGB II)                             | 33.2                                    |
| Current assistance towards living expenses outside institutions (SGB XII) | 0.7                                     |

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|  |      |
|--|------|
| Needs-based pension supplement in old age and in the event of reduced earning capacity (SGB XII) | 5.4  |
| Basic support for asylum seekers   | 1.1  |
| War victim assistance  | 0.4  |
| In total   | 40.8 |

Source: Statistische Ämter des Bundes und der Länder.

**TABLE 9**Benefit recipients in Social Code Book II 2005–2014, in December of year (absolute figures in 1000 and in %)

|  | 2005            | 2006            | 2007            | 2008            | 2009            | 2010            | 2011            | 2012            | 2013            | 2014            |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Number of needs communities                  | 3,717           | 3,979           | 3,725           | 3,576           | 3,559           | 3,584           | 3,423           | 3,325           | 3,281           | 3,303           |
| Total number of persons in needs communities | 6,756           | 7,347           | 7,241           | 6,907           | 6,725           | 6,711           | 6,353           | 6,143           | 6,041           | 6,098           |
| Needy persons capable of work                | 4,982<br>(100%) | 5,392<br>(100%) | 5,277<br>(100%) | 5,010<br>(100%) | 4,908<br>(100%) | 4,894<br>(100%) | 4,615<br>(100%) | 4,443<br>(100%) | 4,350<br>(100%) | 4,387<br>(100%) |
| - of whom unemployed persons                 | 2,770<br>(56%)  | 2,823<br>(57%)  | 2,426<br>(46%)  | 2,191<br>(44%)  | 2,143<br>(44%)  | 2,073<br>(42%)  | 1,992<br>(43%)  | 1,907<br>(43%)  | 1,874<br>(43%)  | 1,877<br>(43%)  |
| - of whom employed persons                   | 0,783<br>(16%)  | 1,093<br>(20%)  | 1,220<br>(23%)  | 1,322<br>(25%)  | 1,314<br>(27%)  | 1,381<br>(28%)  | 1,355<br>(29%)  | 1,303<br>(29%)  | 1,295<br>(30%)  | 1,306<br>(30%)  |
| Needy persons not capable of work            | 1,774           | 1,955           | 1,964           | 1,897           | 1,817           | 1,819           | 1,738           | 1,700           | 1,691           | 1,711           |
| - of whom under 15 years                     | 1,713           | 1,886           | 1,895           | 1,826           | 1,742           | 1,683           | 1,659           | 1,620           | 1,618           | 1,638           |
| ... in % of population of respective age     |                 |                 |                 |                 |                 |                 |                 |                 |                 |                 |
| Needy persons                                | -               | -               | -               | 10.6%           | 10.4%           | 10.3%           | 9.8%            | 9.5%            | 9.4%            | 9.4%            |
| Needy persons capable of work                | 9.0%            | 9.8%            | 9.7%            | 9.3%            | 9.1%            | 9.1%            | 8.5%            | 8.2%            | 8.1%            | 8.2%            |



The German minimum income system

|  |       |       |       |       |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Needy persons not capable of work                  | -     | -     | -     | 2.9%  | 2.8%  | 2.8%  | 2.7%  | 2.6%  |       |       |
| - Needy persons not capable of work under 15 years | 14.4% | 16.2% | 16.6% | 16.4% | 15.8% | 15.9% | 15.2% | 15.1% | 15.3% | 15.4% |

Source: Bundesagentur für Arbeit.

**TABLE 10** Registered unemployed and recipients of unemployment benefit 1 and 2  
2005 – 2014: in 1000 persons

|                                      | 2005  | 2006  | 2007  | 2008  | 2009  | 2010  | 2011  | 2012  | 2013  | 2014  | 2005 – 2014 |
|--------------------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------------|
| Registered unemployed                | 4,861 | 4,487 | 3,761 | 3,259 | 3,415 | 3,239 | 2,976 | 2,897 | 2,950 | 2,898 | - 859       |
| Recipients of unemployment benefit 1 | 1,728 | 1,445 | 1,080 | 917   | 1,141 | 1,024 | 829   | 849   | 915   | 888   | - 840       |
| - Among them unemployed              | 1,428 | 1,124 | 767   | 696   | 962   | 876   | 724   | 748   | 803   | 775   | - 653       |
| Recipients of unemployment benefit 2 | 4,982 | 5,392 | 5,278 | 5,011 | 4,909 | 4,894 | 4,615 | 4,443 | 4,424 | 4,387 | - 595       |

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|  |       |       |       |       |       |       |       |       |       |       |       |
|--|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| - Among them: unemployed                               | 2,726 | 2,685 | 2,445 | 2,185 | 2,147 | 2,073 | 1,992 | 1,908 | 1,900 | 1,877 | - 849 |
| Unemployed   | 56%   | 50%   | 46%   | 44%   | 44%   | 42%   | 43%   | 43%   | 43%   | 43%   | -     |
| In percent of all recipients of unemployment benefit 2 |       |       |       |       |       |       |       |       |       |       |       |

Source: Bundesagentur für Arbeit

**TABLE 11 Households of beneficiaries in December 2014 (in million persons and in %)**

| Household types of recipients    | Number in 1000 | Share of all households in % | % of respective population |
|----------------------------------|----------------|------------------------------|----------------------------|
| Households ('needs communities') |                |                              |                            |
| All households                   | 3.26           | 100%                         | 10.2%                      |
| - Singles households             | 1.76           | 54%                          | 12.8%                      |
| - Single parent households       | 0.62           | 19%                          | 38.6%                      |
| - Couples without children       | 0.34           | 10%                          | 3.5%                       |
| - Couples with children          | 0.47           | 14%                          | 7.2%                       |
| - Persons per household          | 1.8            | --                           | --                         |

