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Social Assistance
in Germany

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Sigrun Kahl**

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SOCIAL ASSISTANCE IN GERMANY

Willem Adema, Donald Gray and Sigrun Kahl

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SUMMARY

This paper follows the framework developed in past OECD studies for analysis of social assistance programmes that aim to provide low-income clients with adequate financial support while simultaneously promoting their reintegration into labour market and, where necessary, mainstream society. Increasingly, jobless citizens in Germany rely on social assistance: a role for which the programme was never intended. Indeed, there are two other programmes that serve the unemployed in Germany, and this paper discusses social assistance in the context of its relationship to Unemployment Insurance and Assistance benefits.

First, this study provides a concise overview of Germany's public social system, and discusses federal relations inasmuch they have a bearing on the delivery of public assistance benefits. The study discusses the nature of benefits available to social assistance clients in general, and related support measures for particular client-groups, for example, lone parent families. The paper analyses the financial incentive to work embedded in the income support system and the wide array of labour market measures that are being used to assist clients in their efforts to find their way back into the labour market. The report also elaborates on the relationship between different public institutions (the Public Employment Service and the Social Assistance Offices) that are involved in the design and delivery of labour market reintegration policies.

RÉSUMÉ

Ce document s'intègre dans le cadre développé dans les dernières études de l'OCDE d'analyses des programmes d'assistance sociale mis en place afin de fournir aux bas revenus une aide financière adéquate tout en s'appliquant à promouvoir leur intégration sur le marché de l'emploi et, quand c'est nécessaire, leur intégration sociale. De plus en plus, les citoyens sans emploi allemands ont recours à l'aide sociale : rôle pour lequel aucun programme n'a jamais été mis en place. Ainsi, il y a deux autres programmes prévus pour le chômage en Allemagne et ce document débat de l'assistance sociale dans le contexte de sa relation avec l'assurance chômage et les prestations sociales.

D'abord, cette étude fournit une vue concise du système public social en Allemagne et débat de ses relations avec les autorités fédérales dans la mesure où celles-ci ont un rôle à jouer dans l'octroi de prestations. L'étude discute de la nature des prestations disponibles pour l'assistance sociale des bénéficiaires en général et les mesures de supports relatives pour certains groupes particuliers, comme par exemple les familles monoparentales. Le papier analyse les incitations financières de retour à l'emploi noyées dans un système de prestations et le grand déploiement de mesures qui sont utilisées pour assister le bénéficiaire dans ses efforts de retour à l'emploi. Le rapport élabore également les relations entre les différentes institutions publiques (le service public pour l'emploi et les bureaux de l'assistance sociale) qui sont impliquées dans l'élaboration et la mise en place de politiques de réintégration sur le marché de l'emploi.

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SOCIAL ASSISTANCE IN GERMANY¹

1. Introduction and context

1. In the aftermath of reunification, Germany's economic performance has been sluggish relative to most other OECD countries: growth of real GDP has been below the OECD average since 1992, while growth is anticipated to accelerate to 2.5% in 2003 (OECD, 2002). Over the same period employment growth has been limited while the standardised unemployment rate at 7.9% in 2001 is above the OECD average at 6.5% (OECD, 2002a). Moreover, at just over 50%, the incidence of long-term unemployment is well above the OECD average at about 30% (OECD, 2001). Consequently, there is a considerable group of Germans that call on income support benefits, and employment services, and many do so for a prolonged period of time.

2. This paper discusses the German social system of income support to the jobless non-disabled working age population and focuses on relevant last resort benefits, and the social assistance programme in particular, as that programme is increasingly relied upon by jobless citizens. These last resort programmes aim to provide low-income clients with adequate financial support while simultaneously promoting reintegration into the labour market and, where necessary, mainstream society. As such, this study follows the framework developed in previously published OECD work, which addressed the same issues on a cross-country basis (OECD, 1998, 1998a, 1999 and 2000).

3. First, this study briefly provides a concise overview of Germany's public social system. Germany is a federal country and the intensity with which different layers of government are involved in social policy design and implementation varies across income support programmes: this set-up and its implications for the implementation of policies towards social assistance clients are discussed in section 3. The paper then explores the relationship between the different income support programmes for the unemployed, followed by an outline of the intricacies of the German social assistance programme. Section 6 considers recent developments in labour market re-integration policies for benefit claimants in Germany, while section 7 ties together the previous discussion in concluding remarks.

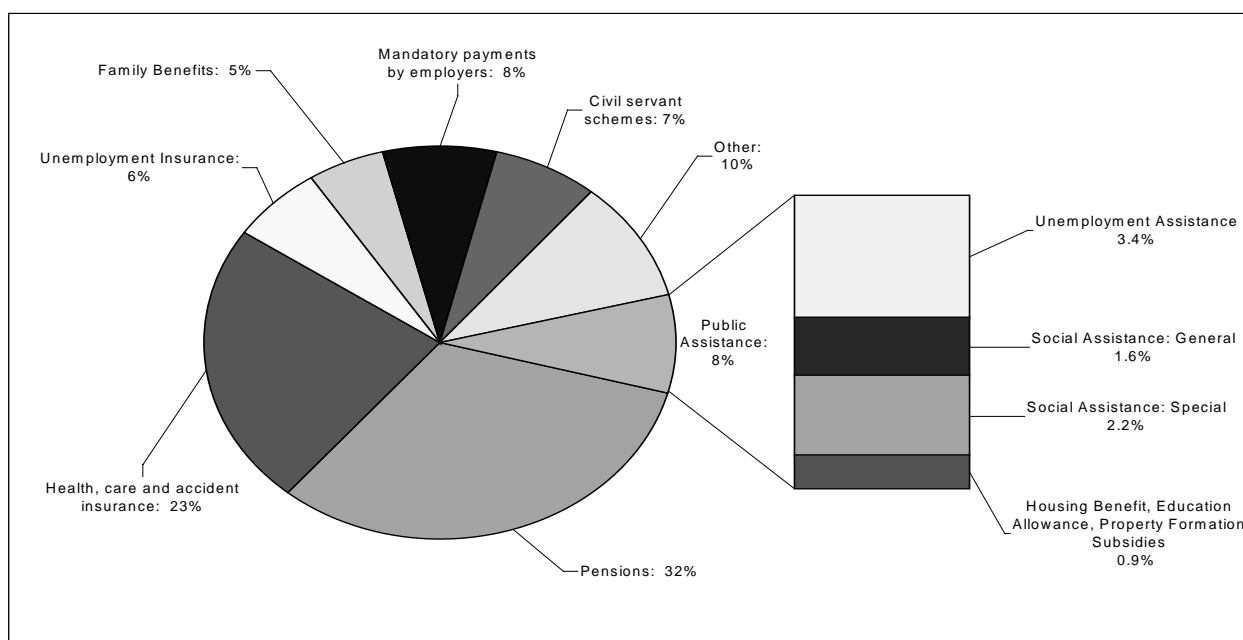
2. Social assistance within the German social protection system

4. The German welfare state is fairly comprehensive. In 1998, public social expenditure amounted to 27.3% of GDP with only Denmark, France, Switzerland and Sweden (at 31%) spending more. However, when taxation of benefits and the role of legislated, but not publicly paid benefits (*e.g.* employer-provided sick pay) is accounted for, then Germany and Sweden are the countries with the highest amount of publicly mandated social spending at 28% of GDP at factor costs (Adema, 2001).

1. At the time of writing of the first draft of this paper all three authors were in the OECD Social Policy Division. Within the framework of the "Carlo-Schmid-Programme", The German National Merit Foundation (Studienstiftung des deutschen Volkes) and the German Academic Exchange Service (Deutscher Akademischer Austauschdienst - DAAD) financially supported the OECD-internship of Sigrun Kahl. This support is gratefully acknowledged. The authors are grateful to David Grubb, Jörg Kleuver, Mark Pearson and Peter Tergeist for comments on an earlier draft.

5. Social insurance is the main pillar of the German social protection system, and covers all major social policy contingencies such as unemployment, illness, invalidity, occupational injuries, long-term care and old age, while family support is mainly provided through the tax system. High numbers of claimants (including disabled persons) and earnings-related public pension entitlements contribute to pension spending being high: almost one-third of all publicly mandated social spending (Chart 1).² Health, long-term care and accident insurance benefits constitute about a quarter of all social spending. Spending indicators also show that social expenditure on income-tested public assistance programmes is relatively limited: about 8% of the social budget.

Chart 1. Composition of publicly mandated social expenditure in Germany, 2000



Sources: BMA (2001) and Statistisches Bundesamt (2001).

6. The Federal Ministry of Labour and Social Affairs regulates the entire social insurance system, but only bears a limited portion of costs, and participates mainly in the financing of pensions and unemployment insurance.³ Almost two-thirds of all benefits are financed out of employer and employee contributions while the remainder of social benefits are financed out of general tax revenue by federal, state and municipal governments (BMA, 2001).

2. The social budget does not include for voluntary private social spending. In Germany, churches through their major welfare associations (the Protestant *Diakonie* and the Catholic *Caritas*) are important providers of services to low-income people (see, for example their role in the Mother and Child Foundation as described below). Churches are also important advocacy groups concerning poverty related issues.

3. Throughout the text refers to the BMA - the Ministry of Labour and Social Affairs. At the time of preparing the draft the BMA was the Federal institution responsible for labour market and social policy. However, in October 2002, the BMA was dissolved. The Ministry of Economics and Labour (*Bundesministerium für Wirtschaft und Arbeit*) now covers labour market policy, while social protection is within the remit of the newly created Ministry of Health and Social Security (*Bundesministerium für Gesundheit und Soziale Sicherung*).

7. At introduction in 1962, social assistance was intended as a last resort programme for those without a direct social insurance entitlement (workers) or without an indirect insurance benefit entitlement (housewives or widows). However, changing patterns of family formation and dissolution have led to a growing incidence of lone parent families for whom social assistance is the main safety net.

8. The German social system includes both unemployment insurance (UI) and unemployment assistance (UA) and Social Assistance was never intended to support employable clients. However, UI and UA programmes no longer cover all unemployed persons; increased unemployment duration has led to social assistance becoming an important benefit for the long-term unemployed. Unemployment is the main reason for social assistance receipt in almost half of the cases, while about 1 in 6 of the unemployment assistance claimants also receive a regular social assistance payment (top-up). Hence, the distinction between unemployment assistance and social assistance programmes is more and more difficult to make.

2.1. Health and long-term care insurance

9. Germany has a compulsory public health insurance system based on income-related contributions, which are paid equally by employers and employees (in all 13.6% of the gross wages). Those earning more than €40 500 gross per year (about 125% of gross average earnings) *may* opt out to seek private insurance coverage (as for the self-employed persons and civil servants in a tenure position). Today, 90% of the population is covered by statutory health insurance (BMA, 2002a and Bundesregierung, 2002).⁴ Social assistance offices pay for medical interventions for many of those without public health insurance coverage.

10. In case of sickness, the employer is legally obliged to continue wage payments for six weeks, upon which the public sickness insurance pays 70% of the previous gross salary for 18 months. Accidents at work and occupational diseases are covered by statutory accident insurance. Patients have to contribute to the cost of inpatient care, dental care pharmaceuticals, handicap aids, medical appliances, rehabilitation and physical therapy up to a maximum of 2% of their gross earnings per annum. The health insurance exempts all low-income persons (including assistance recipients) from paying these out-of-pocket expenses. Most social assistance clients are in the statutory health insurance scheme with their contributions paid by the social assistance offices (BMA, 2002a).

11. Long-term care insurance was introduced in 1994. Employers and employees share the contributions (each pays 0.85% of the gross payroll), but pensioners and students also have to make contributions. Long-term care insurance is administered by the sickness funds that assess eligibility through home visits, but financing is separated from sickness insurance (see above). In-kind benefits are provided through contracts with care institutions and home care organisations. Cash benefits are also paid to family members who provide care and to other home carers. Caregivers assisting patients for at least 14 hours a week are entitled to old-age pensions and accident benefits without paying contributions (BMA, 2002a and Bundesregierung, 2002).

2.2. Pensions

12. The public pension system is compulsory with earnings-related benefits based on contributions amounting to 19.1% of gross earnings, shared equally by employees and employers. The retirement age for men is 65 and 63 for women (to be increased to 65 in 2004), and pensions are paid to those who have paid

4. Throughout, amounts are denoted in Euro, even if it concerns the period before 1-1-2002. In this case the standard conversion factor was applied: € 1 = DM 1.96 and DM 1 = € 0.51.

contributions for at least 5 years. In July 1999, the “standard pension payment” amounted to €1 122 per month (about 70% of average earnings), if the worker had contributed for 45 years and earned around average earnings throughout life (the so-called "Eckrentner"). Compared to this “standard pension payment”, most benefit recipients have shorter contributory records while annual earnings also differed from those assumed for the "Eckrentner". Hence, the average public pension payment in West Germany was €946 in July 1999 (Bundesregierung, 2001).

13. High public pension expenditure (see above) has led to a reappraisal of current programme rules. Recently introduced changes to benefit formulae somewhat reduce overall benefit generosity: the “standard pension payment” will slowly decline from 70.7% in 2000 to 67.9% of last net earnings in 2030 (BMA, 2001a). At the same time, reforms were introduced to stimulate take-up of private pension coverage. From 2002 onwards, the federal government provides cash support or tax relief to all persons compulsorily insured in the public pension system (civil servants and the self-employed are excluded) who take up private pension plans through approved schemes. The level of such public financial support is highest for low-income earners and families with children (BMA, 2001a).

14. As there has never been a minimum public pension payment within the German system, social assistance benefits establish a *de facto* minimum payment for many pensioners. However, as from 2003, older people with insufficient public pension entitlements and persons older than 18 who are permanently disabled will be eligible for a newly created means-tested minimum pension with payment rates slightly above social assistance rates (BMA, 2001b).

2.3. Family Benefits

15. German social policy traditionally involves considerable support for families with children as also reflected in tax system design. In the past, wages and earnings-replacing social insurance payments were intended to cover the needs of a family with children. Public policy continues to support families with children, but programme design has changed in view of changing patterns of family formation and dissolution (e.g. increasing numbers of unmarried couples with children and lone parent families). Since the late 1970s, various new child support programmes have been introduced that are targeted at those actually carrying out care responsibilities regardless of family composition. Furthermore, parents caring for a child under three years of age (usually mothers) build up public pension entitlements and are also entitled to Unemployment Insurance benefits.

2.3.1. Child Benefit

16. The Child Benefit (*Kindergeld*) is the most important German family benefit: it is universal and is paid for every child under 18 years of age, up to 27 years of age if the dependant is in education. If the child is unemployed, Child Benefit is paid up to the 21st year. There is no age limit to payments when it concerns disabled children. Child Benefit payments were raised significantly in 1996 from €35.93 to €102.67 per child: by 2002, monthly payments for the first, second and third child are €154 and for every additional child €179.

17. Child Benefit is paid monthly together with wages and social benefits. In fact, the Child Benefit is integrated in the tax system, and monthly payments should be regarded as an advance tax credit payment. The German constitutional court regards the paid amount of Child Benefit as the minimum existence payment to a child, over which no tax should be paid. At the end of the each fiscal year the tax office verifies whether the exemption of Child Benefit actually leads to an equivalent reduction in the tax liability. But to obtain a reduction in tax liability worth €154 per month requires earning sufficient taxable income in the first place, and relevant earnings must be considerable as in Germany married low-income

workers (without children) do not pay tax.⁵ If the reduction in tax liability based on set tax allowances⁶ exceeds the value of Child Benefit, as it does for high-income families, then the final tax liability of this family is based on the tax allowances. However, for 85% of families with children the value of the Child Benefit (€154 for most children) is higher than the reduction in tax liability due to the tax allowances had they been applied, and no further adjustment to the final tax liability is made (BMA, 2002a and Bundesregierung; 2001a and 2001b).

2.3.2. Public measures that promote the reconciliation of work and family life

18. The National Childrearing Benefit (*Bundeserziehungsgeld*) is an income-tested benefit paid to parents with very young children (up to 2 years of age). This benefit was introduced in 1985 to financially support mothers caring for their own children. Claimants could be in paid work up to 19 hours per week, but only a few mothers claiming this benefit during the 1990s worked part-time (Alber, 2001). In 2000, the incidence of part-time employment among all female workers in Germany was 34%, compared with an OECD average of 26% (OECD, 2001).

19. In 2001, coverage of the programme was increased by raising income thresholds as well as relaxing criteria on working hours (to 30 hours per week) so that more working mothers might access the benefit programme. In 2002, Childrearing Benefit is worth €307 per month at maximum. Families receive this amount during the first 6 months of a child's life if their annual gross income is below €51 130 (about 1.5 times average earnings). After the 7th month, the maximum amount is only paid to families with income below €16 470,⁷ with higher-income families being paid at reduced rates. The 2001 reform also gave parents the opportunity to opt for higher monthly payments (maximum €460), if they claim the benefit for only one year (*e.g.* if they choose to return to work full-time after one year). Upon expiry of the federal benefit, several states pay a Childrearing Benefit for a maximum of one year out of their own budget.⁸

20. Publicly paid maternity leave is available for working mothers for 14 weeks at a maximum of €64 per week (employers are legally obliged to top up this payment to full earnings). Maternity payments and Childrearing Benefits (CRB) cannot be received simultaneously.⁹ On the other hand, CRB is often used in conjunction with parental leave (*Elternzeit*) with employment protection (which together with maternity leave may span a 3-year period at maximum). CRB regulations on working hours while in receipt of benefit were relaxed to 30 hours per week in 2001 (see above), while the Adjustment of Working Hours Act (*Teilzeitgesetz*) was introduced to give parents in employment the right to reduce their working

5. A worker in a couple without children whose spouse is not in employment with earnings at a level equal to 2/3 of average production employee (APE) earnings, does not pay income tax (he/she does pay social security contributions). An otherwise similar worker with earnings at APE level pays about €3 000 in tax per year, while the same worker with 2 children does pay no income tax (OECD, 2002b).

6. In fact, the annual income disregard is in two parts (2002): €3,648 per year for child-related expenses (*Kinderfreibetrag*) plus an additional €2,160 for every child not yet 16 years of age (*Betreuungsfreibetrag*).

7. The income thresholds are raised by €2,454 for each additional child. Income thresholds are different for lone parent families: €38,350 until the 6th month, and €13,500 for the 7th month onwards.

8. Programme rules on income thresholds, hours worked and payments vary across states. In 2001, the maximum monthly payment for one year was €204 in Baden-Württemberg; €255 in Bayern; €306 in Mecklenburg-Vorpommern and Sachsen, while Thüringen paid €306 at maximum for 6 months.

