

## Studienbeiträge zum European Industrial Relations Observatory (EIRO)



### **Social partners involvement in unemployment benefit regimes**

The case of Germany

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## Abstract

In 2002, the then chancellor, Mr Gerhard Schröder, initiated extensive labour market reforms. These reforms, firstly, created a new system of unemployment benefits and, secondly, opened up a new stage for the public employment services. The Federal Employment Service was re-organised to become the Federal Employment Agency (BA). BA is a self-governing public organisation which is headed by an Executive Board, responsible for the operative business, and a tripartite Board of Governors comprising representatives of the employers, the trade unions and public bodies. The role of the Board of Governors is limited to advising and monitoring the work of the Executive Board. It is not involved in managing or organising unemployment benefit schemes directly.

# 1. The characteristics of the UB system in Germany

## *Recent changes/transformations of the UB system*

Unemployment assistance was mainly paid to those unemployed who did no longer qualify for the unemployment insurance scheme (e.g. because entitlement periods were exhausted). In contrast to Table 1, the unemployment assistance was financed from the government's budget and did not pay a social minimum, but a replacement rate based on the former income of the recipient.

This system was reformed during the last decade. In detail, the German parliament approved major labour market reform bills in 2003. The reform package included two laws on changing the German UB system, i.e. the Third and Fourth Law on Modern Services in the Labour Market.

The former public administration of employment services was re-modelled and given a new name, i.e. Federal Employment Agency (Bundesagentur für Arbeit, BA). BA and the local employment agencies singularly manage the *unemployment benefit I* for which entitlement periods were shortened by the new laws. Another major change relates to the merger of the unemployment assistance and the social assistance into the *unemployment benefit II*. For further details see the next section.

For each of these changes/innovations indicate:

1. *date* of introduction:
2. who took the *initiative* (government, unions, employers' associations, other organisations):
3. the *content* of the change / of the new programme:
4. the *aim* pursued:

The packages mentioned were part of the reform programme called 'Agenda 2010' pursued by Mr Schröder. The programme sought to provide more flexibility for the German labour market, to set up greater incentives for the unemployed to become employed and to restructure the institutional landscape to help them to do so (Funk, 2003).

Concerning *unemployment benefit I*, changes took their full effect on 1 February 2005. The entitlement period for recipients, including older recipients, was shortened and stricter criteria introduced (Dribbusch, 2004a). *Unemployment benefit I* is financed from contributions paid into the statutory unemployment insurance. The currently applicable entitlement periods differ according to the period of compulsory insurance payments and age, as detailed in the table below.

**Table 1**

<b>Entitlement periods for unemployment benefit I, as of 2012</b>		
<b>Period of contributing to unemployment insurance (in months)</b>	<b>Age of the recipient</b>	<b>Entitlement periods (in months)</b>
12	All ages	6
16	All ages	8
20	All ages	10
24	All ages	12
30	50 years	15
36	55 years	18
48	58 years	24

Source: BA

The Fourth Law on Modern Services in the Labour Market, which included the merger of the previous ‘unemployment assistance’ and ‘social assistance’ came into effect on 1 January 2005. The new unemployment benefit II thus created involves a set payment to secure a minimum income. Extra payments are granted when children are living in the household of the recipient and also for ‘reasonable’ housing and heating costs. The scheme is financed from government tax revenues and recipients are means tested (Dribbusch, 2004b).

Whilst the BA and the local employment agencies administer *unemployment benefit I*, the regulations for *unemployment benefit II* are more complex. Currently, *unemployment benefit II* is administered by so-called ‘job centres’. These are run by the local employment agencies together with municipalities or in some cases by the municipalities alone.

For each of these changes / innovations please indicate from the main SP who was in favour or supported and who was against or resisted to it, and why:

The social partners held opposing views of the government’s ‘Agenda 2010’ at the time of its introduction. Employer organisations welcomed the changes for introducing greater flexibility on the German labour market. However, they also claimed that the reforms did not go far enough. The German Confederation of Employers’ Associations (Bundesvereinigung der Deutschen Arbeitgeberverbände, BDA) has on various occasions called for further reform steps to be taken in order to increase incentives for full-time employment and reduce deadweight costs (Vogel, 2006).