Source: Bundesagentur für Arbeit 2015

**TABLE 12 Beneficiaries capable of work in December 2014 (in million persons and in %)**

| Composition of recipients                           | Number in million people | Share of all beneficiaries capable of work | % of respective population |
|---|--------------------------|--|----------------------------|
| All beneficiaries capable of work                   | 4.32                     | 100%                                       | 8.1                        |
| - women   | 2.23                     | 52%  | 8.4%                       |
| - aged under 25 years                               | 0.72                     | 17%  | 8.3%                       |
| - 55 years and older                                | 0.73                     | 17%  | 6.7%                       |
| - Germans   | 3.27                     | 76%  | 6.8%                       |
| - Foreigners  | 1.04                     |  |                            |
| Employment status:                                  |                          |  |                            |
| All employed  | 1.29                     | 30%  |                            |
| - employed subject to social security contributions | 0.59                     | 14%  |                            |
| ----full-time                                       |                          |  |                            |
| ----part-time                                       | (22%)                    | (5%)                                       |                            |
| - mini-jobs   | (37%)                    | (9%)                                       |                            |
| - self-employed                                     | 0.60                     | 14%  |                            |
|   | 0.11                     | 3%   |                            |

Source: Bundesagentur für Arbeit

**TABLE 13 Components of the risk of becoming and staying a beneficiary of basic income support for job seekers in 2011**

| Beneficiaries                 | Stock of beneficiaries in % of population 2011 | Entrants to benefit receipt in % of population 2011 | Finished duration of benefit receipt (exits 2011) |                  |                        |                  |
|-------------------------------|--|---|---|------------------|------------------------|------------------|
|                               |  |   | Median In months                                  | Less than 1 year | 1 to less than 4 years | 4 years and more |
| All beneficiaries             | 9.8%   | 3.9%  | 15  | 44.8%            | 32.3%                  | 23.0%            |
| Gender                        |  |   |   |                  |                        |                  |
| - women                       | 10.0%  | 3.7%  | 16  | 42.9%            | 32.1%                  | 25.0%            |
| - men                         | 9.6%   | 4.0%  | 14  | 46.5%            | 32.3%                  | 21.1%            |
| Age groups                    |  |   |   |                  |                        |                  |
| - under 15                    | 15.2%  | 6.1%  | 15  | 44.7%            | 35.1%                  | 20.2%            |
| - 15 – under 25               | 9.2%   | 5.1%  | 13  | 47.9%            | 29.9%                  | 22.2%            |
| - 25 – under 50               | 9.2%   | 3.9%  | 13  | 46.9%            | 32.9%                  | 20.2%            |
| - 50 – under 65               | 7.5%   | 1.8%  | 25  | 34.6%            | 28.7%                  | 36.7%            |
| Nationality                   |  |   |   |                  |                        |                  |
| - Germany                     | 8.8%   | 3.6%  | 14  | 45.9%            | 31.7%                  | 22.2%            |
| - Foreigners                  | 18.1%  | 6.6%  | 18  | 39.8%            | 34.6%                  | 25.6%            |
| Beneficiaries capable of work |  |   |   |                  |                        |                  |
| - all                         |  |   |   |                  |                        |                  |
| - unemployed                  | --   | --  | 15  | 45%              | 32%                    | 23%              |
|                               | --   | --  | 12  | 50%              | 30%                    | 21%              |

Source: Bundesagentur für Arbeit 2013

**TABLE 14 Unfinished duration of receipt of basic income support for job seekers in 2011**

| Beneficiaries | Unfinished duration of benefit receipt (exits 2011) |                  |                        |                  |
|---------------|---|------------------|------------------------|------------------|
|               | Median In months                                    | Less than 1 year | 1 to less than 4 years | 4 years and more |
| All           | 32  | 21%              | 32%                    | 47%              |
| Gender        |   |                  |                        |                  |

The German minimum income system

|                                      |    |     |     |     |
|--------------------------------------|----|-----|-----|-----|
| - women                              | 46 | 20% | 31% | 49% |
| - men                                | 39 | 23% | 33% | 44% |
| <b>Age groups</b>                    |    |     |     |     |
| - under 15                           | 35 | 23% | 38% | 39% |
| - 15 – under 25                      | 32 | 28% | 32% | 40% |
| - 25 – under 50                      | 41 | 22% | 32% | 45% |
| - 50 – under 65                      | 70 | 13% | 25% | 62% |
| <b>Nationality</b>                   |    |     |     |     |
| - Germany                            | 42 | 22% | 32% | 47% |
| - Foreigners                         | 43 | 21% | 33% | 46% |
| <b>Beneficiaries capable of work</b> |    |     |     |     |
| - unemployed                         | 47 | 22% | 29% | 49% |
| - not unemployed                     | 46 | 20% | 31% | 49% |
| - with earned income                 | 47 | 21% | 30% | 49% |
| - without earned income              | 45 | 21% | 31% | 48% |