9. If the maternity payment (*i.e.* the sum of statutory health insurance pay and the employer payment) is below the CRB rate, the difference can be claimed under CRB regulations. If the mother is on unemployment insurance or assistance maternity pay equals the UI or UA rate prior to childbirth.

hours. Taken together, these two measures are aimed at increasing take up of parental leave (and Childrearing Benefit) among fathers.

21. Since 1999, parents with children between 3 and 6 years of age are legally entitled to a kindergarten place. However, in practice this guarantee is not effective, as childcare capacity remains limited, particularly in the western states of Germany. Across Germany, only 3% of all children under three years of age use formal childcare, compared with over 60% in Denmark (Alber, 2001, and OECD, 2002*c*). Opening hours of kindergartens, schools, and the minimum age for entering a childcare facility lead to many mothers opting for part-time rather than full-time employment solutions.

3. Public assistance benefits

The public system of means and income-tested benefits (public assistance) includes four different benefits: unemployment assistance, housing benefit, social assistance (general social assistance and assistance in special situations) and the asylum seekers benefit (discussed in section 5.4.1)

22. The general housing benefit is available to all low-income households except those for whom social assistance is the primary source of income (who are covered by different rules, see below).¹⁰ In 2000, there were 2.8 million recipients of housing support in Germany: 1.5 million received the general housing benefit, while about 1.3 million households received housing support under social assistance programme rules (information provided by Stat.BA). General housing benefit payment rates also vary with (local) rent levels, age of the dwelling and household composition. Between 1990 and 2001, income thresholds and payment rates did not change, leading to a general decline in the number of eligible households and the real value of the payment. In 2001, average benefit payments increased by more than 50% to about €128, while eligibility income thresholds were also raised. In all, the reform is expected to have a significant impact and the number of households covered may increase by as much as 15% (Bundesregierung, 2001*c* and BMVBW, 2001).

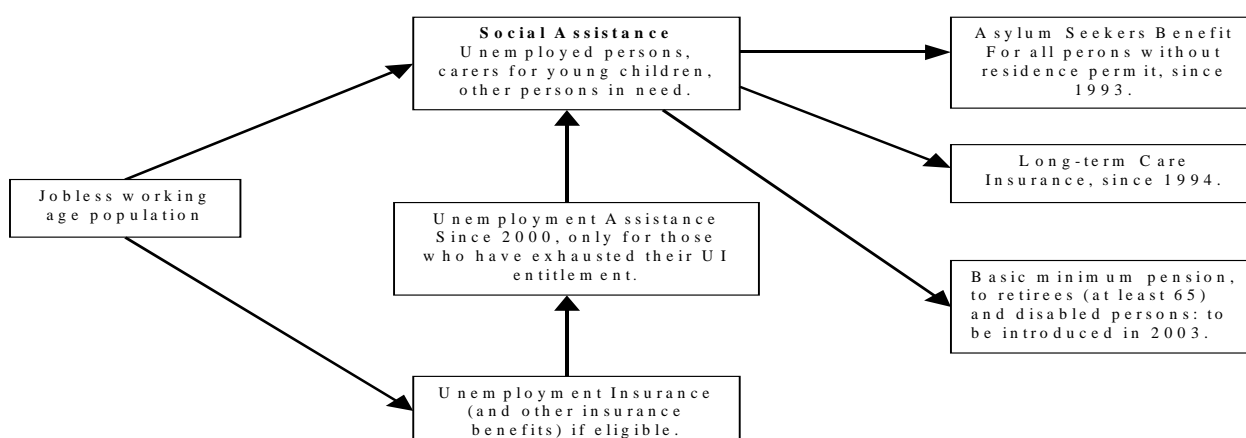
23. Unemployment Assistance (UA) is a means-tested benefit for those who have exhausted their Unemployment Insurance (UI) entitlement. Social assistance is the non-categorical benefit to all (other) residents on basis of a needs test. In contrast to, for example, the Netherlands, regular social assistance payments can also be made to claimants of other social insurance benefits and unemployment assistance whose entitlements are below “subsistence level”, i.e. social assistance payment rates. The distinction between unemployment and social assistance clients is often difficult to make. In fact, about 1 in 6 of the UA claimants also receive a regular social assistance payment (see below).

24. Furthermore, social assistance includes “Assistance in Special Situations”. This type of support consists mainly of institutional care support for elderly and integration support for disabled persons (“Eingliederungshilfe für Behinderte”), and medical support for people without health insurance, but also includes support for family carers, old-age pensioners, and blind people and covers exceptional circumstances (as employable clients of working age are not the main client group of Assistance in Special Situations, this programme will not be discussed in detail below). Because more than half of the claimants of assistance in special situations receive support within institutions (information provided by Stat.BA), relevant programme expenditure was just over 1% of GDP in 2000. By comparison, spending on the general social assistance programme was almost 0.8% of GDP in 2000, while the number of clients was twice as high as the number of people claiming assistance in special situations (Stat.BA, 2002).

10. Clients who receive a social assistance top-up payment to their, for example, unemployment insurance entitlement are served by the general housing benefit, and are not covered by the housing support rules for social assistance claimants.

25. Since the beginning of the 1990s, several reforms in the public assistance system have changed the nature of the social assistance programme and its clientele (Chart 2). Since 1993, asylum seekers and other persons without a residence permit no longer have access to general social assistance benefits, while the 1994 introduction of long-term care insurance significantly reduced claims on social assistance in special situations. Similarly, in 2003, persons at least 65 years of age and disabled persons can have access to a separate benefit programme. The tightening of the eligibility criteria for unemployment assistance in 2000 further increased the focus of the social assistance programme on “employable” clients.

Chart 2: The trend towards categorisation within the public assistance system



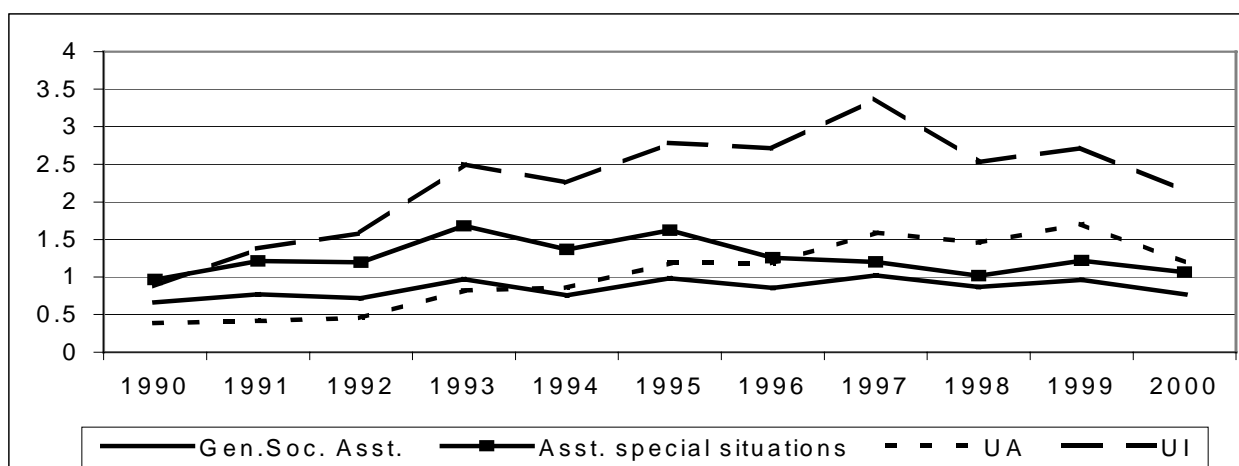
26. In line with the changing nature of its caseload, during the second part of the 1990s, social assistance spending trends generally followed UI and UA spending patterns, although fluctuations are less pronounced reflecting long-term benefit receipt (e.g. carers for young children), and payment rates (see below). In 2000, the social assistance caseload of about 2.7 million clients was significantly above UI (1.7 million) and UA caseloads (1.5 million – Statistical Annex). At the same time and in line with benefit generosity, spending on the UI programme was almost three times as high as spending on social assistance – see Chart 3. Spending on assistance in special situations amounted to 1.7% of GDP in 1993 but fell to just over 1% of GDP in 2000. The introduction of long-term care insurance in 1994 significantly reduced spending and caseloads, although this trend was partially offset by increasing numbers of people without health insurance claiming health care support through social assistance offices (SAOs).

3.1. Federal relations

27. Germany is a federal country where public responsibilities are divided among federal, state and local tiers of government. In fact, the German public administrative system has a multitude of regional government authorities. Apart from the federal authorities, there are 16 States (Länder), which are divided into 32 regional authorities (the so-called "Regierungsbezirke"), which encompass 440 cities (Städte) and rural districts (Landkreise), containing 14,197 communes in all. Responsibility for social assistance policy lies with (and varies across) Communes (municipalities), while within Communes policy implementation may also vary somewhat across different SAOs. In Berlin, for example, the city government is primarily responsible for social assistance but each borough ("Bezirk") within the city has its own Social Assistance Responsibilities between different levels of government are not mutually exclusive, and hence

competencies and public expenditures in policy areas overlap. Kitterer (1990), OECD (1999a) and Wurzel (1999) contain a comprehensive overview of the workings of “fiscal federalism” in Germany.

Chart 3: Spending trends on public assistance and unemployment insurance (per cent of GDP) ¹



General note: expenditure data include transfers between institutions; expenditure on unemployment insurance and unemployment assistance programmes does not include housing benefits.

Sources: see Statistical Annex.

28. Tax collection is subject to federal rules but administered by the States. In 1999, 40% of total tax revenue was attributed to social security funds, 30% to federal government; 22 % to state government, and 8 % to municipalities (OECD, 2001a). The allocation of tax revenues is subject to maintaining a degree of equity across states. In a first step, tax resources are allocated among the three different tiers of government on basis of revenue sharing, mainly concerning VAT and personal and corporate income tax. Some taxes accrue to one level of government only (for example, the municipal property tax, while inheritance and automobile tax accrue to states). In a second stage, financial equalisation is accomplished through vertical (from federal government to States) and horizontal transfers (from “rich” to financially weaker States). Within States a similar financial equalisation works to benefit financially weak municipalities. There are no direct transfers from the federal government to the municipalities, with one exception: federal subsidies towards municipal housing support.

29. As in other federal countries (OECD, 1999) and non-federal countries where the operation of social assistance has been devolved to local governments (OECD, 1998, and 1998a), design in the financing and operation of such programmes creates opportunities as well as challenges for how policy is implemented. Broadly speaking, a devolved structure allows for at least some local discretion and facilitates policy competition and innovation. If preferences vary across a country, as they clearly seem to in Germany, then allowing sub-national political units to determine policy trade-offs will increase overall well-being. Furthermore, different institutions are able to experiment in how to provide better services at lower cost, in a way that monolithic bureaucracies find difficult. As illustrated in section 6, if approaches in labour market reintegration policies are considered successful, as, for example, projects initiated in Mainz, then other jurisdictions may follow suit.

30. On the other hand, a devolved policy set-up raises concerns about (lack of) economies of scale, mobility, the use of administrative resources and incentives for cost-efficiency. If administrative units are too small they will be unable to offer a full range of services; less likely to dedicate professional staff; and may be overly vulnerable to financial risks beyond their control (as noted above, state transfers can be

made available to municipalities with poor finances). Almost inevitably, rural districts face bigger challenges in service delivery than urban centres.

3.2. *Coherence and efficiency of welfare policy across different levels of government*

31. Efficient allocation of resources requires that the welfare system should not overly influence where people live and work. On the one hand, this means that mobility of clients ought not to be hampered by (local) residency requirements. On the other hand, in order to avoid “excess” client mobility to areas with the highest payment rates and good and anonymous service delivery, which would undermine the long-run sustainability of the system, it is argued that a certain minimum standard in provision must be maintained across a country. Basic rules on entitlement are laid down in the Federal Social Assistance Act, but social assistance policy is implemented at the local level. This involves some variation in the interpretation of programme rules, but the extent of variation in the application of eligibility criteria and payment levels is limited (see below). There is no huge variation in these rates within Germany, with the Eastern States having somewhat lower rates (about €10 less, see Statistical Annex). Variation in social assistance payments in Germany appears not to be larger than in for example, Canada, Norway, or Switzerland (OECD, 1998 and 1999), and mobility of clients induced by generosity differentials is not a pressing policy concern in Germany.

32. By its very nature, the use of different tiers of government in the administration of one and the same programme is likely to involve more administrative costs than if only one level of government were involved. These costs may be outweighed by the benefits of reflecting local preferences in general policy (rather than just public assistance policies), but a streamlined allocation of responsibilities reduces potential excess use of administrative resources. Federal government finances and operates unemployment assistance (only for clients who have exhausted their UI-entitlement), so there is a logical match of financial and operational responsibilities. The general housing benefit paid to low-income households (not including those whose primary income source is social assistance benefit) is largely financed by federal and state governments: on average federal government pays 53.4%; states 44.4%; and municipalities 2.2% (BMA, 2001), but delivery is a local (municipal) matter. Although States bear a considerable part of the costs, their role is largely restricted to maintaining the legislative framework on basis of federal directives.

33. Municipalities (communes) are responsible for the operation of general social assistance and its financing (Table 1). All layers of government contribute to the cost of assistance in special situations, especially when such support is provided on a supra-communal (“überörtlich”) basis: support provided outside the direct remit of the commune, e.g. in-kind support for a disabled person in an institutional facility, which serves clients from different communes. The states largely finance such support with the federal government bearing some of the cost, where relevant items are not covered by long-term care insurance. This system involves considerable administrative costs and may occasionally lead to communes trying to offload costs on other institutions. The other item of financial co-sharing in social assistance concerns housing support to social assistance clients. Social Assistance Offices cover the cost of accommodation of their clients who are not entitled to general housing benefit. SAOs estimate that federal and state governments reimburse municipalities for on average about 40% of housing expenditure through the special housing support programme (*besonderer Mietzuschuß für Sozialhilfeempfänger*).

34. Indeed, the devolution of administrative responsibilities also poses challenges to the structure generating administrative incentives for cost-efficiency. In general, the more the financial costs of inefficient administration are felt by the operational organisation, the less will inefficiency be tolerated. Thus, in Germany, as municipalities finance social assistance themselves out of tax revenue, they have strong incentives to reduce their caseloads, for example, through the use of labour market programmes (see below). But the municipal incentives to operate efficiently in the delivery of state and federally financed

special social assistance benefits or general housing benefits are much weaker. Matching financial risks and benefits with operational responsibilities is an issue that also affects the relationship between SAOs and the local Public Employment Service (PES) - see section 6.

Table 1: Public assistance benefits in Germany

Programme	Financed by:
Unemployment assistance	Federal government
Housing benefit	Mainly States and Federal government
Social assistance	
General social assistance	Mainly Municipalities
Housing support	Municipalities with contributions of State and Federal governments (the latter through "special housing support" -- see text)
Assistance in special situations	States, with municipalities and Federal government paying minority shares
Asylum seekers benefit	States and municipalities with Federal contributions

The Asylum Seeker Benefit is discussed in section 5.4.1.

Source: based on BMA (2001), Klein (1999), Witte (2001) and information provided to the authors by Stat.BA in 2002.

35. The absence of a direct transfer structure between federal authorities and communes means that whenever changes in national social policy occur that affect social assistance caseloads, the relevant readjustment of financial resources is achieved in a non-transparent indirect manner, if at all. For example, the change in eligibility criteria to Unemployment Assistance in 2000 (see below), "shifted" potential cases (and the relevant costs) from UA to social assistance, without a clear reallocation of financial resources between the different layers of government. Similarly, the introduction of the long-term care insurance in 1994 reduced municipal, state and federal spending on assistance in special situations, but the allocation of tax revenue across different tiers of governments remained the same. As municipal social assistance budgets increased dramatically from 1980 to 1995 by on average about 20% per annum (BMA, 2002), the 1994 reform brought some needed relief to municipal social assistance budgets, but achieving this through long-term care insurance reform does not reflect an explicit policy choice.

36. Similarly, the introduction in 2003, of a new minimum pension benefit for old-age pensioners and disabled persons will involve a convoluted mechanism of financial compensation for the transfer of responsibilities. Federal government has legislated the new pension programme, but municipalities will operate and finance this new means-tested benefit that is more generous than existing social assistance benefits.¹¹ Being aware of the financial implications, the federal government will increase financial support to municipalities, but in a roundabout way. The federal government will reduce its contribution to the statutory old age programme and increase its financing share of general *housing benefit* by €305 million. State governments are not to use this money towards housing benefits, but to financially support local

11. The minimum pension payments are based on the same rate structure as social assistance payments, but pensioners are entitled to an additional 15% of the standard payment rate, while losing eligibility for special one-off payments in general. The 15% increment generally exceeds the value of one-off payments social assistance clients receive, but if not pensioners can claim supplementary one-off payments in addition. Moreover, the means-test to the minimum pension programme is far less stringent as it only considers income of the cohabiting spouse: income of children and divorced spouses is disregarded (see below).

governments responsible for the minimum pensions payments though within-state equalisation transfer mechanisms (Bäcker 2001 and BMA, 2001*b*).

37. In general, the administrative incentive structure underlying the social assistance programme is sensible: municipalities who operate the programme have strong financial incentives to reduce caseloads. Reform in federal or state operated social (insurance and/or assistance) programmes can obviously impinge on social assistance policy, and it appears that municipalities often receive compensation towards increasing social assistance outlays (*e.g.* the minimum pension reform in 2003). However, the transfer of funds plays out in a roundabout and not directly transparent manner. Transparency is important within the fiscal federalism framework, as it gives voters (taxpayers) the opportunity to assess the performance of the governments they elect. Without transparency voters cannot assess whether their local government (also in comparison with other municipal authorities) operates efficiently, could change tax rates, etc. Non-transparency thus involves the risk that administrative efficiency gains will not be realised, since voters may not be aware of wasteful administrative practices.

4. Concise overview of income support benefits for job-seekers

38. There are three income support programmes for the unemployed. Unemployment Insurance (UI) payments¹², and to a lesser extent unemployment assistance (UA) payments are relatively generous as they are directly related to previous earnings (and non-taxable). By contrast, social assistance payments are not linked to work-history but “subsistence levels”.

39. Unemployed persons are entitled to UI-benefit depending on their contributory record (at least one year out of the last seven years) and receive benefits for a maximum of half the time the person was previously in employment. Claimants up to 45 years of age are entitled to benefits for up to one year, older workers may receive UI up to a maximum of 32 months depending on the claimant’s age (Table 2).