Unions, on the other hand, criticised the new schemes as disadvantaging the weak. The Confederation of German Trade Unions (Deutscher Gewerkschaftsbund, DGB) especially censured the rule that *unemployment benefit II* recipients had to take up every job offered to them or face cuts in their benefits (Dribbusch, 2004b). In February 2012, Ms Annelie Buntentbach of DGB reassessed the results of the reforms. In her view, their main objectives had not been achieved, i.e. social protection in the case of unemployment had been lowered, the support for those not-in-employment had not improved and more people had been placed in low-wage jobs.

## Main characteristics of the UB system

### *Unemployment Insurance*

**Coverage:** *Unemployment benefit I* is regulated by the Social Security Code III (*Sozialgesetzbuch III*). It covers compulsorily insured persons, i.e. all those holding a job liable to social security contributions from whose wages contributions to the unemployment insurance are deducted (e.g. blue- and white-collar workers, apprentices).

A second group is exempt from unemployment insurance contributions but also covered by the insurance, i.e. marginally employed persons (Dribbusch, 2010), civil servants and others eligible for pensions or government allowances.

**Eligibility:** In addition to belonging to one of the abovementioned groups, the potential beneficiary must fulfil certain criteria to receive full unemployment benefits. If unemployment is imminent, employees must notify the local employment agency of their situation and register as job-seekers. This must be done at least 3 months before their employment contract is due to expire. If unemployment actually occurs, the newly unemployed must notify their local employment agency at the latest on their first day of unemployment and turn in his or her application for the benefit.

**Duration:** As shown in section 1 entitlement periods for receiving unemployment benefits vary according to age and the contribution period to the unemployment insurance of the potential beneficiary. For further details see Table 1.

**Replacement rates:** *Unemployment benefit I* makes up for 60% of the applicant's last net wage (67% for applicants with children).

**Financing:** *Unemployment benefit I* is paid from the funds generated by the unemployment insurance to which insured persons and their employers contribute. For example, an employee holding a job liable to social security contributions currently pays 1.5% of his or her monthly wage into the unemployment insurance. The employer contributes another 1.5%.

**SP involvement:** *Unemployment benefits I and II* (the latter only partially) are administered by the BA and its local employment agencies. The BA is headed by two boards, the Executive Board for day-to-day operations and the Board of Governors (*Verwaltungsrat*). Below this level, there are regional directorates and local employment agencies.

The Board of Governors is a tripartite body consisting of seven representatives of each of three groups: employers, workers and public bodies. Each local employment agency is monitored by an Administration Council, which has a similar structure, though with only four representatives from each group (total of 12 representatives).

The rationale behind the tripartite set-up is that every group of contributors to the unemployment insurance needs to be represented on the board of the BA, which is a self-governing public body. The Board of Governors has a supervisory and advisory role; thereby shaping the general direction of the BA's policies on labour market issues.

### *Unemployment Assistance*

Please note that unemployment assistance in its original form no longer exists in Germany. It has been replaced by Unemployment benefit II (a merger of social assistance and unemployment assistance). The new benefit was designed to assist all those who are able to work but are not in employment.

Coverage: Unemployment benefit II covers beneficiaries from 15 to 65 or 67 years of age (on retirement age see Vogel, 2007 and 2011 / Dribbusch, 2006). They must be able to work but not currently generating their own income (or receiving financial assistance from their relatives). Beneficiaries must prove that they have no personal assets over a certain limit.

Eligibility: Recipients must be able to work, in need of the benefit and live in Germany. Recipients who are not able to support their livelihoods from their own income (or their spouses) can apply for the benefit. In this case, the applicant's and his or her household finances are tested and if there is no sufficient income a fixed benefit granted.

Duration: As long as terms of eligibility apply.