Source: Bundesagentur für Arbeit 2013

**TABLE 15 Standard benefit in SGB II 2005–2016 in Euro**

| Valid from ... | Standard needs level 1* | Standard needs level 2* | Standard needs level 3* | Standard needs level 4* | Standard needs level 5* | Standard needs level 6* |
|----------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| 1.1.2005       | 345 West                | 311 West                | 276 West**              |                         | 207 West***             |                         |
|                | 331 East                | 298 East                | 265 East**              |                         | 199 East***             |                         |
| 1.7.2006       | 345                     | 311                     | 276**                   |                         | 207***                  |                         |
| 1.7.2007       | 347                     | 312                     | 278**                   |                         | 208***                  |                         |
| 1.1.2008       | 351                     | 316                     | 281**                   |                         | 211***                  |                         |
| 1.1.2009       | 359                     | 323                     | 287**                   |                         | 251                     | 215                     |
| 1.1.2011       | 364                     | 328                     | 291                     | 287                     | 251                     | 215                     |
| 1.1.2012       | 374                     | 337                     | 299                     | 287                     | 251                     | 219                     |
| 1.1.2013       | 382                     | 345                     | 306                     | 289                     | 255                     | 224                     |
| 1.1.2014       | 391                     | 353                     | 313                     | 296                     | 261                     | 229                     |
| 1.1.2015       | 399                     | 360                     | 320                     | 302                     | 267                     | 234                     |
| 1.1.2016       | 404                     | 364                     | 324                     | 306                     | 270                     | 237                     |

\* = Standard needs levels:

Standard needs level 1 = single person or single parent

Standard needs level 2 = couple per head

Standard needs level 3 = children aged 19 to 25 years

Standard needs level 4 = children aged 15 to 18 years

Standard needs level 5 = children aged 7 to 14 years

Standard needs level 6 = children aged 0 to 6 years

\*\* = Until 31 December 2010 uniform standard benefit for children aged 15 to 18 and children aged 19 – 25 years.

\*\*\* = Until 30 June 2006 uniform standard benefit for all children under 14 years of age.

Source: BMAS.

**TABLE 16 Actual costs of accommodation and heating per needs community  
December 2005 – 2015 (in Euros)**

| Size of needs community | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014    | 2015 |
|-------------------------|------|------|------|------|------|------|------|------|------|---------|------|
| Total                   |      |      |      |      |      |      |      |      |      |         |      |
| Total                   | n.a. | 312  | 315  | 321  | 330  | 328  | 338  | 344  | 355  | n.y.a.  |      |
| 1 person                | n.a. | 258  | 262  | 268  | 276  | 281  | 290  | 295  | 303  | n.y.a.  |      |
| 2 persons               | n.a. | 313  | 316  | 323  | 331  | 326  | 337  | 345  | 356  | n.y.a.  |      |
| 3 persons               | n.a. | 364  | 366  | 375  | 388  | 377  | 388  | 397  | 411  | n.y.a.  |      |
| 4 persons               | n.a. | 429  | 433  | 449  | 465  | 455  | 468  | 477  | 492  | n.y.a.  |      |
| 5 and more persons      | n.a. | 526  | 532  | 554  | 570  | 563  | 581  | 593  | 610  | n.y.a.  |      |
| n.a.Rent                |      |      |      |      |      |      |      |      |      |         |      |
| Total                   | n.a. | 318  | 322  | 328  | 337  | 335  | 344  | 350  | 360  | n.y.a.  |      |
| 1 person                | n.a. | 264  | 269  | 274  | 282  | 288  | 295  | 300  | 308  | n.y.a.  |      |
| 2 persons               | n.a. | 322  | 325  | 331  | 340  | 335  | 345  | 352  | 363  | n.y.a.  |      |
| 3 persons               | n.a. | 371  | 374  | 382  | 394  | 383  | 394  | 402  | 416  | n.y.a.  |      |
| 4 persons               | n.a. | 439  | 442  | 457  | 472  | 462  | 474  | 483  | 497  | n.y.a.  |      |
| 5 and more persons      | n.a. | 538  | 543  | 564  | 581  | 572  | 590  | 601  | 617  | n.y.a.  |      |
| n.a.Property            |      |      |      |      |      |      |      |      |      |         |      |
| Total                   | n.a. | 215  | 207  | 204  | 206  | 199  | 201  | 203  | 205  | n..y.a. |      |
| 1 person                | n.a. | 144  | 140  | 142  | 142  | 142  | 146  | 150  | 153  | n.y.a.  |      |
| 2 persons               | n.a. | 205  | 199  | 201  | 200  | 195  | 203  | 208  | 212  | n.y.a.  |      |
| 3 persons               | n.a. | 256  | 247  | 249  | 257  | 250  | 257  | 265  | 270  | n.y.a.  |      |
| 4 persons               | n.a. | 321  | 316  | 328  | 338  | 332  | 335  | 337  | 343  | n.y.a.  |      |
| 5 and more persons      | n.a. | 397  | 396  | 412  | 417  | 404  | 406  | 414  | 413  | n.y.a.  |      |

Source: BMUB 2014

**TABLE 17 At-risk-of-poverty threshold and unemployment benefit II for selected types of needs communities 2013 (monthly amounts in Euros)**

| Type of needs communities                      | At-risk-of poverty<br>60% threshold | Unemployment benefit II |                  |                                     |  |
|--|-------------------------------------|-------------------------|------------------|-------------------------------------|--|
|  |                                     | Total amount            | Standard benefit | Fixed allowances for single parents | Average costs of accommodation and heating |
| Single   | 0,880                               | 0,682                   | 0,382            | -                                   | 0,300                                      |
| Single parent                                  |                                     |                         |                  |                                     |  |
| - with 1 child (under 7 years)                 | 1,144                               | 1,158                   | 0,606            | 0,138                               | 0,414                                      |
| - with 2 children (under 7 and under 15 years) | 1,408                               | 1,480                   | 0,861            | 0,138                               | 0,481                                      |
| Couples  |                                     |                         |                  |                                     |  |
| - Without children                             | 1,320                               | 1,064                   | 0,690            | -                                   | 0,374                                      |
| - With 1 child (under 7 years)                 | 1,584                               | 1,413                   | 0,914            | -                                   | 0,499                                      |
| - with 2 children (under 7 and under 15 years) | 1,848                               | 1,744                   | 1,169            | -                                   | 0,575                                      |