40. Unemployment assistance can be claimed upon expiry of the UI entitlement until the statutory retirement age (65 for men). UA is a means-tested benefit that used to allow for limited assets (€4 090 in 2001), but legislative change has made the means test age-dependent to make access to UA easier for older claimants. Since 2002, the asset threshold is €520 per person in the household multiplied by his/her age up to a maximum of €33 800 per person (65 times €520). Savings made under such private pension covered by the 2001 pension legislation, are treated differently than other assets in the means-test, and could affect the value of the other assets claimants can hold.¹³

41. Social assistance asset limits are considerably lower and take into account the income position of parents of applicants (see below), but under both UA and social assistance schemes the value of homes is often disregarded. In 2000, the eligibility criteria for UA-benefit were tightened so that only former UI recipients have access to UA benefit: other unemployed persons can only apply for social assistance.¹⁴

12. UI is, of course, not part of the public assistance system but its relationship with UA and social assistance programmes warrants a discussion that covers all three benefits.

13. For example, a 30 year old applicant is allowed assets worth €15 600 (€520 times 30) under the UA means test. In the unlikely event of €15 000 in private pension savings, his/her assets threshold would be reduced by that amount, but not beyond a legislated minimum of €4 100. In this case, the applicant is allowed other assets worth €4 100. If the same applicant only holds €5 000 in private pension plans, other assets could be worth up to €10 600.

14. Until 2000, applicants were also eligible for UA, when they 1) had made UI-contributions for at least five of the previous twelve months, 2) were self-employed after receiving UI-benefit, 3) have received long-term care benefits, 4) had initially failed the asset test, but after running down their assets could meet it.

Although UA payments are linked to work-history, payment rates may fall below subsistence levels over time (see below). In such cases, long-term unemployed persons can simultaneously claim unemployment and social assistance benefits: the latter as a top-up payment.

Table 2: Characteristics of income support programmes for the unemployed, 2002

<i>Item</i>	Unemployment Insurance	Unemployment Assistance	Social Assistance (general)
Financing	Contributions to the UI funds: 6.5% of the gross payroll, equally shared by employers and employees.	Federal Ministry of Employment and Social Affairs	Financed by states and municipalities.
Eligibility criteria	Workers who have contributed for at least one out of the last seven years. The minimum contribution period for seasonal workers is 6 months.	Means-tested benefit (on household income) for those who are still unemployed upon expiry of their UI-entitlement. The asset limit is age-dependent: €520 per year lived: e.g. €33 800 for those aged 65. The means test is conducted annually. The following items are exempt from the means test: Child Benefit, Housing Benefit, and spousal income equivalent to the amount the spouse would receive if he/she were in receipt of benefit income.	Means-tested benefit for all residents without (sufficient) entitlements to other social benefits. The means test includes income of (wider) family members (spouses, children and parents), and includes alimony payments in full. Assets limits are €1 278 for the claimant, €614 for his/her spouse and €256 for each child. If the applicant owns a house, its value is usually disregarded as long as the claimant lives in "reasonable" comfort.
Benefit conditions	Recipients have to be registered with the PES and to be looking and available for work and activation programmes. In case of non-compliance with benefit conditions, benefits can be suspended for 12 weeks for each offence, and UI entitlement is reduced by this period. If the accumulated sanction period is 24 weeks, UI-entitlement ceases completely.		Claimants who are not disabled, of working age and are not the primary carer of a child under four years of age have to be looking for work, and be available for work and participation in activation programmes.
Payment rates	60% of the previous net wage (including employer provided benefits) for claimants without children, and 67% of the net wage for claimants with at least one child. There is a minimum and a maximum benefit.	53% of the previous net wage (without employer provided benefits) for claimants without children, and 57% for those with at least one child. The real value of the UA benefit declines every year.	Benefit is calculated according to a needs standard that takes into account household size, household composition, accommodation costs, and extra needs.
Benefit duration	UI entitlement is half the duration of the employment spell prior to unemployment, subject to a maximum depending on the claimant's age: 12 months for those not yet 45 years of age; 18 months for ages 45-46; 22 months for age 47 to 52; 26 months for age 52 to 58 and 32 months for over 57.	The benefit can be claimed until the recipient reaches the statutory retirement age (65 years for men, 63 for women).	There is no time limit.
Other Entitlements	Claimants are entitled to Housing Benefit, and to Child Benefit. Entitlement to Childrearing Benefit only when the claiming parent worked less than 30 hours per week prior to becoming unemployed.		Social assistance offices pay child benefits to clients. Payment rates for younger children are similar to child benefit; older children receive higher rates (Table 3). Recipients are eligible for Childrearing Benefit, one-off payments, while SAOs generally cover accommodation costs.

Earnings disregards	UI and UA recipients can work up to 15 hours a week, and can fully keep all their earnings up to €161 per month or 20% of UI payments, whichever is highest. Workers who had two jobs before becoming unemployed: a regular job leading to UI entitlement and an additional “minor” job, the so-called “€325 jobs”, can continue the latter without this impinging on their UI entitlement if they have held the job for 10 out of the last 12 months.	Disregard: 25% of the standard rate is disregarded, as well as 15% of earnings up to a maximum of €143. For lone mothers, disabled and claimants over 65 years: 33% of the standard rate, plus 25% of income up to €143 per month.
Recipients (2000)	2 694 000	1 695 000
		1 457 000 (of whom 16% receive Soc. Asst. as a top-up to UI or UA payments).

Sources: BA (2002; 2002a; and 2002b) and BMA (2001c; 2002a; and 2002b). For caseload data: Statistical Annex.

42. UI and UA claimants are entitled to income-tested housing benefit and general child benefit. Further, UI and UA basic payment rates are higher for claimants with families than for those without dependants: UI payments to single persons amount to 60% of former net earnings, while this is 67% for those with children. (For UA this is 53% for single persons and 57% for claimants with children.)

4.1. *Benefit conditions*

43. UA and UI clients have to register with the Public Employment Service (PES), search for work and be available for participation in labour market programmes. The claimant may also sign an individual integration agreement (“Eingliederungsvereinbarung”), but this is not mandatory. The frequency with which claimants had to report on their job-search activities was not high: once every 3 months. With recent reform, this requirement has been lifted. Failure to comply with benefit conditions can lead to suspension of benefit receipt for a 12-week period (Table 2), during which social assistance support may be received, see below. About 10% of all UI and UA benefit recipients were sanctioned in the late 1990s. However, in 76% of the cases sanctions concern deferral of UI payment to voluntary job leavers.¹⁵ In less than 1% of the cases entitlements were stopped altogether (BA, 2001). Since 2002, the PES is legally obliged to assess *all* registered clients, and to that end caseworkers complete a standard form with information on the applicant’s work-experience, education, age, and other relevant factors (see section 6.2.1). To what extent this leads to a detailed assessment of individual client labour market prospects is likely to vary across client groups and individuals: for social assistance claimants the completion of the form on work characteristics is sometimes regarded as a “ritual” they have to go through.

44. On applying for social assistance benefit applicants first have to show that their UI or UA entitlement does not (yet) exist (see below) or is insufficient. All clients considered employable by the SAO -- in general, all non-disabled clients of working age who are not caring for children below the age of 4, below the age of 10 in case of two or more children -- also have to register with the PES. In municipalities where the PES and SAOs co-operate closely, social assistance clients are usually required to sign an integration plan. And although integration contracts with social assistance clients have become more and more prevalent, local practice varies considerably (Bertelsmann Stiftung, 2000 and 2001). In any case, the PES is not obliged to offer activation measures to social assistance recipients.

45. If employable social assistance recipients fail to comply with the programme requirements (and the stipulations set in the integration plan) entitlements are reduced. In case of non-compliance (*e.g.* refusal to participate in an activation programme) payments can be reduced as a proportion (at least 25%) of the standard personal payment rate (see below). In case of a further refusal the benefit can be further reduced,

15. Workers whose employment relationship was terminated by the employer receive payments from the moment UI-entitlement is established. Claimants who have left their job voluntarily also receive UI-payments, but only after a “sanction” period of 12 weeks, during which no payments are made: the overall UI entitlement is also reduced by 12 weeks.

subject to the judgement of the caseworker and the local authorities. This is an area of some confusion. On the one hand the Constitutional Court rules that a certain minimum has to be granted (without a clear statement on how much that minimum is), while on the other hand some people who do not comply can lose their social assistance benefits completely. In general, child-related payments cannot be reduced and concerns about minimum family incomes, especially when children are present, mean that SAOs hardly ever fully deny benefit. In recent years, benefit conditions have been more vigorously enforced than in the past. Prior to 1996, sanctions were rarely applied. However, in 2000, of all clients who were offered a job or placement in activation or public works programme, about 10% were sanctioned for refusal.

46. UI and UA recipients can work up to 15 hours a week, and can fully keep earnings up to €161 per month or 20% of UI payments, whichever is highest (Table 2). Modest earnings disregards also apply to social assistance clients: 25% of the standard payment rate (€129) is disregarded from income plus an additional 15% up to a maximum of €143 per month (these are basic rates subject to variation according to State legislation). Lone mothers are allowed to keep 33% of the standard rate (€95) and 25% of earned income up to a maximum of €143, meaning they need less hours work to obtain the full disregard.

4.2. *Possible benefit trajectories of unemployed persons*

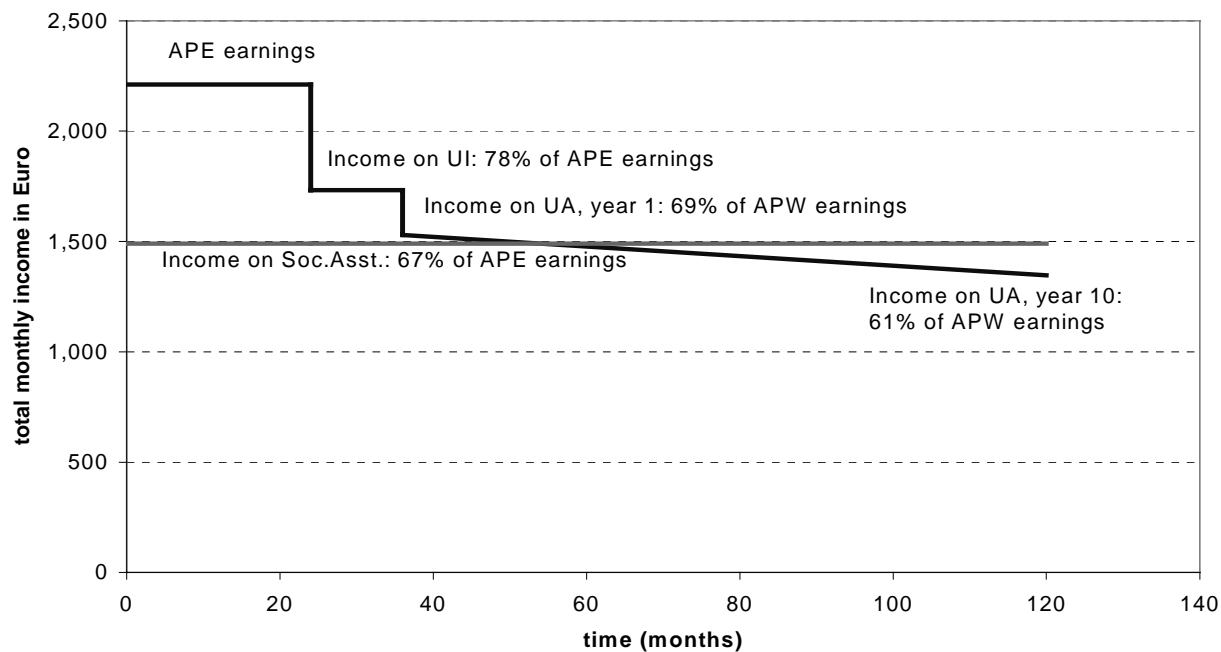
47. The relationship between the different income support programmes can be illustrated by considering the possible benefit trajectory of unemployed workers. In 2001, take-home pay for a single earner in a couple family with two children with average earnings was estimated to be €2 212 per month (OECD, 2002b). If he/she had worked for 2 years, he/she would be eligible to 1 year of UI benefit on becoming unemployed (Chart 4, Panel A). Accounting for housing and child benefit, net UI payments would amount to 78% of previous net earnings. Upon expiry of UI benefit, this unemployed worker is eligible for UA-benefit with payments (including housing and child benefit) equivalent to 69% of previous earnings. Yearly UA payment decreases are only partially offset by increments in the housing benefit that are related to lower UA payments.¹⁶ (Since January 2002, recipients are exempt from this decrease for a maximum of two years, if they were either employed or in relevant activation programme for at least 6 months during the preceding year). After about 5 years on UA benefit, payment will have declined to the level of social assistance payments to a similar household (at about 67% of net average earnings for this worker). From this moment on the UA claimant can also claim a top-up to social assistance payment levels until retirement.

48. Housing benefits and social assistance payment rates vary with household composition, but lone parents with the same work-history as in the case of the single earner in couple families face similar benefit trajectories and replacement rates as described above. However, the stylised benefit trajectory for single persons is rather different. Take-home pay for single persons at the gross average earnings level is estimated to have been €1 593 in 2001. Total payment while on UI benefit “replaces” 60% of net income in work, and in the first year of UA receipt the replacement rate would be about 49%. Social assistance payments to single persons are relatively low (equivalent to a net replacement rate of 40%). Hence, in contrast to families with children, single persons are very unlikely to receive social assistance as a top-up payment (Chart 4, Panel B).

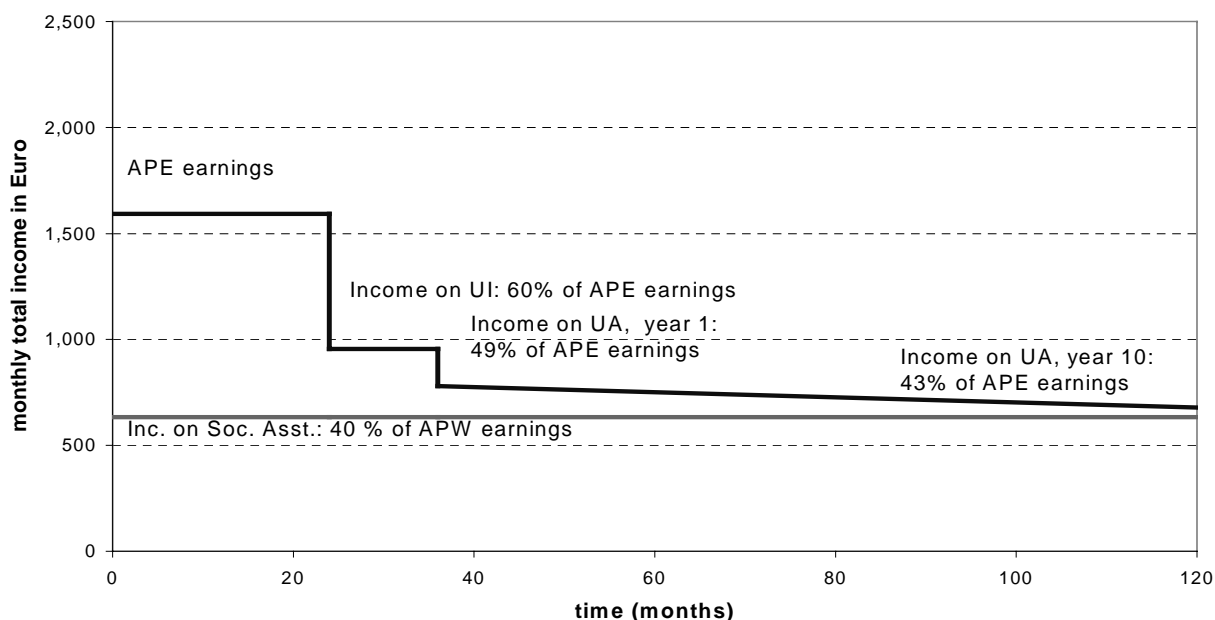
16. UA payment rates depend on previous earnings not including employer-provided payments, e.g. vacation and Christmas benefits, and the duration of benefit receipt. The stylised benefit formula is as follows: UA payment = $[(\text{net wage} - \text{employer provided benefits} - \text{Child Benefit}) * 0.97^{x-1}] * 0.57$, where x=year of benefit receipt. The “net wage” is adjusted for inflation annually.

Chart 4: Income support and benefit trajectory for unemployed persons by family situation, 2002

Panel A: Single earner in a couple family with 2 children (aged 4 & 6)



Panel B: Single person household



Sources: Authors' calculations on basis of material provided by the BMA, Stat.BA, and the OECD database on Benefits and Wages. BMVBW (2001) details housing benefit rates.

4.3. *Cost shifting between labour market and social assistance authorities*

49. Programme design of the different income support benefits for the unemployed leaves room for the different benefit administrations involved to offload costs on each other at different stages of the possible benefit trajectory of clients (see above). On application for UI benefit, prospective claimants have to wait for a definite decision to be taken by the PES, and subject to the means-test, can claim social assistance benefits during this period. This “waiting period” has been reduced in recent years and, at present often concerns a 20-day period, but can be up to 6 weeks in some labour offices (Leisering and Leibfried, 1999).¹⁷ In general, the waiting period is shortest in municipalities where SAOs and local PES offices have established a close working relationship.

50. The PES reimburses municipalities for the social assistance benefits paid in this period, but not for the administrative costs involved, which are highest for new applicants. As an estimated 25% of the new social assistance cases concern applicants waiting for a UI decision (Schulte, *et al.*, 1999), the cost to municipalities is significant. Moreover, overall administration costs (for both the PES and SAOs) are considerable as the current system involves both the PES and LGs dealing simultaneously with benefit applications from one and the same client, and later on devote administrative resources to dealing with the “reimbursement claims” from the SAO on the PES. Some simultaneous assessment by the PES and SAOs is probably inevitable, but SAOs and PES should co-ordinate better to reduce the overall costs. SAOs may consider to defer a rigorous eligibility test of applicants who are waiting for the UI decision on entitlement until that decision has been made. In the interim limited payments to such clients could be made to cover immediate needs. In that manner, administrative costs can be reduced, while limiting overpayments which later need to be recovered.