Replacement rates: Unemployment benefit II is not paid at replacement rates but at fixed levels of minimum income. Since 1 January 2012, the full benefit amounts to € 374 for singles and single parents who are of age. Unemployment benefit II is not paid on an individual basis but includes the income of the partner or other relatives in the household in its calculation. For example, if the beneficiary is living with a partner also in need of the benefit, the rate is a little lower (€ 337).

Extra benefit is paid for individuals with children: € 219 for each child below the age of six, € 251 for children aged 6 to 13, and € 287 for dependants aged 14 to 17. Young adults between the ages of 18 and 24 years inclusive who are still living with parents can apply for a monthly grant of € 299. These payments are meant to cover the cost of food, clothing and other daily needs. Further payments can be made for heating and rent (within a reasonable limit) or in special circumstances (e.g. pregnancy).

Financing: Unemployment benefit II is financed from taxes.

SP involvement: See above.

## 2. Social partner involvement in the UB regime

### *Development phase: SP participation over the last decade*

For the last decade, a distinction needs to be made between the reforms initiated by the then German chancellor Mr Schröder leading to the current UB programmes and the on-going developments after the first steps were taken.

In 2002, Mr Schröder and his government set up a commission on “Modern Services in the Labour Market”, more commonly known as the Hartz Commission after the name of its head, Mr Peter Hartz. Representatives of companies, think tanks, unions and employer organisations joined the commission and worked on suggestions on how to improve the administration of the public employment services as well as the situation on the German labour market. The commission was set up in the wake of an investigation by the Federal Audit Court which found that job placements had been recorded incorrectly at certain employment offices (Pasquale, 2002).

Many of the suggestions made were later adopted by the government, which drafted new laws and reorganised the public employment services under the umbrella of the BA (see section 1). The analysis below will mainly focus on the social partners’ involvement in the BA and the local employment agencies since the reorganisation of the BA.

**Involvement of SP in the design process:** The BA statutes stipulate that the social partners must be represented on the BA’s Board of Governors and the Administration Councils of the local employment agencies. In this capacity, the social partners also advise on future developments and monitor the work of the Executive Board. However, as explained above, the major reforms of the German unemployment insurance and unemployment assistance schemes were initiated by Chancellor Schröder and the Hartz Commission and put into effect by legislation derived from the commission’s proposals.

**Forms of such kind of SP involvement:** In addition to being invited by the federal government to take part in commissions looking into labour market regulation, such as the Hartz Commission, the social partners are represented on the BA’s Board of Governors. In this function, they can influence the strategic direction and the objectives of the BA.

**Legitimacy of SP involvement in the policy design process:** Generally speaking, the social partners’ involvement in the business of the BA and the local employment agencies is limited to their advisory and monitoring roles in the tripartite Board of Governors, for the BA, or the Administration Councils, for the local employment agencies. As shown above, the federal government also calls on them to participate in ad-hoc commissions, advise on new legislation, etc.

**Frequency of SP involvement:** Commissions are formed ad-hoc. The BA statutes do not specify any frequency for meetings of its Board of Governors.

**Levels of SP involvement (e.g. national, regional, local, cross-sectoral, sectoral, company, other level(s)):** Involvement occurs at the national level, e.g. on the Board of Gover-

nors of the BA or in ad-hoc commissions. At the local level, the social partners are represented on the Administration Councils of the local employment agencies.

Effects of SP involvement: There is no research available which analyses the link between the social partners' involvement and any increase in the UB programmes' efficiency.

### *Implementation phase*

The employer organisations and unions are not involved in collecting contributions or any other tasks regarding the unemployment insurance scheme. However, BA's tripartite Board of Governors must approve the BA's annual budget and overall policy on the allocation of the body's funds. Furthermore, the Board of Governors proposes all appointments to, and dismissals from, the BA Executive Board. The federal government, however, has the final say on appointments and dismissals.