Source: Bertelsmann Stiftung 2015

**TABLE 18 Sanctions according to Social Code Book II 2007 – 2014:**

**Absolute figures in 1000 and percentage**

| Year | New sanctions for beneficiaries capable of work |   |  |                     |               | Number of beneficiaries capable of work with at least one sanction |   |                              |
|------|---|---|--|---------------------|---------------|--|---|------------------------------|
|      | Total number of new sanctions                   | Refusal to comply with obligations of integration agreement | Refusal to take up a job, training or activating measure | Failure to register | Other reasons | Number   | Percentage of beneficiaries capable of work |                              |
|      |   |   |  |                     |               |  | All beneficiaries                           | Beneficiaries under 25 years |
| 2007 | 785   | 137   | 184  | 421                 | 43            | 124  | 2.3%  | 3.8%                         |
| 2008 | 766   | 138   | 167  | 416                 | 45            | 127  | 2.5%  | 3.9%                         |
| 2009 | 727   | 131   | 133  | 421                 | 42            | 124  | 2.5%  | 4.0%                         |
| 2010 | 818   | 144   | 134  | 500                 | 40            | 136  | 2.8%  | 4.4%                         |

The German minimum income system

|      |       |     |     |     |    |     |      |      |
|------|-------|-----|-----|-----|----|-----|------|------|
| 2011 | 926   | 150 | 141 | 598 | 38 | 146 | 3.2% | 4.8% |
| 2012 | 1,024 | 145 | 138 | 705 | 37 | 150 | 3.4% | 5.0% |
| 2013 | 1,010 | 115 | 127 | 735 | 32 | 147 | 3.3% | 4.9% |
| 2014 | 1,001 | 104 | 119 | 748 | 31 | 142 | 3.2% | 4.6% |

Source: Bundesagentur für Arbeit

**TABLE 19** Participants in active labour market measures (in 1000), activation ratio and integration ratio (in %) 2006 - 2014

|  | 2006*  | 2007*  | 2008    | 2009    | 2010    | 2011   | 2012  | 2013  | 2014  |
|--|--------|--------|---------|---------|---------|--------|-------|-------|-------|
| Recipients of unemployment benefit II                  | 5,392  | 5,277  | 5,010   | 4,908   | 4,894   | 4,605  | 4,443 | 4,424 | 4,387 |
| - Among them unemployed                                | 2,443  | 2,187  | 2,257   | 2,229   | 2,163   | 2,084  | 1,995 | 1,981 | 1,965 |
| Participants in active labour market policy programmes | 672    | 704    | 837     | 825     | 763     | 547    | 446   | 421   | 400   |
| Among them:  |        |        |         |         |         |        |       |       |       |
| - Activation and professional integration              | (168)+ | (139)+ | (198)+  | (254)+  | (251)+  | (207)+ | (120) | (137) | (135) |
| - Further training                                     | (14)   | (26)   | (44)    | (49)    | (45)    | (39)   | (74)  | (71)  | (65)  |
| - Vocational preparation and training                  | (73)++ | (91)++ | (112)++ | (129)++ | (129)++ | (95)++ | (67)  | (56)  | (57)  |

The German minimum income system

|  |       |       |       |        |       |       |       |       |       |
|--|-------|-------|-------|--------|-------|-------|-------|-------|-------|
| - Take up of job                           | (329) | (311) | (350) | ((335) | (310) | (189) | (138) | (118) | (106) |
| - Employment creation                      |       |       |       |        |       |       |       |       |       |
| - Free promotion                           | -     | -     | -     | -      | (20)  | (15)  | (15)  | (13)  | (13)  |
| - Other promotion                          | (89)  | (136) | (134) | (57)   | (9)   | (1)   | (124) | -     | -     |
| Activation ratio 1**                       | 19.3% | 22.9% | 24.7% | 28.0%  | 24.9% | 21.1% | 17.2% | 16.7% | 16.1% |
| Activation ratio 2***                      | 12.5% | 13.3% | 16.6% | 16.8%  | 14.6% | 11.9% | 8.5%  | 8.2%  | 7.9%  |
| Exits from active labour market programmes | 1,623 | 1,987 | 2,336 | 2,455  | 2,275 | 3,554 | 2,930 | 2,644 | 2,443 |
| Integration ratio****                      | 23.1% | 26.8% | 28.1% | 24.5%  | 26.3% | 32.9% | 32.4% | 30.7% | 31.6% |
| Other not employed ratio*****              | -     | -     | -     | -      | 28.1% | 23.0% | 23.9% | 23.8% | 24.3% |
| Unemployed ratio*****                      | -     | -     | -     | -      | 45.6% | 43.9% | 43.7% | 45.5% | 44.2% |

\* For 2006 and 2007 no data from the applied municipal providers are available

\*\* Activation ratio 1:  $100 \times (\text{participants in active labour market measures}) / (\text{unemployed recipients of unemployment benefit II} + \text{participants in active labour market measures})$