51. Social assistance benefits can also be paid to UI and UA recipients who are sanctioned for non-compliance with programme rules (and municipalities are not reimbursed by the PES for such expenditure). If a UI and UA sanction leads to eligibility for means-tested income support, clients are entitled to the reduced standard social assistance payment rate (the standard sanction for social assistance clients), while the remaining social assistance benefit components (e.g. housing and child-related payments) are paid in full. Schulte, *et al.* (1999), estimated that between 3% and 8% of social assistance applicants concern sanctioned UI or UA clients. Among social assistance authorities there is considerable concern on this issue, because of the implications for caseloads and thus expenditure. Coherence in implementation of policies amongst labour market and social assistance authorities also needs to be improved to give consistent signals to clients on the consequences of their behaviour on entitlement to income support.

52. In general, UI and UA clients that are not deemed employable and who are not available for work are referred to social assistance benefits by labour market authorities (Lamping/Schridde, 1999; Sell, 1999). On the other hand, social assistance offices can channel clients back to UI and UA programmes (see below). SAOs can create jobs that involve a regular work contract between the SAO and the “employee”, and one year in such a job establishes UI entitlement (Feist and Schöb, 1999). There is no firm information available on the magnitude of this type of shifting, but it is likely that amounts involved are significant. Thus, the scope for cost shifting between labour market and social assistance authorities is considerable. Measures to improve the coherence in design and implementation of policies amongst labour market and

17. Prevailing “quality standards” within the German Labour Office stipulate that at least 70% of all applications for both UI and UA benefit should be dealt with upon 20 days on application. In September 2002, the compliance level was 71 %.

social assistance would thus significantly reduce the administrative waste, which imposes an unnecessary burden on the taxpayer.

4.4. Caseload trends

53. Fluctuations in unemployment largely determine UI, UA and to a lesser extent general social assistance caseload trends (Charts 5A and 5B). Since German reunification in November 1990, the unemployment rate rose until 1997, to decline thereafter. UI caseloads follow this pattern, but as many former UI recipients became UA claimants, the declining unemployment rate in the late 1990s has not yet led to a significant reduction of the UA caseload. In 1990, the UA caseload was about half the UI caseload: in 2000, it was almost the same. This reflects an increase in the average duration of unemployment spells.

54. Caseload trends are also susceptible to institutional changes. For example, the 1991 increase in the social assistance caseload was related to German reunification leading to an inflow of east German clients regardless of their labour force status, while the introduction of the asylum seeker benefit in 1993 had a significant downward effect on the social assistance caseload.

Chart 5A: Caseload trends: social assistance, unemployment assistance and insurance

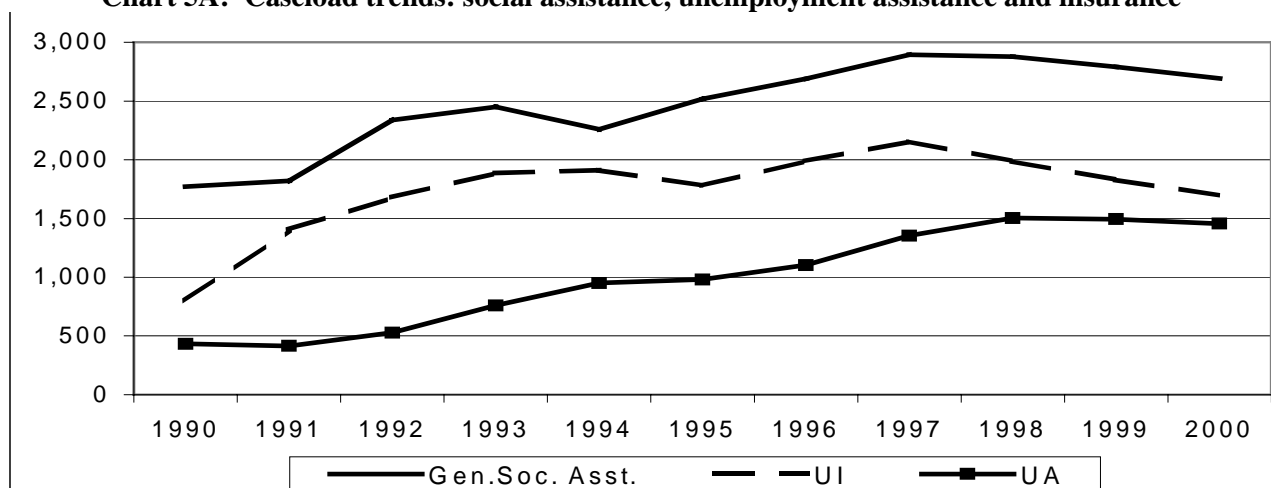


Chart 5B: Unemployment rate in Germany, 1990s



Sources: See Statistical Annex: unemployment rate data reflect the national registry-based figures; not the standardised unemployment rate.

5. The general social assistance programme

55. The social assistance benefits are based on the subsistence principle (*Bedarfsprinzip*), a universal and unlimited right to support at a minimum standard of living that guarantees a life according to human dignity for persons who cannot support themselves. At the same time, the social assistance programme aims to promote the autonomy of clients, where possible through labour market participation. As noted above, social assistance was never intended to serve the unemployed. However, joblessness is now the major reason (in 40% of the cases) for claiming social assistance (Bundesregierung, 2001*b* and 2001*c*). In 1998, 24% of the social assistance clients of working age were unemployed clients without entitlement to other unemployment benefits, while an additional 16% of claimants received payments topping up UI but mostly UA benefits. Another 8% of clients of working age, claimed social assistance payments to top-up earnings from low-paying jobs (over a third of all couple families with children and a quarter of the lone parent families on social assistance are in some sort of employment). Thus, almost half of the clientele claims social assistance for labour-force-related reasons.

5.1. Access to benefits and the family means-test

56. Compared to the other income support programmes for the unemployed, the general social assistance programme is significantly different in its treatment of “employable” clients both in terms of payments (see below), and the means-test conditions.

57. In line with common practice across the OECD, the social assistance means test considers assets and income of the applicants, and the other household members. But together with only a few OECD countries, for example, Korea and Switzerland, the means test also considers the income position of parents and adult children (and separated, divorced spouses) who live elsewhere (OECD, 1999 and 2000). Until 1974, the income position of grandparents, grandchildren and siblings could also be considered. The income position of the parents of the female in the household is not considered in the means test when she is pregnant or has children not yet 6 years of age. Furthermore, when applicants are involved in community work assigned by the SAO, their families are not required to support them.

58. The asset ceilings are low: €1 278.2 for the applicant; €613.6 for the spouse; and €255.6 for each child (Table 2). Home ownership is generally disregarded unless the house is of a relatively high value. However, the family conditions in the means test stipulate that on the death of a client, children (and other relatives) inheriting the property have to reimburse the SAO for the cost of benefits over the last 10 years. Over the last 10 years, SAOs have become much more strict in their application of eligibility criteria (Leisering, *et. al.*, 2001). For example, SAOs have increasingly tried to access children’s resources, particularly when elderly clients entered institutional care or had insufficient pension entitlements (Darmstädter Echo, 1999).

59. The social assistance programme rules thus involve stringent asset testing, with entitlement also being dependent on the income position of parents and children. The burden of proof lies with the applicant, if he/she cannot submit relevant information (except for information on means of relatives), the applicant will not be assessed eligible.

60. It is more difficult to ascertain the extent to which these regulations are enforced in practice. In Switzerland, the extent to which the cost of social assistance is recuperated from relatives varies across Cantons, but is generally limited in scope, not in the least because administrative costs of pursuing such claims can be significant. In Germany too, there is considerable variation in the intensity with which local policymakers push for, and caseworkers apply, the means-test conditions (Leisering, *et. al.*, 2001). For example, authorities may not insist on the sale of a car, as it would hamper the client prospects of work.

Also, information on the parental income situation may be difficult and costly to obtain (*e.g.* when clients are or claim to be estranged from their relatives), affecting the assessment of applications in practical terms. What's more, in assessing claims, SAOs cannot automatically access all relevant information. Applicants are required to provide information on bank accounts (which can be verified), while social insurance institutions do provide SAOs with information on receipt of insurance benefit on request. Similarly, information on possession of cars can be obtained from the relevant authorities. But tax records cannot be accessed.

61. During the 1980s and 1990s, staff-to-caseload ratios increased to a range of 1 caseworker on 120 to 180 clients (Jerger, *et al.*, 2001). OECD (1998, 1998*a*, and 1999) suggest that about 100 clients per caseworker is a workable practice, and it thus appears that in Germany, the caseload-to-staff ratio is too high for caseworkers to devote sufficient time to all aspects of their job. The relatively high caseload to staff ratio leaves little time for stringent verification of all aspects of the asset test: home visits are not usual. In view of the considerable cost involved in testing clients who often have no income beyond the means test criteria, caseworkers often find that stringent testing is simply not worth it.

62. On the other hand, the increasing cost of social assistance to communes is likely to have contributed to increased rigour with which policymakers want to apply asset and family income rules. Changes in attitude among responsible policymakers also play a role: the new centre-right government in the city of Hamburg intends to carry out programme rules to the letter, whereas the previous social democrat led government was more lenient in its approach (Daily Telegraph, 2002).

63. Both rules and their perceived application give a clear signal to prospective clients about the undesirability of being on social assistance, the stigma that may be attached to it, and their reliance on relatives. Indeed, non-take up of social assistance benefits is thought to be considerable: estimates range from 33 to as high as 63% (Engels, 2001, Kayser and Frick 2000, and Riphon, 2000). Stigmatisation, social control, state dependence, and the family means test contribute to non-take-up, particularly among older persons (Breuer and Engels, 1999). Moreover, low-income households other than lone mothers and the long-term unemployed are often not aware of potential social assistance entitlements (Bundesregierung 2001*b*). Engels (2001) estimates that single persons and couples without children have the highest incidence of non take-up (40%), while this is only 18% of lone parents.

64. Concern on non-take-up of benefit among the elderly has contributed to the introduction of a separate minimum pension programme. State pension agencies across Germany will write to clients informing them on the new minimum pension benefits, and ask them to contact municipal authorities to file their claim. However, as SAOs are likely to be the operating agency in most communes, perceived stigma may continue to deter potential claimants from applying.

5.2. *Benefit payments*

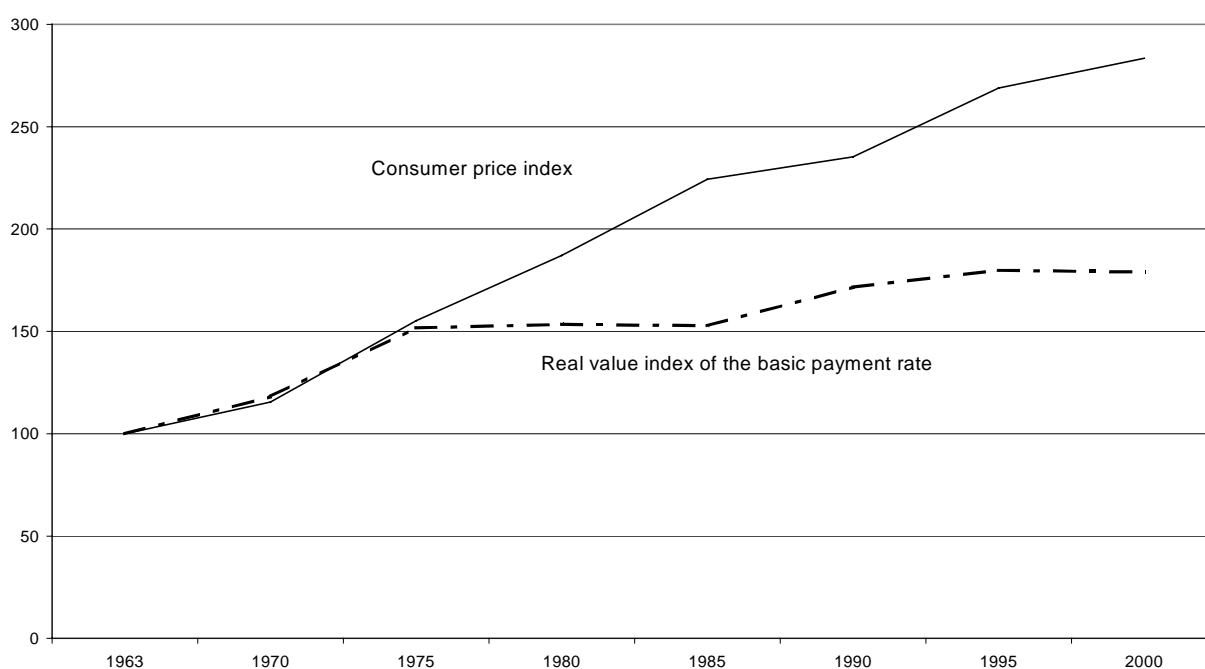
65. Social assistance policy objectives in Germany simultaneously aim to support clients to achieve personal independence through labour market participation, whilst guaranteeing an income that enables the claimant to live in conditions reflecting "human dignity". The former objective requires the programme structure (including payment rates) to provide ample (financial) incentives to work, whereas the latter objective leads to more or less guaranteed minimum income payments. If based on consumption budget surveys, such payment rates often turn out to be high relative to minimum earnings (OECD, 1998*a*, 1999). Hence, there is potentially some tension between the two policy objectives underlying rate setting.

5.2.1. A minimum income based on the cost of living

66. Social assistance payments aim to provide a minimum income for those in need. The federal government sets a reference rate on the basis of which state authorities determine actual payment rates related to the cost of living in their State. The exception is Bavaria, where state authorities explicitly determine a minimum rate only (which is thus the lowest in Germany), but where local communes (SAOs) have the discretion to pay higher rates, and often do. State-determined payment rates thus set a minimum subsistence standard based on the cost of food, clothing, toiletries, household goods, everyday necessities, as well as expenses for social activities and participation in cultural events (within reasonable limits). In conjunction with housing costs and special payments these state-determined payment rates establish a minimum income level that is not subject to taxation (in line with a 1992 Constitutional Court ruling).

67. In practice, the federally-set basic rate has not followed consumption cost trends over the last 25 years. The basic rate increased with the budget indicators on the cost of living until 1975 (Bundesregierung 2001*b*). Since then annual increments have been determined in many different ways. From the early 1990s the basic rate has been indexed to public pension payments, and payment rates have increased little compared to the consumer price index (Chart 6). In recognition of this, from July 2001 standard rates were supposed to be adjusted according to a new method taking into account the development of net incomes, consumption expenditure of households with incomes slightly above the social assistance threshold, and the inflation rate. However, so far States have not implemented this legislation, as it would raise the payment rates considerably.

Chart 6: Evolution of the basic social assistance payment rate and inflation (1963 = 100)



The real value index of the basic payment rate reflects the increase in the nominal value of the basic payment rate in a given year related to consumer price inflation in the same year. The series is trended with base year 1963 = 100.
Sources: BMA (1998), Bundesregierung (2001*b*) and Statistisches Bundesamt (1998).

5.2.2. *Payment rate structure*

68. The standard payment rate structure includes the following elements:

- Standard rate for the head of household (the applicant)
- Standard rate for other adults in households
- Standard rates for each child (depending on age)
- Increased need allowance for claimants in specific situations
- Cost of rent and heating
- Additional one-off payments
- Furthermore claimants with children are also eligible to Childrearing Benefit and Child Benefit: the latter is fully “cashed up” in the standard rates for each child (as above), except for €10.2 for the first and second child.

69. The standard payment rate varies with household composition (Table 3): single persons are entitled to the standard rate of €286.3 while two adults in a couple family are entitled to €515.3 (1.8 times the single rate).

Table 3: Net monthly social assistance payments for different households (01.01.2002).¹

<i>Age of children</i>	Single person	Couple Without children	Couple, 2 children			Lone parent, 2 children		
			1 and 4	4 and 6	13 and 15	1 and 4	4 and 6	13 and 15
Standard payment rate	286	515	515	515	515	286	286	286
Increased need allowance	..	..	..	..	..	115	115	115
Benefit for children ²	..	..	306	306	464	334	334	464
Childrearing benefit	..	..	307	..	..	307	..	..
Average housing support paid by SAO	257	335	444	444	444	395	395	395
Average payment towards heating cost	44	60	67	67	67	67	67	67
One time benefits (monthly average)	46	85	159	159	159	121	121	121
Total Soc. Asst. payment	633	995	1798	1491	1649	1625	1318	1448

1. Monthly payments based on average standard rates for the Western part of Germany.

2. The social assistance payment to children consists of a standard rate that varies with the age of the child and household composition, and is “cashed up” with the general child benefit: in effect, an additional payment of €10.22 per child for the first two children. Child payments to a couple with two children not yet 7 years of age are: 2 times the standard rate for children not yet 13 years of age *i.e.* €306 (=2*€143 + 2*€10.22). Child payments to an otherwise similar lone parent family are slightly higher (€334), as the rate per child is €157 rather than €143. Payment rates for older children in families on social assistance are such that a family with two children aged 13 and 15 years of age receives €464 (=€258 for the first child + €186 for the second and the €20 cashed up with general child benefit entitlement). Payments to children 7 years or older are not affected by the marital status of the parent. If the lone-parent household receives alimony payments or public advance alimony payments, child payments under social assistance regulations are reduced on a Euro for Euro basis.

Sources: Authors' calculations. Mr. Engels kindly provided updated information on average rent; heating cost; and, one-time benefits (Engels, 1999).

70. Social assistance payments also cover the cost of housing (Table 3). These payments are substantial, and constitute about 25% of all benefit payments to families with children and 40% of benefit payments to single persons. According to the Social Assistance Act, SAOs are obliged to pay the actual (reasonable) cost of accommodation (although since 2000, SAOs can award fixed payments towards accommodation costs). SAOs usually pay landlords directly. They also pay health insurance contributions

on behalf of their clients. In some cases, SAOs pay separately for each medical appointment under Assistance in Special Situation regulations. In addition, claimants generally receive one-off payments for larger purchases (e.g. furniture, clothing, an allowance for new-born babies, extra heating benefits in the wintertime, etc.). These “one-off” payments are important, and make up about 10% of all benefit payments on average.

71. Claimants in specific situations are also eligible for an additional payment: the “increased needs allowance”. For example, claimants who are pregnant, over 65 years of age or disabled are entitled to an increased needs allowance worth 20% of the standard rate (40% for disabled claimants). As from 2003 these older and disabled claimants will be covered by the new minimum pension regulations.

5.2.3. Support for children

72. Support to families with children is an important cornerstone of German fiscal and social policy. Income splitting (favouring married couples with and without children, but not unmarried couples with children), Child Benefit and Childrearing Benefit are among the policy measures that illustrate the broad-based political consensus (also made explicit in the German Constitution) on the public responsibility to support families with children. This policy objective is also reflected in social assistance policy and other policy measures to support low-income families (Box 1).