### *The management phase*

The daily operative business of administering and managing the unemployment benefit programmes (i.e. collecting and delivering funds) is carried out by the BA and the local employment agencies. Employer organisations and unions are not directly involved.

Role of SP in the financial management of the UB funds: The social partners are not directly involved in the financial management of funds for the unemployment benefits. However, the BA statutes clearly stipulate that the Board of Governors must approve the annual budget of the BA and decide on the general allocation of the funds.

SP' role in the organisation and provision of UB programmes linked to the organisation and provision of other programmes/services (for instance, related to education and training)

As mentioned above, the social partners are not involved in the daily operational business. However, active labour market instruments administered by BA also include training and qualification measures for unemployed persons and placement vouchers (Vermittlungsgutscheine) which can be used by recipients under certain circumstances to obtain assistance from a private agent.

As part of the tripartite bodies at the BA and the local employment agencies, the social partners have already put forward suggestions concerning BA's active labour market instruments and procedures. A scheme promoting further vocational training for low-skilled and older workers who are still employed (WeGebAU), for example, was proposed by the BA's Board of Governors and is now one of the BA's measures. In 2009, the Board also issued a comprehensive draft of processing measures to be realised by the local employment agencies. The Board wanted to accelerate the reintegration of unemployed persons into working life. This was to be done by adjusting all existing measures better to the individual needs of the recipients, beginning with the registration/profiling of new recipients, offering placement services, wage subsidies and job creation schemes, DE1008059Q).



### *The monitoring phase*

SP involvement in monitoring/evaluating the UB performance: The members of the Board of Governors, including the social partners, have the right to receive the reports of internal audits by the Federal Audit Court or other experts on BA business. The Board of Governors must also approve the general strategy of the Institute for Employment Research (Institut für Arbeitsmarkt- und Berufsforschung, IAB). As part of the BA, the IAB focuses its research on labour market instruments and looks into the effects of public schemes designed for job-seekers, such as the unemployment benefits. Furthermore, the members of the Board of Governors also have the right to request information from the regional directorates and the local employment agencies, etc. The Board's ultimate approval is also needed when the head of BA's internal audit division is appointed or dismissed.

Monitoring the SP involvement in the UB system: to our knowledge, SP role within the UB system is not subject to evaluation and monitoring.

## **3. Final observations**

Public debates and policy discussion: See next paragraphs (on Research).

Research: Academic research focuses on the effectiveness of labour market reforms (such as the effectiveness of *unemployment benefits I* and *II* or the organisational entanglements between the local employment agencies and municipalities when delivering *unemployment benefit II*). However, the role of the social partners and their involvement in the unemployment benefit system has so far not been the subject of academic research.

Several documents, however, reflect the position of the social partners. The BDA has stressed in several position papers (see References) that the BA's remit needs to be restricted and measures financed by the unemployment insurance should be separated from those funded by the government. The BDA favours a model in which the BA only manages those measures directly related to unemployment insurance (such as delivering *unemployment benefit I* or measures directly helping job seekers to find a job).

The DGB also supports a strict separation between the financing of unemployment benefits I and II. The unions believe that the BA's budget should be financed from two different sources and allocated accordingly:

1. contributions from the unemployment insurance for measures directly related to the insurance (e.g. paying the UBI); and
2. taxes for social policy measures, e.g. to provide grants for those studying for a certificate of basic secondary education later in life. In contrast to the employers, the DGB clearly advocates a policy of making active labour market measures (e.g. measures designed to ensure workers' employability) part of the BA's portfolio.

The DGB criticized the introduction of *unemployment benefit II*. The unions' umbrella organisation holds that the reasonability criteria for what can be expected of *unemployment benefit II* recipients are too strict, and insists that recipients should not be asked to take up work below their level of qualification or at below-subsistence wages. The DGB's vice-chair, Ms Annelie Buntenbach, also called for a single entity to serve as the point of contact for all job seekers. This demand was emphasised by the DGB in 2011.

## **4. Commentary**

**Assessments and comments:** The organisation of the BA as a self-governing body with a division of work between the Executive Board for the operative business and the Board of Governors for monitoring purposes works well in its current arrangement.