\*\*\* Activation ratio 2:  $100 \times (\text{participants in active labour market measures}) / (\text{recipients of unemployment benefit II} + \text{participants in active labour market measures})$

\*\*\*\* Integration ratio: Share of exits into employment

\*\*\*\*\* Other not employed ratio: Share of exits into neither employment nor unemployment

\*\*\*\*\* Unemployment ratio: Share of exits into unemployment

+ Improving chances on the first labour market

++ Employment accompanying support

Source: Bundesagentur für Arbeit

**TABLE 20** Participants in active labour market integrations measures 2006 and 2014 (in % of all participants)

| Active labour market policy measures  | Participants 2006 | Participants 2014 |
|---|-------------------|-------------------|
| Activating and professional integration measure including further training measures | 24%               | 54%               |
| Promotion of job take-up  | 11%               | 14%               |



The German minimum income system

|  |      |      |
|--|------|------|
| Employment creating measures                       | 48%  | 24%  |
| Promotion of career choice and vocational training | 5%   | 5%   |
| Other measures                                     | 13%  | 4%   |
| Total number of participants                       | 692  | 411  |
|  | 100% | 100% |

Source: Bundesagentur für Arbeit

**TABLE 21 Federal expenditures Social Code Book II 2005 - 2015 (in billion Euros )**

| Year  | 1<br>Unemployment benefit 2 / Social benefit | 2<br>Federal share of costs of accommodation and heating | 3<br>Sum of 'passive benefits' | 4<br>Integration measures | 5<br>Administration | 6<br>Sum of 'active benefits' | 7<br>Total federal expenditures |
|-------|--|--|--------------------------------|---------------------------|---------------------|-------------------------------|---------------------------------|
| 2005  | 25.001                                       | 3.533  | 28.5                           | 3.564                     | 3.052               | 6.6                           | 35.150                          |
| 2006  | 26.414                                       | 4.017  | 30.4                           | 4.624                     | 3.607               | 8.1                           | 38.662                          |
| 2007  | 22.654                                       | 4.332  | 27.0                           | 4.998                     | 3.676               | 8.5                           | 35.660                          |
| 2008  | 21.624                                       | 3.889  | 25.5                           | 5.493                     | 3.776               | 9.2                           | 34.782                          |
| 2009  | 22.374                                       | 3.515  | 25.9                           | 5.902                     | 4.210               | 10.1                          | 36.002                          |
| 2010  | 22.246                                       | 3.235  | 25.4                           | 6,017                     | 4.4113              | 10.4                          | 35.911                          |
| 2011  | 19.384                                       | 4.855  | 24.3                           | 4.448                     | 4.339               | 8.7                           | 33.026                          |
| 2012  | 18.951                                       | 4.838  | 23.8                           | 3.754                     | 4.209               | 8.0                           | 31.753                          |
| 2013  | 19.484                                       | 4.685  | 24.2                           | 3.537                     | 4.495               | 8.0                           | 32.201                          |
| 2014  | 19.725                                       | 4.162  | 23.9                           | 3.420                     | 4.696               | 8.1                           | 32.003                          |
| 2015* | 20.198                                       | 5.249  | 25.4                           | 3.234                     | 4.810               | 8.0                           | 33.491                          |

\* = Preliminary figures.

Source: BMAS

**TABLE 22 Municipal expenditures Social Code Book II 2005 - 2015 (in billion Euros )**

|      | Expenditures on costs of housing and heating | Expenditures on administration* | Benefits in kind** | Expenditures on social integration measures *** |
|------|--|---------------------------------|--------------------|---|
| 2005 | 8.607  | 0.385                           | --                 | n.d.a.  |
| 2006 | 9.788  | 0.454                           | --                 | n.d.a.  |
| 2007 | 9.300  | 0.463                           | --                 | n.d.a.  |
| 2008 | 9.435  | 0.476                           | --                 | n.d.a.  |

The German minimum income system

|      |        |       |        |        |
|------|--------|-------|--------|--------|
| 2009 | 10.058 | 0.530 | --     | n.d.a. |
| 2010 | 10.465 | 0.556 | --     | n.d.a. |
| 2011 | 8.484  | 0.660 | n.d.a. | n.d.a. |
| 2012 | 8.454  | 0.640 | 0.433  | n.d.a. |
| 2013 | 8.986  | 0.683 | 0.483  | n.d.a. |
| 2014 | 9.687  | 0.841 | 0.531  | n.d.a. |
| 2015 | 8.661  | 0.862 | 0.569  | n.d.a. |

\* The municipal expenditures were estimated for the years 2005 to 2010 on the basis of 12.6% and starting with the year 2011 of 15.2%.

\*\*The in-kind benefits for education and participation were introduced on 1 January 2011.

\*\*\* No reliable data are available.

n.d.a. = No data available

Source: Deutscher Städtetag 2016

**TABLE 23 Total expenditures Social Code Book II 2005 - 2015 (in billion Euros)**

| Year | 1<br>Unemployment benefit 2 / Social benefit | 2<br>Costs of accommodation and heating | 3<br>Sum of 'passive benefits'<br>3 = 1 + 2 | 4<br>Integration measures | 5<br>Administration | 6<br>Sum of activation measures<br>6 = 4 + 5 | 7<br>Total expenditures<br>7 = 3 + 6 | 8<br>Federal Expenditures | 9<br>Municipal expenditures |
|------|--|---|---|---------------------------|---------------------|--|--------------------------------------|---------------------------|-----------------------------|
| 2005 | 25.001                                       | 12.140                                  | 37.141                                      | 3.564                     | 3.437               | 7.001  | 44.142                               | 35.150                    | 8.882                       |
| 2006 | 26.414                                       | 13.805                                  | 40.219                                      | 4.624                     | 4.061               | 8.685  | 48.904                               | 38.662                    | 10.242                      |
| 2007 | 22.654                                       | 13.632                                  | 36.286                                      | 4.998                     | 4.139               | 9.137  | 45.423                               | 35.660                    | 9.763                       |
| 2008 | 21.624                                       | 13.324                                  | 34.948                                      | 5.493                     | 4.252               | 9.745  | 44.693                               | 34.782                    | 9.911                       |
| 2009 | 22.374                                       | 13.573                                  | 35.947                                      | 5.902                     | 4.740               | 10.642                                       | 46.589                               | 36.002                    | 10.587                      |
| 2010 | 22.246                                       | 13.700                                  | 35.946                                      | 6.017                     | 4.969               | 10.986                                       | 46.932                               | 35.911                    | 11.021                      |
| 2011 | 19.384                                       | 13.339                                  | 32.723                                      | 4.448                     | 4.999               | 9.447  | 42.170                               | 33.026                    | 9.144                       |
| 2012 | 19.384                                       | 13.292                                  | 32.676                                      | 3.754                     | 4.849               | 8.603  | 41.279                               | 31.753                    | 8.526                       |
| 2013 | 19.967                                       | 13.671                                  | 33.638                                      | 3.537                     | 5.178               | 8.715  | 42.353                               | 32.201                    | 10.152                      |
| 2014 | 20.256                                       | 13.849                                  | 34.105                                      | 3.420                     | 5.537               | 8.957  | 43.062                               | 32.003                    | 11.059                      |
| 2015 | 20.767                                       | 13.910                                  | 34.677                                      | 3.234                     | 5.672               | 8.906  | 43.583                               | 33.491                    | 10.092                      |

Source: Own calculation on the basis of Tables 18 and 19

**TABLE 24 Active and passive expenditures, federal and municipal expenditures in % of total expenditures Social Code Book II**

| Year | Expenditures on 'passive benefits' in % of total expenditures | Expenditures on 'activation measures' in % of total expenditures | Total expenditures Social Code Book II | Federal expenditures in % of total expenditures | Municipal expenditures in % of total expenditures |
|------|---|--|--|---|---|
| 2005 | 84.1%   | 15.9%  | 100%                                   | 79.7%   | 20.3%   |
| 2006 | 82.0%   | 18.0%  | 100%                                   | 79.1%   | 20.9%   |

The German minimum income system

|      |       |       |      |       |       |
|------|-------|-------|------|-------|-------|
| 2007 | 79.1% | 20.1% | 100% | 78.5% | 21.5% |
| 2008 | 78.2% | 21.8% | 100% | 77.8% | 22.2% |
| 2009 | 77.2% | 22.8% | 100% | 77.3% | 22.7% |
| 2010 | 76.6% | 23.4% | 100% | 76.3% | 23.7% |
| 2011 | 77.6% | 22.4% | 100% | 78.3% | 21.7% |
| 2012 | 79.2% | 20.8% | 100% | 79.3% | 20.7% |
| 2013 | 79.4% | 20.6% | 100% | 76.1% | 23.9% |
| 2014 | 79.2% | 20.8% | 100% | 74.3% | 25.7% |
| 2015 | 79.6% | 20.4% | 100% | 76.9% | 23.1% |

Source: Own calculations on the basis of tables 18 and 19

**TABLE 25 Expenditures on basic income support for job seekers per recipient 2005 – 2014**

| Years                            | Unemploy-<br>ed<br>recipients of<br>unemploy-<br>ment<br>benefit 2<br><br>In millions | Total expend-<br>itures in<br>billion Euros | Sum of activating<br>expendi-<br>tures in<br>billion Euros | Expenditures<br>on<br>integration<br>budget in<br>billion Euros | Total expendi-<br>tures per<br>unemploy-<br>ed recipient<br>of<br>unemploy-<br>ment<br>benefit 2 in<br>Euros | Activating<br>expendi-<br>tures per<br>unemploy-<br>ed recipient<br>of<br>unemploy-<br>ment<br>benefit 2 in<br>Euros | Integration<br>budget per<br>unemploy-<br>ed recipient<br>of<br>unemploy-<br>ment<br>benefit 2 in<br>Euros |
|----------------------------------|---|---|--|---|--|--|--|
| 2005                             | 2.726   | 44.142                                      | 7.001  | 3.564   | 15,935   | 2,590  | 1,307  |
| 2006                             | 2.685   | 48.904                                      | 8.685  | 4.624   | 18,212   | 3,257  | 1,722  |
| 2007                             | 2.445   | 45.423                                      | 9.137  | 4.998   | 18,574   | 3,7,37   | 2,048  |
| 2008                             | 2.185   | 44.693                                      | 9.745  | 5.493   | 20,454   | 4,917  | 2,514  |
| 2009                             | 2.147   | 46.589                                      | 10.642   | 5.902   | 21,700   | 4,957  | 2,749  |
| 2010                             | 2.073   | 46.932                                      | 10.986   | 6,017   | 22,640   | 5,295  | 2,903  |
| 2011                             | 1.992   | 42.170                                      | 9.447  | 4.448   | 21,170   | 4,742  | 2,233  |
| 2012                             | 1.908   | 41.279                                      | 8.603  | 3.754   | 21,635   | 4,521  | 1,967  |
| 2013                             | 1.900   | 42.353                                      | 8.715  | 3.537   | 22,291   | 4,587  | 1,862  |
| 2014                             | 1.877   | 43.062                                      | 8.957  | 3.420   | 22,942   | 4,774  | 2,096  |
| Differ<br>ence<br>2014 –<br>2005 | - 0.849<br>- 31.1%  | - 1.080<br>- 2.5%                           | + 1.956<br>+27.9%  | - 0.144<br>- 4,0%   | + 7.007<br>+ 44.0%   | + 2,184<br>+ 84.3%   | + 0.789<br>+ 60.4%   |

Source: own calculations on the basis of table 20

**Table 26 Federal expenditures on labour market policy 2004 , 2005 and 2014 in billion Euros**

| Expenditures on labour market policy according to SCB III and II:              | 2004    | 2005    | 2014    |
|--|---------|---------|---------|
| A Total expenditures   | 74.5    | 82.9    | 65.5    |
| B Expenditures on passive benefit payments                                     | 47.9    | 50.9    | 39.3    |
| - Unemployment benefit 1   | 29.1    | 27.0    | 15.4    |
| - Unemployment assistance  | 18.8    | 1.5     | -       |
| - Basic income support for job seekers   | -       | 22.4    | 23.9    |
| C Expenditures on active labour market policy under SCB III and II             | 19.5    | 16.9    | 11.0    |
| D Relationship between active and passive expenditures                         | 1 : 2.5 | 1 : 3.1 | 1 : 3.6 |
| E Share of total expenditures  | 100%    | 100%    | 100%    |
| - Expenditures on passive benefits   | 66.1%   | 62.9%   | 60.0%   |
| - Expenditures on active measures  | 26.2%   | 20.3%   | 16.8%   |
| - Others (administration etc.)   | 7.7%    | 16.8%   | 23.2%   |
| Addendum:  |         |         |         |
| Net expenditures on 'current assistance towards living expenses' under SCB XII | 8.8     | 1.2     | 1.3     |

Source: Bundesagentur für Arbeit; Statistisches Bundesamt

**TABLE 27 At-risk-of-poverty rate by poverty threshold, age and sex in Germany 2008–2014 (%)**

|                                      | 2005   | 2006   | 2007   | 2008   | 2009   | 2010   | 2011   | 2012   | 2013   | 2014   |
|--------------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Poverty threshold in Euros per year  |        |        |        |        |        |        |        |        |        |        |
| Single person                        | 9,391  | 9,100  | 10,395 | 10,986 | 11,151 | 11,278 | 11,426 | 11,757 | 11,749 | 11,840 |
| Two adults and two children under 14 | 19,720 | 19,110 | 21,829 | 23,070 | 23,418 | 23,684 | 23,994 | 24,690 | 24,673 | 24,864 |
| At-risk-of-poverty-rate in %         |        |        |        |        |        |        |        |        |        |        |
| Total population                     | 12.2   | 12.5   | 15.2   | 15.2   | 15.5   | 15.6   | 15.8   | 16.1   | 16.1   | 16.7   |
| - Women                              | 12.9   | 13.0   | 16.3   | 16.2   | 16.3   | 16.4   | 16.8   | 17.2   | 17.2   | 17.4   |
| - Men                                | 11.4   | 12.1   | 14.1   | 14.2   | 14.7   | 14.9   | 14.9   | 14.9   | 15.0   | 15.9   |
| Population under 18 years            | 12.2   | 12.4   | 14.1   | 15.2   | 15.0   | 17.5   | 15.6   | 15.2   | 14.7   | 15.1   |

The German minimum income system

|                                    |      |      |      |      |      |      |      |      |      |      |
|------------------------------------|------|------|------|------|------|------|------|------|------|------|
| Population between 18 and 24 years | 14.9 | 15.1 | 21.2 | 20.2 | 2.11 | 18.9 | 19.0 | 20.7 | 18.5 | 20.6 |
| Population between 25 and 49 years | 10.8 | 11.7 | 13.4 | 13.4 | 14.1 | 14.1 | 14.6 | 14.4 | 14.9 | 15.5 |
| Population between 50 and 64 years | 12.6 | 13.3 | 15.9 | 16.8 | 16.7 | 17.0 | 18.5 | 18.6 | 19.4 | 18.7 |
| Population 65 years and more       | 13.4 | 12.5 | 16.2 | 14.9 | 15.0 | 14.1 | 14.2 | 15.0 | 14.9 | 16.3 |

Source: EU-SILC.

**TABLE 28 At-risk-of-poverty rate by household type in Germany 2008-2014 (%)**

|                                       | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------------------------------|------|------|------|------|------|------|------|------|------|------|
| People in all household types         | 12.2 | 12.5 | 15.2 | 15.2 | 15.5 | 15.6 | 15.8 | 16.1 | 16.2 | 16.7 |
| People in households without children |      |      |      | 17.0 | 17.4 | 16.5 | 17.5 | 18.0 | 18.4 | 18.9 |
| People in households with children    |      |      |      | 13.1 | 13.0 | 14.6 | 13.7 | 13.5 | 13.2 | 13.7 |
| Single person                         | 22.7 | 21.5 | 27.3 | 29.2 | 29.3 | 30.0 | 32.3 | 32.4 | 31.9 | 32.9 |
| Single parent households              |      |      |      | 35.9 | 37.5 | 43.0 | 37.1 | 38.8 | 35.2 | 29.4 |
| Two adults                            |      |      |      | 11.7 | 12.4 | 10.5 | 10.8 | 10.9 | 11.4 | 11.5 |
| Two adults with one child             |      |      |      | 9.3  | 9.8  | 9.0  | 9.8  | 10.6 | 11.1 | 11.5 |
| Two adults with two children          |      |      |      | 8.3  | 7.7  | 8.8  | 8.7  | 7.7  | 8.5  | 10.9 |

Source: EU-SILC

**TABLE 29 Population 16 years and more at-risk-of-poverty in Germany by poverty threshold and most frequent activity in 2008 – 2014 (%)**

|          | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|----------|------|------|------|------|------|------|------|------|------|------|
| Employed | 4.8  | 5.7  | 7.4  | 7.1  | 6.8  | 7.2  | 7.7  | 7.8  | 8.6  | 9.9  |

The German minimum income system

|                          |      |      |      |      |      |      |      |      |      |      |
|--------------------------|------|------|------|------|------|------|------|------|------|------|
| Not employed             | 17.8 | 18.9 | 23.9 | 22.8 | 24.0 | 23.9 | 24.0 | 24.4 | 24.3 | 25.8 |
| - Unemployed             | 40.6 | 43.3 | 51.7 | 56.8 | 62.0 | 70.3 | 67.8 | 69.3 | 69.3 | 67.4 |
| - Retired                | 12.5 | 12.4 | 17.0 | 15.0 | 14.9 | 13.4 | 14.0 | 15.1 | 15.0 | 16.7 |
| - Other inactive persons | 16.9 | 19.5 | 24.5 | 22.6 | 25.4 | 25.0 | 26.2 | 26.6 | 27.0 | 28.7 |

Source: EU-SILC.

**TABLE 30** Population 16 years and more at risk of poverty by poverty threshold and education status in Germany 2008–2014 (%)

|                       | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|-----------------------|------|------|------|------|------|------|------|------|------|------|
| ISCED 0 to 2 – low    | 18.2 | 18.5 | 24.4 | 22.8 | 23.2 | 25.3 | 25.8 | 25.5 | 25.7 | 29.1 |
| ISCED 3 to 4 – medium | 10.2 | 11.3 | 14.4 | 13.7 | 14.6 | 14.1 | 14.7 | 14.8 | 15.4 | 16.0 |
| ISCED 5 to 6 – high   |      |      |      | 8.6  | 8.1  | 7.9  | 7.7  | 8.3  | 9.0  | 10.5 |

Source: EU-SILC

**TABLE 31** People at risk of poverty before and after social transfers 2005–2014 (%)

|   | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|------|------|------|------|------|------|------|------|------|------|
| At-risk-of-poverty rate before social transfers | 23.1 | 25.7 | 24.8 | 24.2 | 24.1 | 24.2 | 25.1 | 24.3 | 24.4 | 25.0 |
| At-risk-of-poverty rate after social transfers  | 12.2 | 12.5 | 15.2 | 15.2 | 15.5 | 15.6 | 15.8 | 16.1 | 16.1 | 16.7 |
| Difference                                      | 10.9 | 13.2 | 9.6  | 9.0  | 8.6  | 8.6  | 9.3  | 8.2  | 8.3  | 8.3  |
| Relative median at-risk-of-poverty gap          | 18.9 | 20.4 | 23.2 | 22.2 | 21.5 | 20.7 | 21.4 | 21.1 | 20.4 | 23.2 |

Source: EU-SILC.

**TABLE 32 Relative median at-risk-of-poverty-gap by poverty threshold 2008 - 2014**

|                   | 2005 | 2006 | 2007 | 2008 | 2009 | 2010  | 2011  | 2012 | 2013 | 2014 |
|-------------------|------|------|------|------|------|-------|-------|------|------|------|
| Total population  | 18.9 | 20.4 | 23.2 | 22.2 | 21.5 | 20.7  | 21.4% | 21.1 | 20.4 | 23.2 |
| Under 18 years    | 16.1 | 18,3 | 21.6 | 19.3 | 19.8 | 17.8  | 17.2% | 17.4 | 16.4 | 19.6 |
| 18 to 64 years    | 20.6 | 21.7 | 25.9 | 25.0 | 23.8 | 22.7  | 24.5% | 23.1 | 22.1 | 25.1 |
| 65 years and more | 16.6 | 17.0 | 18.4 | 16.8 | 16.5 | 16.6% | 17.6  | 18.8 | 18.4 | 19.9 |

Source: EU-SILC

**TABLE 33 People at risk of poverty or social exclusion in Germany 2008–2014 (%)**

|                           | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---------------------------|------|------|------|------|------|------|------|------|------|------|
| Total population          | 18.4 | 20.2 | 20.6 | 20.1 | 20.0 | 19.7 | 19.9 | 19.6 | 20.3 | 20.6 |
| - Women                   |      |      |      | 21.6 | 21.2 | 20.9 | 21.3 | 21.1 | 21.9 | 21.8 |
| - Men                     |      |      |      | 18.5 | 18.8 | 18.6 | 18.5 | 18.1 | 18.8 | 19.5 |
| Population under 18 years |      |      |      | 20.1 | 20.4 | 21.7 | 19.9 | 18.4 | 19.4 | 19.6 |
| - Women                   |      |      |      | 19.5 | 18.3 | 21.4 | 21.5 | 19.2 | 20.0 | 21.1 |
| - Men                     |      |      |      | 20.7 | 22.1 | 21.9 | 18.6 | 17.6 | 18.9 | 19.2 |

Source: EU-SILC