73. Child-related social assistance payments increase with the age of the child and make up about 17 to 28% of all benefit payments to couple families with 2 children and 20 to 32% for a lone parent family with 2 children (Table 3). Children not yet seven years old are entitled to 50% of the standard rate for the head of household; 65% for age group 7 to 14; 90% for children aged 14 to 18; and, 80% for dependent children at least 18 years of age. Low-income parents with very young children are also entitled to the income-tested Childrearing Benefit, and parents on social assistance can claim the maximum payment (€306 per month – see section 2). As a consequence, for families with very young children on social assistance, total child-related payments amount to about 35% of overall benefit income.

Box 1. The Mother and Child Foundation

Almost simultaneous with the introduction of Childrearing Benefit in 1984, the federal government established the “Mother and Child Foundation” to protect unborn children (*Bundesstiftung Mutter und Kind – Schutz des ungeborenen Lebens*). The avowed policy objective of this largely publicly funded institution is to reduce abortion rates through the provision of financial support to pregnant women. The foundation is nationally organised and finances (via block grants) state governments who provide benefits to clients. Although this is a public benefit, the institutional set-up allows considerable influence of Protestant and Roman Catholic Churches. In fact, most states have assigned the administration and delivery of the benefits to church-related welfare organisations.

Entitlement to needs-tested benefits through the Mother and Child Foundation is not as of right. Rather, (future) mothers have to prove they are “deserving” to the local institution which delivers the benefit. Support is focused on women up to the third month of pregnancy (after which abortion is illegal). Benefits include support for pregnancy-related expenses and child-related expenses (e.g. clothing, furniture), support for continuing vocational education, and extra accommodation for pregnant women and women with young babies. There exists considerable variation in the type of benefits available across states. For example in Bayern (where benefits are co-financed by the Roman Catholic Church) in order to qualify for support mothers have to prove they are in need of support “through no fault of their own”, e.g. unemployment, accidents, illness, or other circumstances beyond control of the applicant. On the other hand, the State of Niedersachsen recognises separation or divorce as a sufficient ground for support.

74. Social assistance payment rates also increase significantly with the number of children (Table 4). Increments for additional adults are not that high compared to some other countries, but that is also related to the very low social assistance payments to single persons in these countries (e.g. Canada, Czech

Republic and Korea). The presence of children, however, leads to higher payments across the benefit structure, including increased one-off payments and accommodation support. With the relatively high child-related payments for younger children (Childrearing Benefit) and children over 6 years of age, the payment structure is relatively generous to larger families.

Table 4: Equivalence elasticities for additional household members related to base amount ¹

	Belgium (1997)	Canada Ontario (1998)	Czech republic (1997)	Germany (2002)	Korea (1999)	Netherlands (1997)	Norway (1997)	Switzerland Zürich (1998)
Additional adult (couple)	0.33	0.74	0.77	0.57	0.94	0.41	0.50	0.53
Additional number of children								
1-2	0.25	0.53	0.62	0.39	0.65	0.07	0.41	0.31
3 or more	0.43	0.30	0.66	0.50	0.43	0.11	0.38	0.28

1. Equivalence elasticities are defined as the increase in benefit for an additional household member compared to base amount (benefit payable to a single person). These are approximate values, as benefits and thus elasticities can fluctuate with the age of children.

Sources: OECD (1998a, 1999 and 2000) and information on payment rates for Germany, see Table 3.

5.2.4. Support for lone parent families

75. Lone parents in Germany are not entitled to a separate benefit as in some other countries (e.g. Norway or Australia), but some different rules apply within the social assistance system. The asset test disregards the income of the parents of lone mothers with children not yet 6 years of age, irrespective of whether the lone (teenage) mother lives alone or not. Child-related payments for young children in lone parent families are slightly above those in couple families. For example, children not yet seven years old are entitled to 55% of the standard rate for the head of household (as opposed to 50% in couple families) and when caring for 4 children or more, lone parents are entitled to an increased need allowance of 60% of the standard rate. More significantly, lone parents caring for a child not yet seven years of age (or two children not yet 16 years of age) are entitled to an increased needs allowance of 40% of the standard rate (Table 3).

76. Lone parents can also receive child support (alimony) payments from the absent parents, and although not taxable, these are fully considered in the means test. Unlike other countries, e.g. Australia or the Scandinavian countries, Germany does not have a national agency overseeing alimony payments, and in case of default lone parents have to take recourse to the legal system. SAOs support lone parents in their legal pursuit, or pursue absent parents themselves. However, absent parents who claim social assistance cannot be forced to make alimony payments.

77. Lone parents who do not receive due support payments from the absent parent can claim an advance child support payment for a maximum of 72 months for each child not yet 12 years of age. In fact, only 31% of the lone mothers on social assistance receive alimony payments, while about 40% receive the advance child support payment (Bundesregierung, 2001a). These support payments are made by locally operated agencies and financing is shared among the federal (33%), state (13%) and municipal authorities (53%). The child support payment rates are modest: €111 for a child up to 6 years in the western states (€97 in the east), and €151 for a child not yet 12 years (€134 in the eastern states). The administrative cost involved in pursuing absent parents is considerable, and as municipalities would only gain half the low child support payment rate if successful, their financial incentives to pursue absent parents are limited. While in receipt of state child support payments, the parent waives his/her alimony entitlement to the state. If the mother starts receiving alimony payments she will have to pay back the state child support payments.

78. Lone parents are legally exempt from job-search until the child is 4 years of age, or up to 10 years of age in case of two or more children. However, in practice lone parents with one child do not have to comply with activation requirements until the child reaches the mandatory school age: 6-7 in Germany. School-opening hours permit lone parents to work part-time at most, but often such earnings are not sufficient to leave the social assistance caseload altogether. Although some municipalities run specific programmes, activation measures – including specific childcare support as in the Netherlands (OECD, 2002c) – are generally not targeted on lone parents. In all, lone parents often stay on the social assistance rolls for long periods of time during which their labour market skills deteriorate. This makes it more difficult to find employment generating sufficient earnings to leave the social assistance caseload altogether at a later stage in life.

5.3. Net replacement rates and financial incentives to work

79. Single persons claiming social assistance have strong direct financial incentives to work: the net replacement rate is below 50% when the average wage of unskilled workers in Germany is considered (Engels, 1999). Net replacement rates for married couples without children are higher, but at 60% financial incentives remain strong (Table 5).

Table 5: Net replacement rates for different households and earnings levels (1 January 2002).

<i>€ per month</i> <i>Age of children</i>	Single person	Couple Without children	Couple, 2 children			Lone parent, 2 children		
			1 and 4	4 and 6	13 and 15	1 and 4	4 and 6	13 and 15
Total Soc. Asst. payment (Table 3)	633	995	1798	1491	1649	1625	1318	1448
<i>Earnings at two-thirds of APE-level</i>								
Average net earnings ¹	1067	1268	1276	1276	1276	1129	1129	1129
Child Benefit	..	..	308	308	308	308	308	308
Childrearing Benefit	..	..	307	..	..	..	..	..
Housing Benefit ²	..	..	157	157	157	88	88	88
Total net income in work	1067	1268	2048	1741	1741	1525	1525	1525
Net Soc. Asst. replacement rate	59.3	78.5	87.8	85.7	94.7	106.6	86.4	95.0
<i>Average net earnings of an unskilled single earner</i>								
Average net earnings ³	1,355	1,669	1,683	1,683	1,683	1,311	1,311	1,311
Child Benefit	..	..	308	308	308	308	308	308
Childrearing Benefit	..	..	236	..	..	..	..	..
Housing Benefit ²	..	..	66	66	66	35	35	35
Total net income in work	1355	1669	2,293	2057	2057	1654	1654	1654
Net Soc. Asst. replacement rate	46.7	59.6	78.4	72.5	80.2	98.2	79.7	87.5
<i>Average Earnings of a Production Employee (APE)</i>								
Average net earnings ¹	1593	1893	1904	1904	1904	1685	1685	1685
Child Benefit	..	..	308	308	308	308	308	308
Childrearing Benefit	..	..	139	..	..	..	..	..
Housing Benefit ²	..	..	..	..	..	..	..	..
Total net income in work	1593	1893	2351	2212	2212	1,993	1993	1993
Net Soc. Asst. replacement rate	39.7	52.6	76.5	67.4	74.5	81.5	66.1	72.7

“.. “: not appropriate.

1. See OECD (2002b).

2. Eligibility for general housing benefit is subject to an income test: the income threshold is such that a worker with average earnings (APE) is not entitled, while low-paid workers are.

3. Based on updated information in Engels (1999) kindly provided by the author

Source: Authors' calculations.1999).

80. Given the payment rate structure, it is no surprise that direct financial incentives to families with children on social assistance are much weaker, and this incentive structure is not strikingly different from prevailing outcomes in other continental western European countries (OECD, 2002*d*). In particular lone parents have weak immediate financial incentives to work, particularly when children are very young. Child-related payments, including the Childrearing Benefit, mean that work does not pay (in the short-term) for lone parents with very young children. This contributes to an employment rate for lone parents in Germany (57%), which is below the OECD average at about 62%. Being out of the labour force for a considerable time to care for young children does not make it any easier to find well-paid employment when children grow up, and poverty rates among lone parents in Germany, whether in work or not are considerably above the OECD average (OECD, 2001*d*). Financial incentives for couples with children are somewhat stronger than for lone parents. However, if a spouse in a couple family was in employment for a limited number of hours, incentives for the partner to look for full-time work are further limited (Table 5 assumes the spouse in a couple family not to be in work).

81. Benefit generosity for larger families is the subject of policy debate in Germany. The Social Assistance Act actually stipulates that payments to households with three children have to be below the earnings of adults in otherwise similar households who are employed in “the lowest segment of the labour market”. But this does not apply to larger families and, indeed, benefit income for families with 4 or more children is roughly equivalent or exceeds take-home pay of single earners in large families. As large families only make up 3% of social assistance caseload, the debate concerns a limited number of clients. However, a payment structure that provides larger families with weak incentives to work gives the wrong policy signal, and contravenes recent policy initiatives towards a more employment-oriented approach in social assistance delivery (section 6).

5.4. *Characteristics of the social assistance caseload*

82. Lone mothers, children, and foreigners are the populations groups most at risk of being in receipt of social assistance payments (Chart 7A). In 2000, about 4% of the German households were in receipt of social assistance payments, while 26% of all lone mothers were in receipt of social assistance payments. Almost two-thirds of the children in households in receipt of social assistance live in lone parent households while married couples with three and more children account for only a small number of the cases (Bundesregierung, 2001*b*). As a consequence, children, especially when young, are over-represented among households on social assistance. Given the comprehensive public pension system and the extent of non take-up (see above), the incidence of social assistance receipt among the elderly is low.

83. As noted above, unemployment is the main reason for social assistance receipt for about half of the claimants. The most frequently recorded other reason is family-related. Chart 6 showed that 16% of recipients care for young children. Family dissolution is cited as the reason for social assistance receipt in 10% of cases, often in conjunction with other reasons. Substance abuse, release from prison, homelessness and substantial debts account for about 7% of the cases (Bundesregierung, 2001*c*).

5.4.1. *Immigrants on social assistance and the Asylum Seekers Benefit*

84. Most migrants to Germany have relatively low levels of educational attainment, which contributes to their relatively poor labour market outcomes, and the relatively high incidence of social assistance receipt among foreigners (Chart 7B). The incidence of receipt among households is three times as high for foreigners living in Germany, than for the population with German passports, and “foreign” households account for 40% of the married couples on social assistance.

Chart 7A: The incidence of social assistance receipt among different household types, Dec. 2000

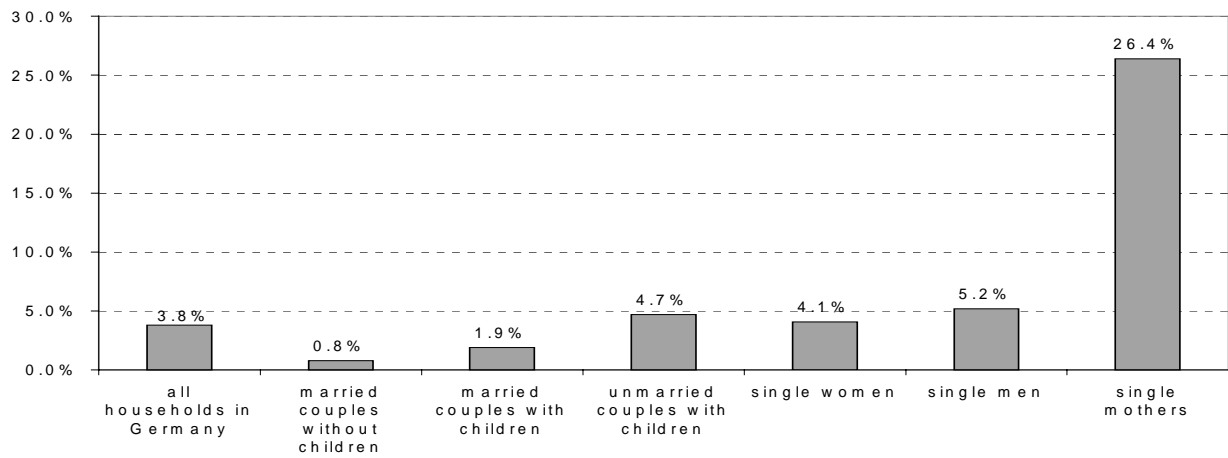


Chart 7B: The incidence of social assistance receipt among different population groups, Dec. 2000

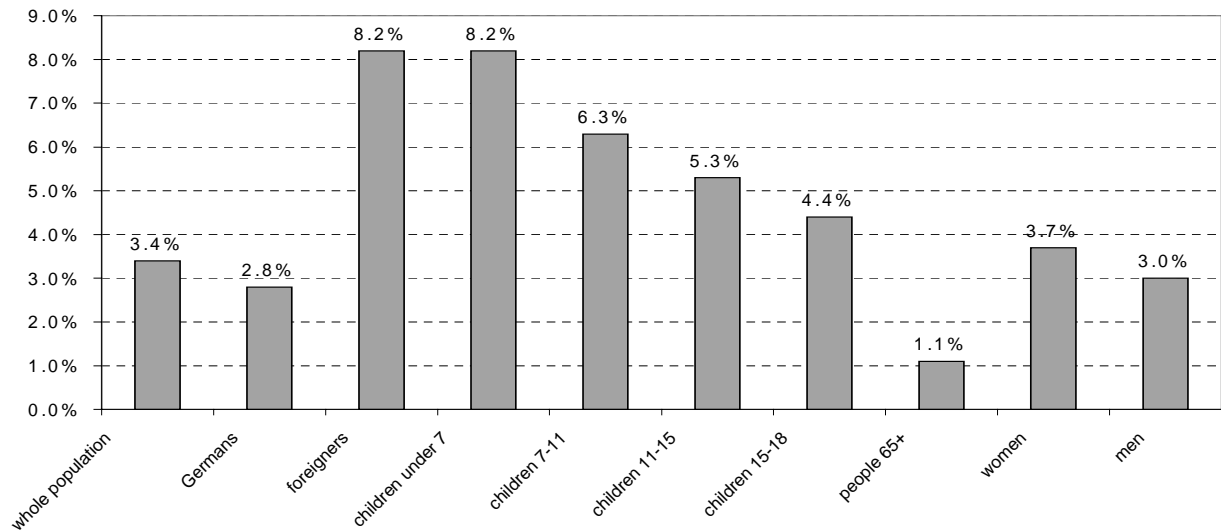
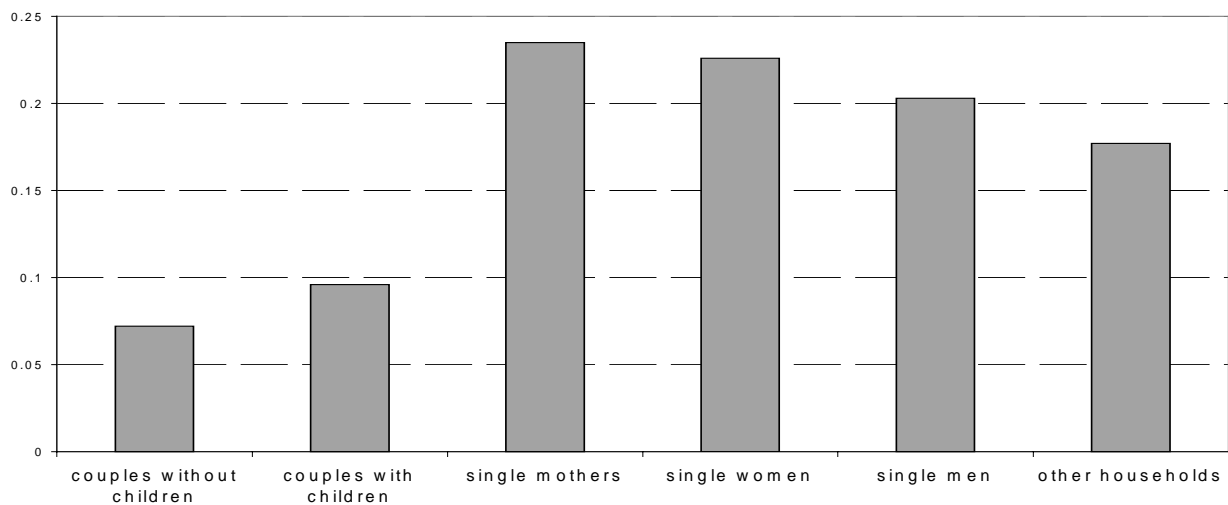


Chart 7C: Composition of the social assistance caseload by household types, 2000



Source: Data made available by Stat. BA.

85. With the introduction of the asylum seekers benefits act in 1993, asylum seekers and other foreign non-residents can no longer access social assistance benefits. Asylum seeker payment rates are about 20% below social assistance benefit rates. In 2000, about 352 000 persons claimed the asylum seeker benefit with expenditure amounting to almost €2 billion (Stat. BA 2002, and additional information provided by Stat. BA). Illegal immigrants (including those who refuse to disclose their identity) are usually only entitled to in-kind support (*e.g.* medical aid).

86. Municipalities bear a significant part of the total costs involved in asylum seeker support and its increase has become a policy issue in many local governments (Welge, 2001 and Witte, 2001). Federal legislation regulates asylum seeker benefits (*Asylbewerberleistungsgesetz*), but implementation has been devolved to the states. In turn, all states, except Bayern, have passed on operational responsibility to the municipalities. States (and federal government) partly bear the costs of asylum seeker benefit, but this varies across states, and it is difficult to be precise on how overall costs are divided among the three layers of government. Moreover, state funding for asylum seekers benefit runs out at a determined time upon the application decision, but for humanitarian reasons municipalities continue to provide support (often in-kind services as, for example, medical aid) until the unsuccessful applicant has left the country. Of course, these two points in time do not necessarily coincide, and municipalities have to pick up the bill in the interim period. As most unsuccessful seekers stay in Germany for at least another two years (Witte, 2001), the cost to municipalities is considerable.

87. These costs are compounded in comparison to other countries by the rather unusual model of municipal rather than national authorities bearing responsibility for the repatriation of unsuccessful asylum seekers. However, repatriation cannot be sought in the absence of firm proof of identity and nationality of the individual concerned. The administrative cost of obtaining a substitute passport is very high. In any case, such applications are only successful in 10% of the cases (Welge, 2001): the other 90% remain in Germany (tolerance or "Duldung") and have to be supported by municipalities. In addition, there is no systematic distribution of asylum seekers and refugees across states, or within states, except in Bayern. Asylum seekers are mostly concentrated in the larger cities (*e.g.* Berlin and Hamburg), and relevant cost to these municipal authorities is disproportionately high (Wehner, 1998). Hence, it is no surprise that municipal governments are concerned about operational cost regarding a policy over which they have little influence.

5.4.2. *Duration of benefit receipt*

88. In the mid-1990s about half of the social assistance claimants were on benefit for less than a year, while 10% of the clients remain on benefit for more than 5 years (Statistisches Bundesamt, 1998). Women, lone mothers, foreigners, persons over 40 years of age, claimants with low levels of educational attainment and large families are among the client groups with the longest duration of social assistance receipt (Leibfried, 1995, and Leisering and Leibfried, 1999): younger claimants, single persons and adults in couple families are most likely to leave the social assistance caseload (Brennecke *et al.*, 2001). As in other countries, the length of the spell on social assistance increases with the number of problems a claimant faces: claimants where unemployment is the sole reason for benefit-receipt are rare among long-term claimants (Leisering and Leibfried, 1999).

89. To a considerable extent duration is related to the administrative structure underlying the provision of income support to jobless households (section 3). The high proportion of short-term social assistance claimants is strongly related to the large number of people receiving payment while going through the application process for unemployment insurance benefits: Leisering and Leibfried (1999) estimate that 44% of new claimants were "waiting for insurance benefit". On the other hand, that the

proportion of long-term clients is not much higher than 10% is likely to be related to the opportunities municipalities have to re-qualify employable clients for UI benefit (section 6).

90. A more recent study on the 2000 caseload in the city of Wiesbaden found that only 34% of the claimants leave social assistance within a year (Brennecke, *et al.*, 2001). To some extent this may simply reflect local characteristics, but it may point to the impact of recent local policy initiatives, which make it easier to combine low paid (part-time) work with benefit receipt. In Wiesbaden, the proportion of working age clients in employment (22%) is higher than the national average (8%), and these clients typically receive social assistance for 1 to 3 years (Brennecke, *et al.*, 2001, and Bundesregierung, 2001b). Thus, the increase in average duration among the clientele in Wiesbaden appears to be related to the introduction of activation policies for existing clients aimed at promoting self-sufficiency in the longer term. It is too early to assess whether this trend reflects the situation in other communities.

6. Labour market re-integration policies

91. Increasing caseloads have encouraged a more active policy approach towards labour market reintegration in social assistance and labour market policies. However, there is considerable variation in how this re-focussing has been implemented, due to the existence of two delivery streams – the PES for unemployment insurance and assistance recipients and municipal SAOs for social assistance clients. Despite some recent local initiatives, these two institutions do not have a strong record of collaboration across Germany.

92. Recent reforms in income support programmes for the unemployed have aimed to improve employment reintegration by removing work disincentives and by increased use of active labour market policies (ALMPs), especially by SAOs. Federal government expenditure on ALMPs remained stable at about 1.25% of GDP during the 1998-2001 period (OECD, 2002a), with a decreasing focus on spending on job-creation. In addition, SAO expenditure on the "Help Towards Work" employment integration programme amounted to about €1 075 million in 2000: around 0.05% of GDP and slightly over 10% of all social assistance spending (information provided by Stat. BA).

93. Labour market policy in Germany has contributed to the significant incidence of minor jobs ("*geringfügige Beschäftigung*") that are part-time (less than 15 hours per week) and often temporary in nature: the so-called "€325-jobs". Workers only employed in such a job earning less than €325 do not pay insurance contributions or income tax (Apel, *et. al.*, 1999, and BMA, 2001c).¹⁸ Thus with the support of fiscal policy the Germany authorities have facilitated the expansion of the "minor employment" sector. In April 2001, 2,543,000 persons were in minor employment, of which only 38,000 were social assistance clients and 119,000 workers were on UI or UA. Benefit recipients are thus not the main group of workers in minor employment. Mainly such workers concern those who supplement earnings from another job (867,000 workers), but, strikingly, about 80% of all workers in minor employment are female (information from the Mikrozensus made available by Stat. BA). Often workers in minor employment are mothers with caring responsibilities (Streeck, 2001).

18. There is a wide array of part time and temporary employment situations, where different regulations apply on paying taxes and insurance, see BMA (2002a). For example, in case of long-term minor employment, the *employer* has to pay contributions to the pension fund (12% of the wage) plus contributions to health insurance (10%). If the employee holds several jobs (e.g. earning €2325 in a regular full-time job and a €325-Euro-Job), the *employee* has to pay taxes and social security contributions. In case of seasonal €325-Euro jobs neither the employer nor the employee has to pay tax and/or social insurance contributions.

94. This trend contributed to the significant change in the nature of German employment and materialised against the backdrop of high unemployment in recent years. The unemployment rate peaked in 1997, but remains high at about 10.5% in June 2002. Unemployment varies considerably across the country with unemployment rates in the eastern part of Germany at 19.3% being twice as high as in western Germany at 8.4% (BA, 2002c).

6.1. Two activation streams for unemployed clients

95. Germany has two labour market activation systems, one administered and funded by the PES (for UI and UA claimants), the other administered by Social Assistance Offices (SAOs). The PES is a centralised, national service, while SAOs as part of the local government administration are considered to be more responsive to local needs. Social assistance claimants considered employable are required to register with the PES, which in theory should make an assessment and offer appropriate jobs to all registered unemployed. However, until recently, the PES focussed mainly on helping UI and/or UA clients, and 98% of the SAOs have their own employment support service (Leisering, *et. al.*, 2001).

96. In order to reduce this duplication, some PES and SAO authorities have initiated co-operation at the local level. In these regions/municipalities, job-search assistance is provided more effectively, but the PES is under no obligation to cover social assistance clients in its activation programmes. On the other hand, SAOs frequently offer social assistance claimants a place in municipal public works programmes, which after a year re-establishes UI entitlement. The result is large-scale cost shifting between the two systems, without helping the client at hand to re-establish employment on a long-term basis.

97. Of course, running an activation programme that subsequently triggers UI entitlement does involve significant costs. However, as this practice is widespread, it appears that these extra costs that are limited to the duration of the programme are likely to be more than offset by future reductions in benefit payments. Although this practice reduces average duration on social assistance it does not necessarily reduce unemployment duration for the client involved. It merely moves a person from one income support programme to another.

98. Legislation was passed in 2000 to improve co-operation between PES and SAOs to address this problem (Bundesgesetzblatt. 2000). While the legislation requires local PES and SAOs to establish co-operation contracts, it is general rather than specific. However, it does enable cities and municipalities to operate pilot projects between 2001 and 2004 on common job placement offices and to fund SAOs to make UA payments (Bertelsmann Stiftung, 2000, 2000a, and 2001). Twenty-nine pilot projects have come off the ground, including one in Köln, where the SAO and local PES offices have been merged.

6.1.1. Overview of the activation strategies for recipients of income support benefits

99. The proportion of UI and UA claimants and employable social assistance clients involved in some sort of activation measure is not dissimilar at about 60%, but the nature of the measures is very different. Almost two-thirds of the UI and UA caseload involved in an activation programme participates in a training programme (Table 6, Panels A and B). Almost half of the social assistance clients involved in an activation measure are participating in a “work-for-benefit” programme. Thus, the PES is much more likely to focus on improvement of individual skills through training, while SAOs are more likely to pursue a “work first approach” regardless of the type of work this may involve, if only because such a strategy may help in re-qualification for UI (see above).

Table 6: Main characteristics of activation programmes

<i>Panel A: programmes</i>		
	<i>Unemployment insurance and assistance: Work Promotion / ALMP</i>	<i>Social Assistance: Help Towards Work</i>
<i>Who pays?</i>	Public Employment Service (Federal Ministry for Employment and Social Affairs)	Social Assistance Offices (municipalities)
<i>Who administers?</i>	PES offices	SAOs
<i>Who participates?</i>	UI and UA claimants, including UA claimants with a social assistance top-up.	Social assistance claimants
<i>Coverage of caseload (2000)</i>	Caseload: 3,152,000 individuals, of which 60% is involved in activation programmes, not including job search assistance.	Caseload: 2,694,000 individuals, of which about 750,000 are considered employable. 58% of these employable clients participate in an activation programme.
<i>Panel B: Participation in Activation Programmes by Type</i>		
<i>Training</i>	65% (training only)	23% (contractual public works incl. some training)
<i>Wage subsidies</i>	18%	8%
<i>Contract work</i>	17%	23%
<i>Work-for-benefit</i>	0%	46%
<i>Panel C: Suitable work criteria for claimants</i>		
<i>General</i>	Work is not suitable when it does not comply with legal standards or union contracts. Job offers have to be accepted even when the individual is considered to be "overqualified".	Work does not always have to comply with union contracts, <i>e.g.</i> subcontracted work or public work placements. Work is <i>not</i> suitable, when it endangers the recipient's ability to work in his/her original occupation. Otherwise, all offers have to be accepted.
<i>Family-related stipulations</i>	Work is suitable even if it is temporary, and involves the individual to live apart from his/her family for a limited period.	Parents caring for a child not yet 4 years of age or with at least 2 children not yet 10 years of age are exempt of job-search obligations and do not have to accept job-offers/work placements.
<i>Flexibility in rules over time</i>	In the first three months of unemployment, work is deemed not suitable if pay is more than 20% below previous earnings. Between the 3 rd and the 7 th month the threshold drops to 30% below the previous wage. After that, all offers are suitable.	Not appropriate.
<i>Time to commute</i>	Work is not suitable, if commuting takes more than 2.5 hours a day.	No set rule.

Sources: BA (2001, 2002a, 2002b, 2002d, and 2002e); BMA (2002b, 2001e) and 2001c); and Deutscher Städtetag 2001.

100. However, as noted above, since the 1980s, UI and UA provisions have become more stringent, with a greater emphasis on participation in ALMPs and a tightening of the relevant "job-suitability" criteria, aligned more closely to the prevailing rules for social assistance clients. UI and UA recipients can no longer refuse work that pays less than their previous job or does not match their qualifications (Table 6 panel C).

101. Until recently referral of UI and UA clients to an activation programme could only be made upon benefit receipt of 6 months or longer. Since 2002, such a referral can be made immediately in order to reduce the long-term unemployment risk. Social assistance clients can also be referred from the moment of benefit receipt onwards.

6.2. Activation of UI and UA claimants

102. The main focus of ALMPs for UI and UA clients is on training to maintain or increase individual skills and competencies. Training courses include further education, computer courses, job application training, and language courses, while vocational training frequently involves internships. The training

courses range in nature, from short-term block courses of 2 to 3 weeks (for example, in computer applications) through to medium duration courses of up to 6 months.

103. The focus for ALMPs run by the PES has not always been on training: in the early nineties public work placement (ABM = *Arbeitsbeschaffungsmaßnahme*) was the most important activation measure. These operated extensively in Eastern Germany to mitigate the rapidly increasing unemployment and other social problems experienced in the direct aftermath of re-unification. Public work placements for UI and UA claimants have since declined but remain significant in the East where unemployment persists (Table 7). Public work placements generally span a one-year period.

Table 7: Number of UI and UA claimants in activation programmes¹

TRAINING		Job subsidies ²		Job creation	
Vocational education	551,534	Wage subsidies	208,864	Work Creation Programme	260,079
Vocational training	476,672	Wage subsidies targeted at the long-term unemployed	43,597	Structural adjustment programme – in economically weak regions	54,212
Vocational rehabilitation	132,894	Subsidies to people who start their own enterprise	92,604		
Language courses	59,843				
Total	1,220,943		345,065		314,291

1. The data concern the number of people who started a course/workplacement in a given year, which leaves room for double counting. Training participants would be counted twice if they follow different courses sequentially, but this is unlikely to affect the data as the PES generally not admits clients to two courses in one year.

2. In employment is defined to include employees supported through wage subsidies, while participants in work placement programmes (e.g. ABM) are not considered to be in employment.

Source: BA (2001).

104. Existing wage subsidy programmes are generally targeted at specific categories of unemployed workers: the long-term unemployed, unskilled workers, older workers (50+), younger workers (under 25, Box 2), disabled people, foreigners, and, recently mothers who want to return to the labour market after having children.

Box 2: Activation of young unemployed people

Unemployment among young people continues to be of concern, even though the unemployment rate among young people (8.7% in May 2002; 7.2% in the West, 14.5% in the East) is below the overall unemployment rate at 9.5% (BA, 2002f). Germany has long used government subsidised apprenticeships and vocational training to facilitate the integration of young people into employment (OECD and CEREQ, 1994). In May 2002, more than 300,000 young people were engaged in PES activation measures including apprenticeships, vocational further-education, training, created work, and relevant spending amounts to about €3 billion annually (in addition to €1.5 billion on rehabilitation measures for young workers): almost a third of PES-spending on measures for all its clients (BA, 2002f)

JUMP - the PES programme for young people without a job, was introduced in 1999. JUMP can provide subsidies to employers hiring young workers, but the programme also has a training component, with on-the-job, basic and advanced skills training, as well as employment assistance. In the course of 2001, 159,000 young people took part in the JUMP-programme, at a cost of €1.14 billion (BA 2002g, IAB 2001). JUMP is now integrated in the Job AQTIV legislation ("Jugend AQTIV") and the number of participants is expected to increase.

105. Other measures for UI and UA recipients (not shown in Table 7) include a short time working allowance, employment rehabilitation and financial support for individuals who accept a new job (e.g. assistance to move; subsidies to work related expenses; transportation assistance; settling-in allowance etc.). Unemployed people who start an enterprise can receive their UI or UA benefit for another five months as a start-up premium.

106. The success of the measures appears to be subject to some variation between Eastern and Western Germany. The proportion of wage subsidy recipients who kept their job upon subsidy-expiration is similar: 85% in the West, 83% in the East, and these high numbers indicate that deadweight losses may have been considerable, as it is not unlikely that many of these clients would have found employment without the wage-subsidy. Training programmes, however, seem to be more successful in the West: 77% of West German trainees were employed 6 months after the end of the programme compared with only 57% in the East. In 2000, public works participants had the lowest rates of labour market integration, with 60% of the West Germans finding a job within 6 months of the end of the programme, compared to only 40% in East Germany (BA, 2001).

6.2.1. *Job-AQTIV reform: profiling and reducing the long term unemployment risk*

107. The “Job-AQTIV” legislation, effective since January 2002, aims to reduce long-term unemployment by shifting the focus from training policies, to interventions from the moment of benefit receipt (with sanctions for non-compliance), thus getting new claimants into work quickly. The bill provides for mandatory profiling of *all* new clients when they register as unemployed with the PES. It involves caseworkers completing a form on education, qualifications, work experience, age, etc with the applicant, which may warrant a more in-depth assessment. This information then feeds into the individual reintegration plans that, in principle, have to be established in conjunction with intensive job counselling, immediately upon registering with the authorities.

108. The new “profiling system” to be used by the PES allows for assessment of clients in 3 broad categories (states can have their own models), and have some similarity with profiling tools used in other countries such as Australia and the Netherlands (OECD, 1998, and 2001*c*). The federal profiling system distinguishes 3 categories of clients, those with: 1) favourable integration prospects; 2) uncertain employment prospects; and, 3) limited employment prospects. Clients are categorised in these three groups along a wide range of characteristics:

1. Qualifications and work-experience: the level of educational attainment and whether relevant skills are in demand or not; the need for further training; and language(s) proficiency;
2. Mobility and flexibility: driver's license, willingness to move within Germany, vocational alternatives, working time constraints, requirements to working conditions, salary;
3. Personal characteristics such as age and health status;
4. Motivation and behaviour: behaviour during the application process, self-initiative, willingness to undertake further training, appearance.

These items then lead up to a general assessment, including an assessment of the risk of long-term unemployment (as in Australia, OECD, 2001*c*), and the formulation of a re-integration strategy.

109. Building on the federal model, the regional PES organisation of Nordrhein-Westfalen categorises clients in the following manner:

1. Clients who are directly employable.
2. Clients who are job-ready but have small barriers to work that can be removed with short-term training or a period of vocational adjustment.

3. Clients who are not job-ready immediately, but with the potential to become fully integrated in the labour market given sufficient training.
4. Clients with low levels of educational attainment with limited chances on successful labour market integration, but who are willing to work.
5. Clients with multiple and severe barriers to work (including lack of motivation, alcoholism, substance abuse and debts).

110. The PES-authorities in Nordrhein-Westfalen directly link client categorisation to a reintegration strategy, with different measures for each category of clients. Categories A-B are to be directly integrated in the labour market with some short-term training when necessary. Clients in the C-category first go through a training schedule while clients in category D are placed in work creation measures (ABM). Clients in category E are generally not given work assignments. Each client-category is supposed to benefit from regular and intensive consultations with PES staff.

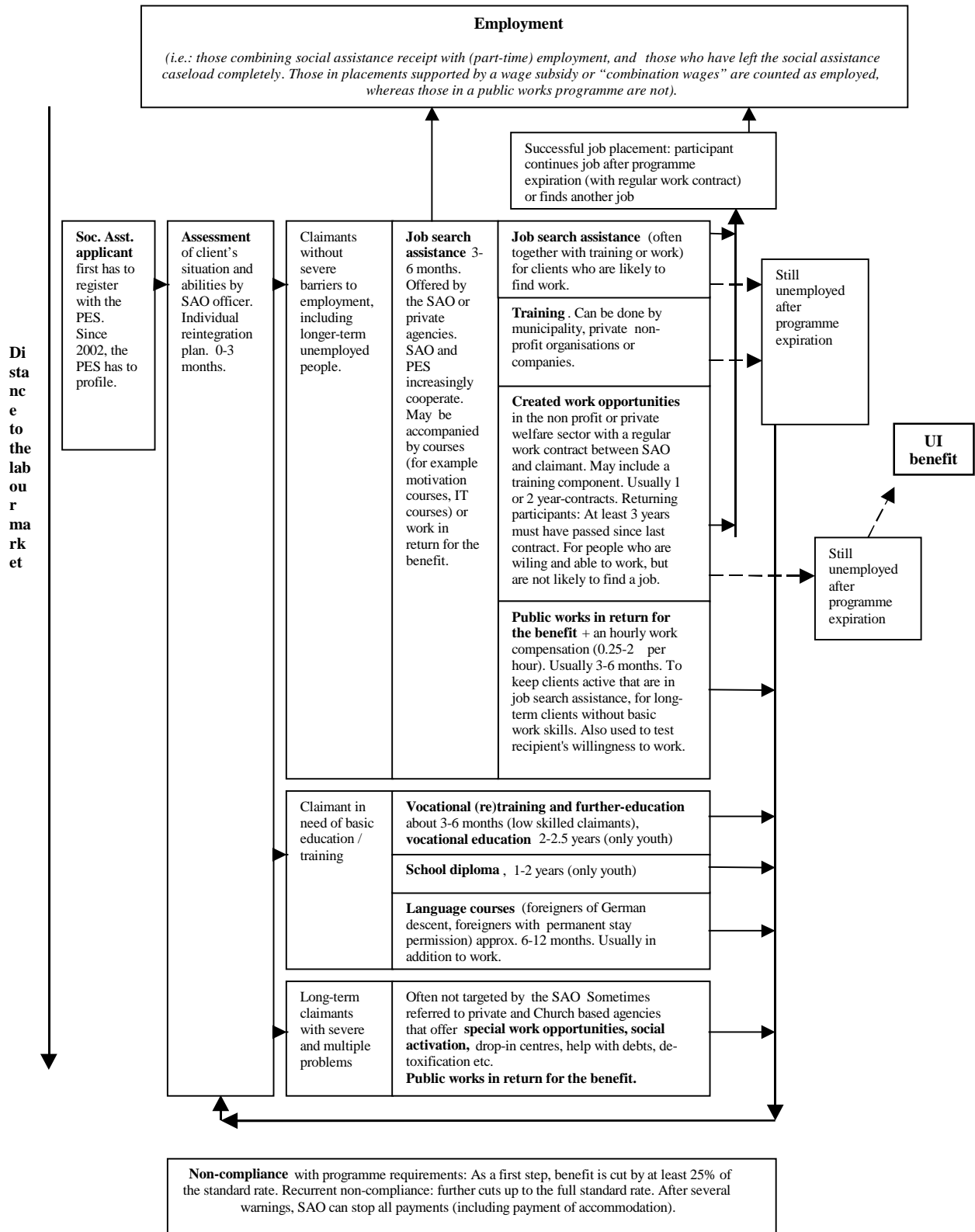
111. However, this framework remains largely aspirational in practice (it was introduced at 1 January 2002). PES-staff consider that since caseworkers are already overburdened, introducing this elaborate scheme is currently impossible to achieve. Consequently, the completion of the form often remains a self-contained exercise with little follow-up. To address this resource issue, the PES will devote an additional 3000 placement officers (1 000 new hires, 1 000 external placement officers and 1 000 staff members relocated within the PES) in addition to the current 8,300 placement officers: an increase of about 30% (Spermann, 2002). Accounting for this staff increase, the average placement officer to unemployed client ratio is about 1 to 350 (Spermann, 2002). At present placement officer to caseload ratios can be considerable higher, for example, 1 to 600 in Wiesbaden in 2002; 1 to 800 in Mannheim in 2001 (Jerger *et al.*, 2001).

112. The Job-AQTIV legislation primarily concerns UI and UA recipients, but also contains provisions extending the group of social assistance recipients that can be assisted by PES-financed ALMPs from 5 to 10% of all places. The PES has thus some capacity to provide places for social assistance clients, but is under no obligation to do so. While still small, the increase will enable larger numbers of social assistance recipients and more married women (excluded from UA because of spousal income) to participate in PES activation programmes. JOB AQTIV also contains a gender mainstreaming stipulation to the extent that the ratio of men and women in activation programmes must be similar to the gender ratio in the unemployed population (6 males to 5 females in June 2002). The childcare subsidy for women in activation has been increased from €61 to €128 per month, to make participation in activation measures more attractive to female clients.

6.3. *Activation within the Social Assistance System: Help towards Work (HTW)*

113. Today, virtually all SAOs offer employment support measures (including workplacement), and 22% of the SAOs have some sort of profiling scheme (Leisering *et al.*, 2001). Chart 8 shows how recipients usually flow through the social assistance system. Clients who are considered “job ready” but cannot find a job within 3-6 months, are usually placed in a job creation or public works programme. SAOs increasingly use part-time and/or temporary job offers for new claimants, where they combine social assistance and low paid work, as a step to full re-integration. The combination wage (see below) is usually reserved for clients facing considerable (often multiple) barriers to employment.

Chart 8: Activation Dynamics within the German Social Assistance System



114. The current activation programmes captured under the “Help Towards Work” (HTW) label emphasise client obligations. The expectation that people work in return for welfare payment is not new and can be traced back to the Middle Ages. The 1961 Social Assistance Act provided for the opportunity of using work-for-benefit schemes, but these provisions have only been used from the early 80s onwards with the emergence of employable clients among the social assistance caseload.

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116. In contrast to the policy focus in PES programmes, many SAO activation measures contain a strong “work-for-benefit” element. In 2000, about 750,000 social assistance recipients were considered employable, of which almost 60% participated in an activation programme, as compared to 14,000 in 1988 (Deutscher Städtetag, 2001 and Voges, *et al.*, 2001). Increasingly, municipalities focus on direct work placement - job creation, job placement and, recently, wage subsidies, which vary in the degree to which they might lead to independent employment outcomes, and are considered most effective when preceded by motivation courses and short-term training. Of the three measures, wage subsidies have had a significant short-term impact on getting people into regular employment, although it is too early to assess long-term outcomes. Some of the programmes showing high success rates are small scale, so the overall effect is limited, while current success rates are likely to involve a creaming effect, so that placement rates can be expected to fall as the programmes are confronted with clients that are much more difficult to place.

117. In practice, social assistance claimants with multiple and serious barriers to employment are exempt from job-search. They may, however be required to participate in “work-for-benefit” activities. SAOs often use NGOs to deal with “hard to serve” recipients (by means of, for example, small work programmes, “drop-in centres” and social integration projects).

118. As activation policies are determined and implemented locally, there is considerable variation in use and design of individual programmes. For example, while Hamburg creates work placements for about 10% of employable claimants, Leipzig offers nearly everybody a work contract opportunity (which either leads to employment or to “requalification for UI”). Generally, unemployed mothers participate more often in HTW programmes in the East than in the West (Voges, *et al.*, 2001). This difference can be related to maternal employment being supported by public childcare facilities in the East prior to reunification with high maternal employment rates, while many mothers in the West care for children on a full-time basis.¹⁹

119. The “Help Towards Work” approach includes different components as outlined below.

6.3.1. *Creating “non-market” jobs: contract work and work for benefit schemes*

120. Broadly speaking there are two types of job-creation: a “contract work” scheme (“*Vertragsvariante*”), and a “work-for-benefit” scheme (“*Mehraufwandsvariante*”): participation for clients is obligatory and subject to sanction for non-compliance. Contractual work and work-for-benefit schemes public work in return for social assistance cover more than 40% of all social assistance clients

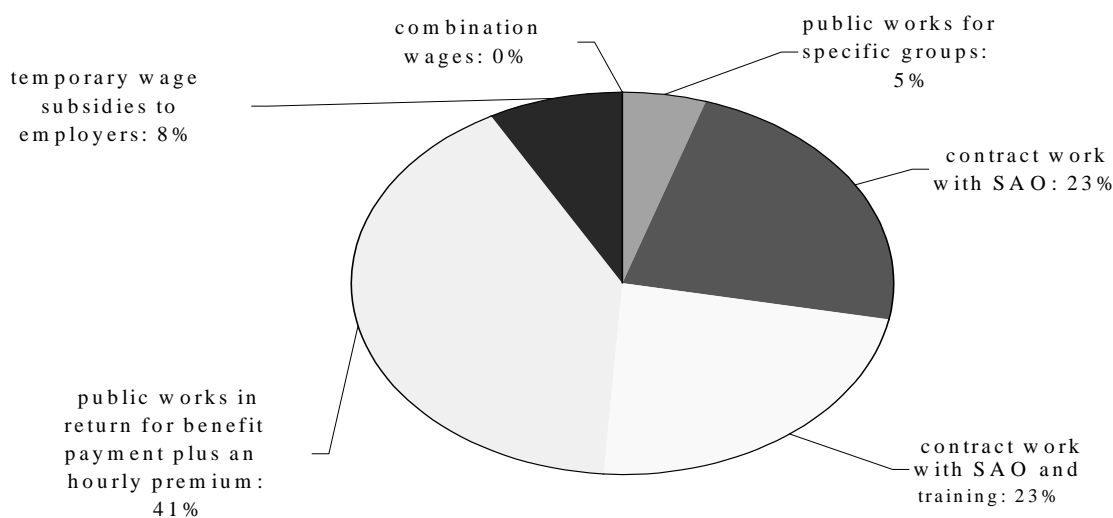
19. In Eastern Germany, the maternal labour market participation rate at about 70% is much higher than in the West (51%). This can be related to a more developed network of public childcare: in 1998, 36% of all children under three were in childcare, compared with 3% in the West (Bundesregierung, 2001b).

who participate in activation programmes (Chart 9), and average duration of such placements was 9.5 months in 2000 (Deutscher Städtetag 2001). The jobs created under both of these schemes are “non-market jobs”: they are supposed not to displace other workers. However, avoiding displacement is almost impossible and is subject of on-going discussion in Germany, as it is, for example, in Switzerland (OECD, 1999).

121. SAOs, other local government organisations, charitable organisations as well as private commercial (activation) enterprises all can be involved in the management of such schemes.²⁰ In general, “contract work” and “work-for-benefit” placements are to benefit the community, and includes activities as, for example, cleaning streets and parks, sanitising contaminated soil, cleaning up illegal waste dumps, creating bicycle lanes, and beautifying parks and sport fields. Given the “job-content“, it is not surprising that these schemes have a low chance of helping clients in achieving long-term independence from benefit support.

122. Clients generally prefer a contract work placement over a work-for-benefit placement as it pays more, and has less stigma attached to it. In addition, a contract work placement often involves some training leading up to an accompanying certificate by SAOs (Leisering, *et al.*, 2001). In general, contract work pays about 80% of the average wage of an unskilled worker (Table 5), with the SAO paying UI-contributions. Work-for-benefit placements pay much less: the usual normal benefit rate and an additional small premium ranging from €0.3 to €2 per hour (subject to local variation).

Chart 9: Activation of social assistance clients, 2000



Total number of participants: 436,427

Source: Authors' calculations on basis of Deutscher Städtetag (2001).

123. In terms of client coverage, work-for-benefit schemes (41% of employable clients), and contract work placements (46%) are rather similar. However, only 25% of the SAOs use work-for-benefit schemes, whereas as many as 72% of the SAOs use the contract work option -- some SAOs use both (Leisering, *et*

20. Deutscher Städtetag (2001) shows that 29% of these non-market workplacements are organised directly by municipalities, 14% by municipal employment agencies, 7% by private commercial employment agencies, 24% by welfare associations (Wohlfahrtsverbände), and the remaining 26% by other private providers ("Freie Träger").

al., 2001). This variation in “popularity” of the “contract work” and “work-for-benefit” schemes among municipal authorities is related to some key differences between the two schemes.

124. Placement in a work-for-benefit scheme (which normally covers a 3 to 6 month period) does not lead to UI eligibility, while a contract work placement usually does (as placement often covers a 1-year period and is subject to a standard employment contract). Finally, public work placements are much easier to create and operate than “contract work” which requires a job-specification, a formal contract, etc. As work-for-benefit schemes are relatively easy to operate, they can be used to test the willingness to work of clients, and, in those municipalities that use both schemes, often precede placement in a “contract job”.

125. Social assistance officers estimate that creating a contract work place costs about €23 000 per annum, while a single person on social assistance benefit costs municipalities about €6 600 per year (including accommodation costs, which are partially reimbursed by the federal government and the states). Thus, it would pay for municipalities to use the contract work option if the client does not return to the social assistance caseload for about 4 years (given the higher benefit payment to clients with children this period would be around 2 years for such clients). Having re-qualified for unemployment benefit, clients remain in the UI/UA system until retirement age, although the declining UA rate may lead to claiming social assistance as a top-up payment. In all, municipalities have strong financial incentives to use the contract work scheme.

126. Nevertheless, 25% of municipalities only use the work-for-benefit option. In part, this variation is related to the financial position of the municipality concerned: contract works are more expensive (in the short-run) than public work placements, and the state subsidy towards contract-work places may be limited (and varies across Germany). Client-characteristics also matter, as a large group of claimants leaves social assistance within a year, it makes little sense to only use contract work placements with a one-year duration as an activation tool.

6.3.2. *Sub-contracting job seekers*

127. SAOs can also sub-contract benefit recipients through temping agencies for work in the private commercial sector. Initially, employers only have to pay earnings equal to about 70% of that of regular workers, with full earnings due in the second year (BMA, 2001c). Although regulations allow for duration of 2 years, contracts generally last about 3 months, and are often of shorter duration. Participants in this scheme often receive a social assistance top-up payment while in work.

128. Experience with sub-contracting workers varies across municipalities. A small survey of selected municipalities, showed that between 20 and 55% of subcontracted workers obtained an open market employment contract with the enterprise in which they were placed (BMA, 2001d). But, in Berlin for example, the probability of obtaining open employment following a sub-contract placement is estimated to be less than 10%. Nevertheless, the use of sub-contracting has increased over the years from 121,400 persons in June 1993 to 339,022 in June 2002 (BA, 2001).

6.3.3. *Employer subsidies*

129. SAOs also have the possibility to grant wage subsidies to employers who hire a social assistance recipient for up to a year. The subsidy level is at the discretion of the SAO, but cannot exceed the basic benefit rate of €3 300 a year. Such subsidies account for about 8% of the employable social assistance claimant participation in activation measures (Chart 9).

6.3.4. *Training*

130. Applicants who have not completed high school and young people without training or educational qualifications are usually directed into vocational training or education programmes. The former typically last between three and six months, while education courses – primarily for young people – can be provided for about 24 to 30 months (Chart 8). Vocational education is paid for by the PES (JUMP-programme). People without German language skills are directed to a language course for up to 12 months, usually in conjunction with a work placement.

131. Chart 9 shows that half of those in a contract work placement also receive training. Although unusual, public work participants can also include a training component, and if so, is financially supported by the European Social Fund. Municipalities that provide training often do so with an eye on social activation objectives (getting clients used to a daily routine, etc). Nevertheless, full-time training is rarely an option for social assistance recipients.

6.4. *Sanctions for non-compliance with activation policies*

132. Placement in any of the activation measures to which clients can be referred by the social assistance authorities is obligatory. However, only since 1993 have municipalities been explicitly required to sanction non-compliance, while the current rule to reduce the standard benefit payment by 25% was only introduced in 1996. A reduction of 25% in the standard payment rate is equivalent to an 11% reduction in total benefit income for a single person and 5% for a couple family with 2 children. These are minimum sanctions – some municipalities have different rates, e.g. Wiesbaden uses a 30% cut of the standard payment, others go beyond this. The Wiesbaden SAO also stops paying the standard rate in order to make claimants show up for interviews at the SAO and may apply a similar sanction in case of fraud (e.g. non-reported income form work). In general, and especially when children are present, the application of benefit cuts is more unusual.

133. Refusal of a workplacement by social assistance clients is not uncommon, although (some) municipalities have become more strict in their sanction policy. According to a “Deutscher Städtetag” survey of 105 cities in 2000, 16 449 clients refused a work offer, and in 15 922 cases, benefit payments were reduced. A further 5000 persons did not show up at the assigned workplacement or withdrew their social assistance application: in all, about 20 to 25% of all clients who were assigned a workplacement in these cities (Deutscher Städtetag 2001). Some municipalities, as, for example, Bremen and Wiesbaden, do not regard sanctioning as very useful way of helping clients with their labour market re-integration, and thus use it infrequently. In contrast, other municipalities often apply sanctions, especially when they follow a “work first” strategy and seek to activate most of their employable claimants (as Berlin, Köln, Leipzig, Lübeck, and Offenbach). In case SAOs rely on a very individualised strategy, the caseworker will usually try to find an activation offer that the individual agrees to, and avoid sanctioning. Moreover, as refusal may be justified by personal circumstances of the recipient, it is not always clear that refusal is equivalent to unwillingness to work. Hence, a second refusal is more likely to be followed by a sanction.

6.5. *Making work pay: earnings disregards and combination wages*

134. Modest earnings disregards also apply to social assistance clients: 25% of the standard SA benefit rate (€129) are disregarded from the income plus an additional 15% up to a maximum of €143 per month, subject to variation across states (section 4.1). Earnings above the threshold levels are offset against benefit income on a Euro for Euro basis.

135. As the proportion of the standard rate for adults in total social assistance payments varies with household composition (Table 3), the structure of earnings disregards results in lower financial gains for couples and those with children than it does for single people. A married earner with two children can only top up his or her income by 9%, a lone parent by 11%, while single persons can top up their benefit income by 22%. Even so, adults in couple-families and lone parents on social assistance are much more likely to be in (part-time) employment: 35% of claimants in couple families with children in western Germany have some additional earnings, as opposed to 11% of single claimants (Bundesregierung, 2001*b*). Households with children are more likely to remain in benefit receipt when in low-paid employment as relevant social assistance income thresholds are relatively high.

136. Given small number of hours that can be carried out before benefit payments are reduced on a Euro for Euro basis, the system of earnings disregards strongly favours part-time rather than full-time labour force participation. It is thus not surprising that clients often perceive the earnings disregards as a top-up to benefit income rather than a means to achieving employment without social assistance support.

6.5.1. *Extending work incentives: Combination Wages*

137. Rather than extending the earnings disregards in general, “combination wages” (*Kombilöhne*) were introduced in 1996 to help social assistance clients take up (low-paid) employment. Combination wages involve a subsidy to claimants starting employment of about €3 300 for up to 1 year. This subsidy is paid in addition to their net earnings, any social assistance top up (if required), and additional benefits (Housing and Child Benefits). The measure is targeted at long term unemployed social assistance recipients, lone mothers, low skilled unemployed and young people. However, take-up of the combination wage has been low with only 239 recipients in 2000.

138. There are many possible reasons for the limited use of combination wages. SAO staff (and benefit recipients) may be unfamiliar with the intricacies of this relatively new scheme, while the marginal savings for SAOs from the scheme for municipalities may be limited, especially when it concerns one-person households (clients). Benefit recipients may also be hesitant towards the scheme as duration of support is limited to one year (possibly extended to two years). Another reason is that employers prefer to receive a wage subsidy. The combination wage may allow them to lower wages to the new hire (the client would not mind since the SAO subsidy gives him/her the same net worth). However, as union wage rates tend to be inflexible downwards (IZA, 2002), the employer is better off with a wage subsidy directly paid to the enterprise. Nevertheless, the popularity of combination wages may increase as the PES has recently extended a similar model across Germany (Box 3).

139. This “Mainzer Modell” is intended to ease the transition into employment for benefit-recipients. However, programme design does not necessarily reduce the marginal effective tax rates at the transition in employment. In fact, clients are better off working a relatively small number of hours rather than moving off benefit altogether. The Mainzer Modell has become popular among policymakers in Germany, which seems rather surprising. The interest (and acclaim) this measure has generated seems disproportionate to the number of participants involved and its likely impact on employment.

Box 3. PES projects using the combination wage model.

Under the so-called *Mainzer Modell* (with initial pilots in Mainz, and several cities in Rheinland-Pfalz and Brandenburg), PES offices can encourage low-skilled unemployed people to take up low paid work by subsidising (in part or in full) their (*employee*) social security contributions for up to 36 months. A single person can earn between €325 and €897, while for lone parents and couples (who can also receive a “child supplement” up to €75) the upper limit is €1 707 (BMA, 2002*d*, Kaltenborn, 2001). The subsidies towards employee contributions decrease with wage levels. In combination with social assistance this leads to perverse incentives, as the subsidy is not regarded in the social assistance income test, while additional earnings are. In effect, working relatively little leads to a relatively high subsidy, while higher earnings lead to more limited subsidy payments per hour, and reduce social assistance payments on a Euro for Euro basis.

The number of programme participants is low: only about 800 people up to October 2001 of which 125 were again out of work (Kaltenborn, 2001). Low participation is related to limited awareness of the scheme among PES and SAO staff as well as employers, who in any case regard the subsidies as limited. Notwithstanding the deficiencies in programme design, and its relatively limited impact on future employment (estimated to be around 10 000 to 30 000 new jobs on a national basis), the “*Mainzer Modell*” was extended nationwide in March 2002 (Bundesregierung 2001*d*).

6.3 Impact on caseloads

140. It is difficult to assert the impact of activation policies on the return to employment of social assistance claimant. A federal government report indicates that between 20% (State of Brandenburg) and 41% (State of Niedersachsen) of social assistance recipients remain in work following participation in an activation programme (Bundestag, 2000). Meanwhile, local evaluation projects as well as a survey of selected municipalities by the Ministry for Labour and Social Affairs have shown success quotas to vary a great deal across municipalities, depending on the chosen activation strategy, client characteristics (the easier vis-à-vis the more difficult to place) and the local labour market situation. Integration quotas are much lower in the Eastern part of Germany than in the West (BMA 2002*e*; Schmid and Buhr, 2002; Vollkommer, 2000; Strasser *et. al.*, 1996; Kieselbach *et. al.*, 1998; and, Hirschenauer, 2001). In order to acquire high integration quotas, SAOs consistently choose those clients who have good re-employment prospects (Jaenichen, 2000; Brennecke *et. al.*, 2001). Summarizing the available evaluation studies, Schmid and Buhr (2002) conclude that training and direct job placement appear most promising in terms of caseload reductions. What is not known, is the extent of recidivism, and whether recidivism is higher in municipalities pursuing a work-first approach, compared to municipalities that use longer-term activation trajectories. The group of clients that face multiple barriers to social and labour market integration (e.g. low educational attainment, debts, addiction, psychological and other health problems) does not appear to benefit from common activation programmes. These “hard to serve” clients are in need off targeted assistance, but are often neglected by SAOs (Strasser *et. al.*, 1996; Ludwig, 1996; Buhr/Hagen, 2001).

141. The social assistance caseload in Germany fell by 7% between 1997 and 2000 (Statistical Annex). This is no doubt related to an overall improvement of labour market conditions, but is likely to also be related to a stronger focus on activation policies. Whether that means that social assistance clients have found long-lasting employment is unclear as activation programmes also reduce caseloads by re-qualifying clients for unemployment insurance. Moreover, clients in some job creation placements are no longer included in the social assistance caseload (about 100,000 clients in 2000).

CONCLUSIONS

The social assistance system has become increasingly involved in providing for the unemployed.

142. The nature of the German public assistance system has changed significantly in the last 20 years. On the one hand, the introduction of categorical benefit programmes has reduced the number of clients with special needs within the social assistance caseload: asylum seekers, disabled clients, people in need of care and older people are now (or will soon be) served through newly created public assistance or social insurance programmes. On the other hand, long-term unemployment and changing societal norms vis-à-vis living arrangements and family formation and dissolution meant that a large number of employable people without jobs are not eligible for Unemployment Insurance and Unemployment Assistance benefits. In all, the social assistance programme that was originally not intended to serve the unemployed has been transformed into a programme with an increasing focus on employable clients.

143. Despite this trend, the German system continues to include 3 separate income support programmes for the unemployed, two of which are means-tested. The “Hartz Commission” has recently proposed further reform to the public assistance benefit system, including an integration of the unemployment and social assistance programmes. Indeed, having 2 rather than 3 income support programmes serving the unemployed would reduce administrative costs and as client characteristics increasingly match those on social assistance, it is hard to see the rationale for maintaining the unemployment assistance programme. Nevertheless, this reform will not be easy to implement as it involves a re-allocation of responsibilities among different layers of government in Germany’s federal set-up.

Funding channels should match operational responsibilities...

144. The devolution of employment-oriented social policies poses serious challenges in terms of policy coherence to the different layers of government and other public institutions involved. In general, the administrative incentive structure underlying the social assistance programme is sensible: municipalities who operate the programme have strong financial incentives to reduce caseloads. Reform in federal or state operated social (insurance and/or assistance) programmes can impinge on social assistance policy, for which municipalities are often compensated (although the financing and operation of Asylum Seekers Benefit might not serve as a good example). However, the transfer of funds plays out in a roundabout and non-transparent manner (e.g. the way in which municipalities are compensated for the introduction of the new minimum pension arrangements is rather messy). This set-up may work well in practice, but lacks transparency. This is a vital element in a fiscal federalism model, since without it, voters may not be aware of wasteful administrative practices. Perpetuating the current set-up thus involves a risk that efficiency gains are not realised.

... and facilitate the effective functioning of labour market interventions ...

145. Regardless of a country’s federal or centralised set-up, the relationship between labour market and social assistance authorities is of concern in many OECD countries. In principle it is the responsibility of the Public Employment Service to assist *all* unemployed in getting back into work. In practice, the PES focuses on UI (and UA) clients, as these are often easier to place. Moreover, the PES has strong financial incentives to help these clients as it reduces benefit spending on the labour market budget, while it currently lacks such incentives where social assistance clients are concerned. This incentive structure has contributed to the establishment of a dual activation system, with many areas of unnecessary duplication: one on the PES account; the other financed by municipalities, while the characteristics of client-groups increasingly overlap.

146. Although there is an increasing number of local pilots involving successful co-operation between local PES and social assistance offices, this set-up also invites cost shifting with clients moving from one programme to another. On the one hand, while the PES adjudicates an individual benefit application, municipalities often fork out social assistance benefit to this individual, which involves unnecessary administrative outlays as the same client is processed simultaneously in two different systems. Sanctioning by the PES can also lead to social assistance entitlement. On the other hand, municipalities can “re-qualify” their clients for UI benefit through job-creation: and almost half of the participants in activation measures under SAO auspices involve created work-placements with a regular work contract that qualify the clients for UI benefits after one year. Obviously, this institutional set-up involves considerable and avoidable administrative costs. Moreover, this structure does not necessarily help clients to regain their self-supporting capacity. Indeed, the system may well contribute to prolonged public assistance dependency.

...in order to promote reintegration for the client, irrespective of whose caseload they are on.

147. There are different options to improve employment service delivery, which may involve the introduction of “contestability” in public service delivery (Fay, 1997) or competition (OECD, 2001c). For example, the SAO could buy services on behalf of the client from the PES (and vice versa), giving the local PES strong incentives to help those clients into work. Some OECD countries, notably Australia and the Netherlands have gone one step further by privatising the provision of employment services, so that public institutions (insurance and assistance authorities) can buy the employment services with whomever they see fit. Of course, both options involve significant administrative reform, and thus costs. But, so does perpetuating the current system. Reform is likely to reduce the administrative burden in the long run, while the introduction of market signals in employment service delivery is likely to lead to institutions providing a better service to a broader group of benefit recipients.

Receipt of social assistance is stigmatising which affects take-up.

148. Certain aspects of social assistance policy in Germany stand out among OECD countries: in particular, the stipulation that income of close relatives (parents and children) is considered in the means test. In practice, the application of this regulation varies across municipalities and, as the recent change in the rules on access to bank records has revealed, is difficult to apply. Nevertheless, the policy signal is clear, applying and being on social assistance involves the applicant’s relatives and this contributes to stigmatisation, which is reinforced by recurring rhetoric in the public assistance debate on “lazy” or “passive” recipients. Although its impact is difficult to measure, stigmatisation is considered a significant contributory factor to non-take up of social assistance benefits.

Many social assistance recipients have some work...

149. Setting social assistance payment rates involves a balancing between providing a decent minimum standard of living while simultaneously providing clients with ample support and financial incentives to promote autonomy and employment. As in most OECD countries, payment rates for single and couple families without children give such clients strong financial incentives to work, while the financial incentive structure for families with children is much weaker. Furthermore, the system of earnings disregards facilitates working limited hours in Germany’s extended “minor employment sector”, and in about one-third of the couple families (this is 20% for lone parent families) parents top-up benefit income with part-time earnings. This keeps parents in touch with the labour market, but at the same time increases prolonged benefit receipt as it reduces the incentives to find full-time employment.

...but the balance between adequate social protection and work incentives is difficult ...

150. Child poverty considerations lead policy makers in other European OECD countries to grapple with finding the right balance between adequacy and incentives to work for families with children. But Germany does stand out in its generous payment structure to families with 4 or more children. Although this concerns only a marginal group of clients the underlying policy message is troublesome as it condones long-term benefit reciprocity. Financial incentives to work for lone parent families are similarly weak and as lone parents are not activity tested for a long period of time (up to the age of 10 for the youngest child, in case of 2 children in the family) they are likely to be outside the labour force year for many years. This makes it all the harder for lone parents to regain autonomy at a later stage in life. Therefore, many OECD countries have recently introduced policy reforms that involve activity testing of lone parents earlier on in the benefit-spell. Such reforms do not lead to instant hikes in employment rates among LPF, but the policy signal is clear: benefit receipt is no longer “automatic” – a point which lone parents are increasingly made aware of. To be more effective such a change in policy attitude towards lone parents has to be accompanied with targeted employment support, including the provision of childcare or “out-of-school-hours” care facilities.

... with some reforms being small scale to date so having only a small employment effect.

151. The recent Job-AQTIV legislation on labour market integration illustrates the policy drive to assist jobless income support clients in getting back into employment from the earliest stage possible. Hence, the current focus in labour market policy has a strong emphasis on job counselling as an effective labour market re-integration measure. At the same time Job-AQTIV promotes a labour market integration approach that is tailored to the client’s needs. A profiling tool has been developed to aid this strategy, as well as a significant allocation of public resources towards training of existing caseworkers, and hiring new ones. Nevertheless, client to placement officer ratios remain high, and further resources may be required.

152. The emphasis on the “work first” approach involves different work placement options: public work placement (in return for benefit when on social assistance), job-creation schemes and extensive use of a variety of employment subsidies paid either to employer or client. In practice, however, such measures operated by SAOs largely involve “re-qualification” of clients for the UI programme rather than long-term labour market integration. Policy measures also involve the development of the combination-wage (a subsidy to the client), but its uptake among social assistance clients has been negligible. This type of measure features prominently among recent initiatives among labour market authorities, but even then its scope seems limited: the heralded *Mainzer Modell* that has been introduced on a nation-wide basis in March 2002 is estimated to lead to about 10 to 30,000 new jobs. These initiatives seem to get a lot of public attention compared to their potential employment effect. It may well be worth considering a more targeted approach towards some client groups that have a good participation record, mothers with children and women in general, or use supply side subsidies in conjunction with demand stimulating measures. The work-first approach is most effective when it concerns job-ready clients. Clients with multiple problems are unlikely to benefit much from such measures, which makes the need to come to a coherent application of employment support measures across the different institutions all the more pressing.

ABBREVIATIONS

ABM	Created Work Opportunities (<i>Arbeitsbeschaffungsmaßnahmen</i>)
ALMP	Active Labour Market Policy
APE	Average Productive Employee
BA	Public Employment Service (<i>Bundesanstalt für Arbeit</i>)
BMA	Ministry for Labour and Social Affairs (<i>Bundesministerium für Arbeit und Sozialordnung</i>)
BMVBW	Ministry for Transport, Building, and Housing (<i>Bundesministerium für Verkehr, Bauen und Wohnen</i>)
BSHG	Social Assistance Act (<i>Bundessozialhilfegesetz</i>)
CB	Child Benefit (<i>Kindergeld</i>)
CRB	Childrearing Benefit (<i>Erziehungsgeld</i>)
CDU	Christian Democratic Union (<i>Christlich Demokratische Union</i>)
HB	Housing Benefit (<i>Wohngeld</i>)
HTW	Help towards Work (<i>Hilfe zur Arbeit</i>)
LG	Local Government
PES	Public Employment Service
SAO	Social Assistance Office
Soc. Asst.	Social Assistance (<i>Sozialhilfe, Hilfe zum Lebensunterhalt</i>)
SPD	Social Democratic Party (<i>Sozialdemokratische Partei Deutschlands</i>)
Stat.BA	Statistics Germany, (<i>Statistisches Bundesamt</i> , until 2002)
UA	Unemployment Assistance (<i>Arbeitslosengeld</i>)
UI	Unemployment Insurance (<i>Arbeitslosenversicherung</i>)

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STATISTICAL ANNEX

Table A1. Caseload and expenditure trends

Year	CASELOADS (individuals in 1000)				PUBLIC EXPENDITURE (in million DM)				Unemployment rate
	General Social Assistance	Assistance in Special Situations	Unemp. Insurance	Unemp. Assistance	General Social Assistance	Assistance in Special Situations	Unemp. Insurance	Unemp. Assistance	
1970	528	965	96	17	1,181	2,154	651	71	0.7
1980	851	1,125	454	122	4,339	8,927	8,110	1,903	3.8
1990	1,772	1,510	799	433	12,876	18,805	17,015	7,587	7.2
1991 ¹	1,819	1,544	1,405	415	13,265	20,853	23,750	7,135	6.3
1992 ¹	2,339	1,870	1,681	529	14,327	23,793	31,560	9,106	8.5
1993	2,450	1,915	1,887	759	16,485	28,551	42,598	13,975	9.8
1994	2,258	1,306	1,913	950	15,397	27,799	45,870	17,431	10.6
1995	2,516	1,485	1,780	982	17,021	28,094	48,200	20,509	10.4
1996	2,689	1,409	1,989	1,104	17,545	25,775	55,655	24,225	11.5
1997	2,893	1,411	2,155	1,354	17,928	21,103	59,229	27,998	12.7
1998	2,879	1,378	1,987	1,504	18,146	21,250	52,827	30,438	12.3
1999	2,792	1,402	1,829	1,495	17,183	21,831	48,627	30,473	11.7
2000	2,694	1,459	1,695	1,457	16,612	22,883	46,179	25,741	10.7
2001			1,665	1,464			48,154	24,991	10.3

1. Up to and including 1991, items concern western Germany only: from 1992 onwards information concerns re-unified Germany.

Sources: BA 2002g, and BMA 2001e, and "www.arbeitsamt.de" (Arbeitsmarktstatistiken),

Table A2. Evolution of standard social assistance payment rates for an adult person (in DM)

	1991	1995	1996	1997	1998	1999	2000	2001
Western Germany	460	519	522	534	539	543	548	549
Eastern Germany	447	515	521	527	532	536	541	542

Source: BMA (2001c) and Bundesregierung (2001b).

Table A3. Evolution of activation policies within the UI system

Year	Number of participants starting a vocational training course ¹	Number of participants in an ABM programme (job creation) ²	Expenditure on ALMPs by labour market authorities ("Bundesanstalt für Arbeit") ³ (in Million DM) Of which: vocational training	
1970	170,000	2,000	923	782
1980	247,000	41,000	6,798	2,925
1985	409,000	87,000	9,769	4,008
1990	574,000	83,000	18,225	9,966
1991	1,486,000	266,000	48,855	14,910
1992	1,462,000	466,000	61,322	22,084
1993	642,000	321,000	64,288	21,002
1994	594,000	338,000	53,523	17,200
1995	659,000	384,000	49,810	18,383
1996	647,000	353,000	46,806	19,304
1997	441,000	301,000	37,085	16,371
1998	608,000	385,000	39,014	14,898
1999	491,000	430,000	44,504	15,496
2000	552,000	313,000	42,356	15,384
2001	449,622	246,249	43,648	16,795

1) Data include participants in "rehabilitation and adjustment programmes" (Einarbeitung) up to 1998.

2) Average monthly participant number since 1993, structural adjustment programmes (Strukturanpassungsmaßnahme) are included.

3) this includes: vocational qualification, vocational education, "bridge benefits", integration of foreigners, vocational rehabilitation, promotion of starting employment, job creation schemes, benefits for early retirees, short-time work payments, bad weather payments, institutional work promotion, and wage subsidies. The wage subsidies include those targeted at specific clients (older workers, young people the long-term unemployed, disabled workers) and enterprises (general hiring subsidies, subsidies to new enterprises and structural adjustment support for enterprises in Eastern Germany)

Sources: BA (2002d) and BMA (2001e).

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