**Perceived strengths and weaknesses:** The tripartite set-up of the BA's Board of Governors is deeply rooted in the German social security system and its organs. Through their membership, the social partners can serve the interests of the contributors to the statutory unemployment insurance.

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## Final Questionnaire

### 1. The characteristics of the UB system in the country

#### 1.1. Recent changes/transformations of the UB system

1.1.1. In the last 10 years, has the country's UB regime been modified? Have new forms of interventions been introduced?

1.1.2. For each of these changes/innovations indicate:

- *date* of introduction:
- who took the *initiative* (government, unions, employers' associations, other organisations):
- the *content* of the change / of the new programme:
- the *aim* pursued:

1.1.3. For each of these changes / innovations please indicate from the main SP who was in favour or supported and who was against or resisted to it, and why:

#### 1.2. The main characteristics of the UB system as it is now

1.2.1. Unemployment Insurance.

- Coverage:
- Eligibility:
- Duration:
- Replacement rates:
- Financing:
- SP involvement:

1.2.2. Unemployment Assistance. Are forms of UA present? If yes, please indicate their general characteristics with specific attention to:

- Coverage:
- Eligibility:
- Duration:
- Replacement rates:
- Financing:
- SP involvement:

1.2.3. Social Assistance. Are SA programmes with a direct relationship with the UB system and/or SP involvement present? If yes, please highlight the factors underlying such a relationship.

Yes, if someone not capable of gainful employment and normally eligible for social assistance (*Sozialhilfe*) is living together with a recipient of *unemployment benefit II*, the

former will no longer qualify for social assistance. Instead, he or she will receive complementary payments (*Sozialgeld*) provided for under the *unemployment benefit II* scheme. This regulation does not apply to children.

## 2. SP involvement in the UB regime

### 2.1. The development phase

2.1.1. In your country, did SP participate in the development phase of UB programmes over the last decade?

2.1.2. If yes, please provide detailed information on the SP involvement in the development phase of UB regimes with respect to the following dimensions, distinguishing between UI and UA and reporting any important changes during the decade.

Who did take the *initiative* of involving SP in the design process? Did they ask themselves?

Which are the *forms* of such kind of SP involvement? Are/were they informed, consulted by the relevant institutions? Does/did some kind of negotiation or concertation between the SP and the institutions take place?

In which way is/was their involvement in the policy design process *legitimated/accepted*? Through their participation in formalised and stable organisms (like tripartite or bipartite bodies)? Through their participation in lightly formalised ad-hoc commissions, or in occasional interaction? In other ways?

At what *levels* does/did such involvement occur? (e.g. national, regional, local, cross-sectoral, sectoral, company, other level(s))

Which are/were the *effects* of such involvement (with regard to both a more efficient/effective functioning of the programmes, and the strengthening and legitimation of the SP themselves)?

### 2.2. The implementation phase

### 2.3. The management phase

2.3.2. Distinguishing between UI and UA programmes, please describe the role of SP in case they are engaged in the financial management of the UB funds.

2.3.3. Distinguishing between UI and UA programmes, please answer to the following questions:

- is the SP' role in the organisation and provision of UB programmes linked to the organisation and provision of other programmes/services (for instance, related to education and training)? Please, specify:

- if there is some kind of organisational relationship/integration among different labour market policies and programmes, does it lead also to an administrative/operative *relationship* between the SP and the Public Employment Service, or with private employment agencies?
- if yes, did this lead to mergers, networks or coalitions building among the SP and public and/or private organizations (eventually at the local level)?

## 2.4. The monitoring phase

### 2.4.1. SP involvement in monitoring/evaluating the UB performance

### 2.4.2. monitoring the SP involvement in the UB system

## 3. Final observations

### 3.1. Public debates and policy discussion:

### 3.2. Research:

## 4. Commentary

### 4.1. Assessments and comments:

### 4.2. Perceived strengths and weaknesses: