



Reforming the German basic income system in international perspective: yes to new avenues, no to a fundamental change

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In Germany, politicians and the public have been debating for quite some time now whether the means-tested basic income scheme, colloquially referred to as Hartz IV, should be fundamentally reformed or even replaced by an unconditional basic income. Discussions, pilot projects and reform-attempts in this area can also be observed in other countries. A look beyond national borders is therefore highly instructive for the German - and international - reform debate.

The German basic income scheme is officially termed unemployment benefit II (ALG II) or “basic allowance for jobseekers” (Grundsicherung für Arbeitsuchende). The transfer scheme is, however, much broader than unemployment protection. Eligibility is predicated upon neither unemployment nor job seeking, but having insufficient income while being “capable of being gainfully employed” (erwerbsfähig). Both terms are also misleading because Hartz IV is not only a comprehensive benefit system for needy people out of work but also in work.

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Hartz IV claimants in paid work are referred to as “Aufstocker”.

The current discussion about the further development of the basic income scheme focusses on the level of entitlements and existing financial incentives to take up work, but also on the rights and duties of individuals. Similar discussions about work incentives, about reducing the complexity of benefit systems and whether sanctions are effective or counterproductive can also be found in other countries. And in other countries there is also a great deal of debate about whether the existing system should be replaced by an easier to administer, unconditional basic income system.

In Switzerland, this was even the subject of a referendum three years ago. A large majority of 77 percent voted against an unconditional basic income. In Finland, a two-year basic income experiment was recently completed and in the Netherlands, time-limited experiments are currently underway at the local level to find answers to how the existing system can be improved.

Mixed preliminary results of the basic income experiment in Finland

Does a (partial) unconditional basic income lead to more employment and less bureaucracy? To answer this question, Finland conducted a basic income experiment in 2017 and 2018. Just as in Germany, the juxtaposition of competing social benefits such as social assistance, unemployment assistance, sickness benefit, childcare allowance and housing allowance is extremely complex. This not only entails high bureaucracy, but also leads to the situation that many social benefits are not even taken up.

For the experiment, 2,000 unemployed people aged between 25 and 58 years were randomly selected by the Finnish social security administration KELA. Participants received a tax-free basic income on a monthly basis for two years without further conditions, i.e. regardless of any other income or regardless of whether they were actively seeking employment. For cost reasons, the individual benefit amount was limited to 560 euros, so on its own it was usually not sufficient to cover the recipient’s basic needs.

Participation in the experiment was mandatory, but care was taken not to make anyone financially worse off than before. Indeed, a number of means-tested benefits have actually been replaced by the unconditional basic income. Only entitlements to social security benefits, such as unemployment benefits, exceeding 560 euros continued to be paid. By contrast, income from employment was not reducing the basic income at all.

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The evaluation focused not only on employment effects amongst the participants in the experiment, but also on whether their well-being and their experience with bureaucracy would improve thanks to the basic income.

Currently, only the first interim results of the evaluation for 2017 are available. More robust results are expected at the end of 2020. The preliminary evaluations (see Figure 1) show no clear evidence of a positive employment effect. On average, in 2017 – i.e. in the first year of the experiment – the participants were in employment for 49.6 days – barely longer than the members of the corresponding control group who were also unemployed at the beginning of the year. The take-up of gainful employment was so far neither encouraged nor counteracted by the unconditional basic income.

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Figure 1: Preliminary results from the Finnish basic income experiment (2017)

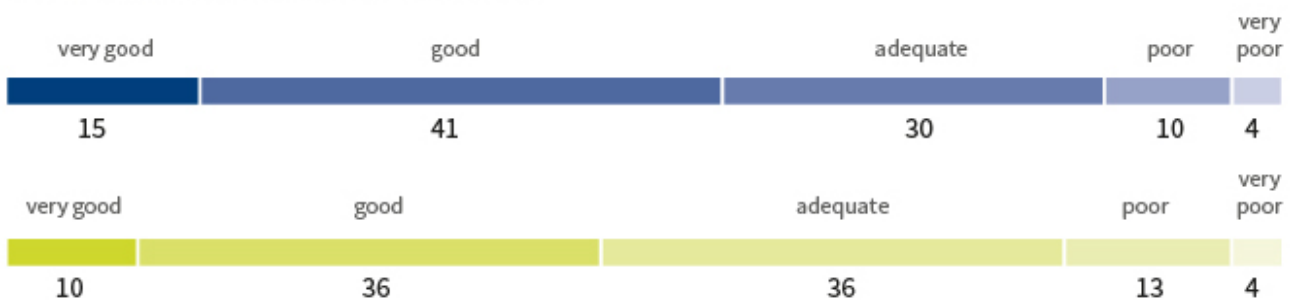
Employment in days



Income from employment



Self-perceived assessment of health (in %)



Too much bureaucracy involved when claiming social security benefits? (in %)



■ Participants ■ Control-group

Source: Kela © IAB

A survey conducted during the evaluation also shows that the well-being of the participants improved on average. According to their own assessment, participants exhibited somewhat fewer stress symptoms, as well as concentration- and health problems than the comparison group. The response rate, however, was very low at 23 percent. It is therefore of limited informative value.

It remains to be seen to what extent the results of the experiment will feed into any reform of the Finnish social benefit system. The experiment has attracted a great deal of media attention worldwide. Nonetheless, the Finnish government, which has meanwhile been voted out of office, has further tightened the conditionality requirements for receiving social benefits. Inadequate personal efforts, the refusal to take part in a training measure or in non-profit employment might lead, since the beginning of 2018, to higher sanctions.

Municipal experiments in the Netherlands

Like in Finland, in the Netherlands the obligations put on welfare claimants were tightened, too. Since 2015, the so-called participation law replaces the previous Social Assistance Act. Social welfare recipients now not only have to actively look for work, but in principle have to provide something in return – in the form of an honorary or six-month charitable activity or an internship in a private company.

The municipalities, which are responsible for the implementation of the Participation Act, should offer activities to social assistance recipients. This poses a considerable challenge for the municipalities, especially since the number of welfare recipients has risen sharply following the financial crisis.

Against this background, some Dutch municipalities have made use of the experimental clause created in an amendment to the Participation Act. They will test exceptions to the statutory activation requirements over a period of two to three years. Thus, the existing rules for activation obligations, as well as additional rules and sanctions can be relaxed. In June 2018, this affected 3,000 welfare recipients, i.e. hardly one percent of all social assistance recipients in the Netherlands.

In each of the participating municipalities, various variants of this portfolio of measures will be tested and evaluated, such as a more generous supplementary income regulation – with and without active support from the municipalities – or a waiver of sanctions. The results of the different variants are compared with those in which the usual legal regulations are applied.

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The transition to sustainable employment has been defined as a key success factor. Other goals include improving health, self-management and well-being. So far, there are no results on the question whether more freedom and less enforcement actually strengthen the autonomy and motivation of welfare recipients and ultimately increase the chances to find sustainable employment.

Comprehensive benefit reform in the United Kingdom

Simplifying the existing system of benefits, increasing transparency and more incentives to work are also key objectives of a comprehensive benefit-reform in the United Kingdom. Here, a “Universal Credit” (UC) has been phased in since 2013.

The new means-tested benefit for about seven million households (~ one-third of all UK households with at least one working age member) will replace six means-tested individual benefits (unemployment and social assistance, housing benefits, child- and tax credits and the employment and support allowance for disabled people) with a single monthly benefit per household. The UC is not only paid to the unemployed, but also to people in work if their earned income does not meet the needs of the household. Like the German basic income system, UC is a comprehensive benefit system for needy people not only out of work but also in work.

With the new benefit, more people than ever before are supposed to be not only financially better off, but also more activated – including many partners in couples with children. Thus, on the one hand, the financial incentives to take up work have been increased: for every £1 over the work allowance (if eligible) the claimant can keep 37 pence. What is new is that a degressive taper rate will also strengthen the financial incentives for extending working hours. On the other hand, conditionality and sanction rules have been tightened. In extreme cases of non-compliance, payments can even be completely cut for three years.

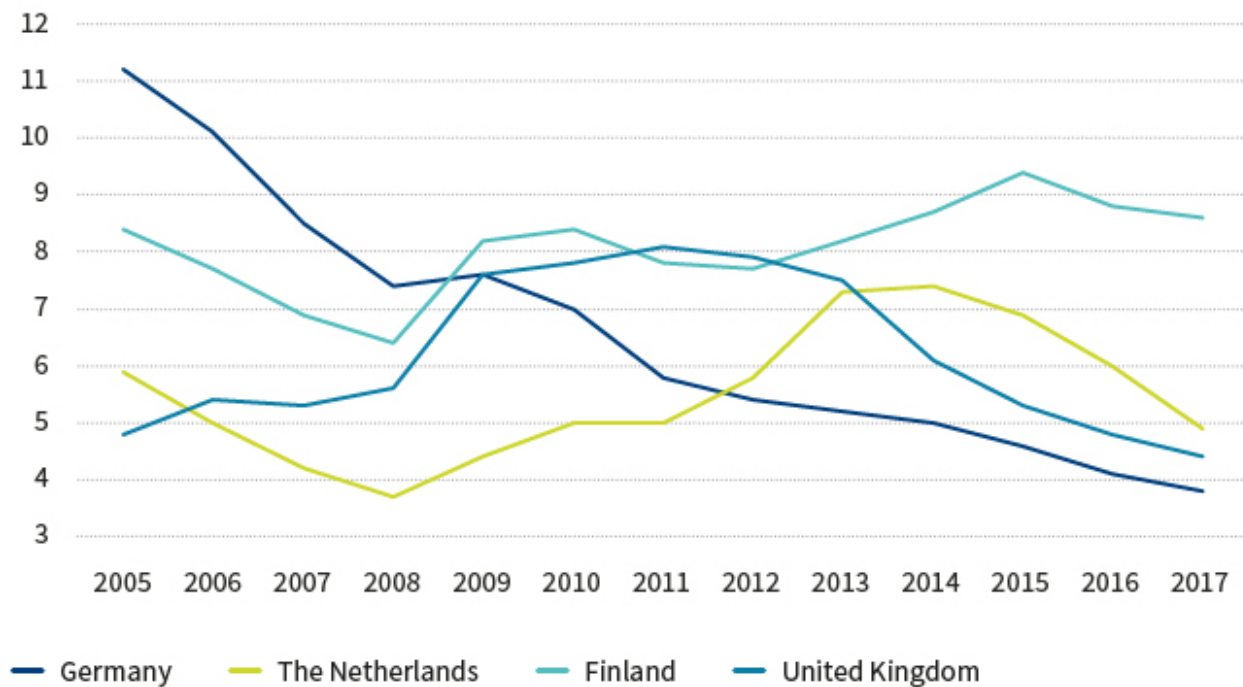
Due to the sluggish implementation, the effects of UC cannot be adequately assessed so far. By October 2018, only one million homes were in receipt of the new benefit; the backlog in implementation already stands at six to seven years. Reasons for the delay stem mainly from IT problems.

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Figure 2: Development of unemployment in Germany compared to Finland, the Netherlands and the United Kingdom, 2005–2017

Shares in percent



Source: Eurostat, Labour Force Survey © IAB

Labour market perspectives

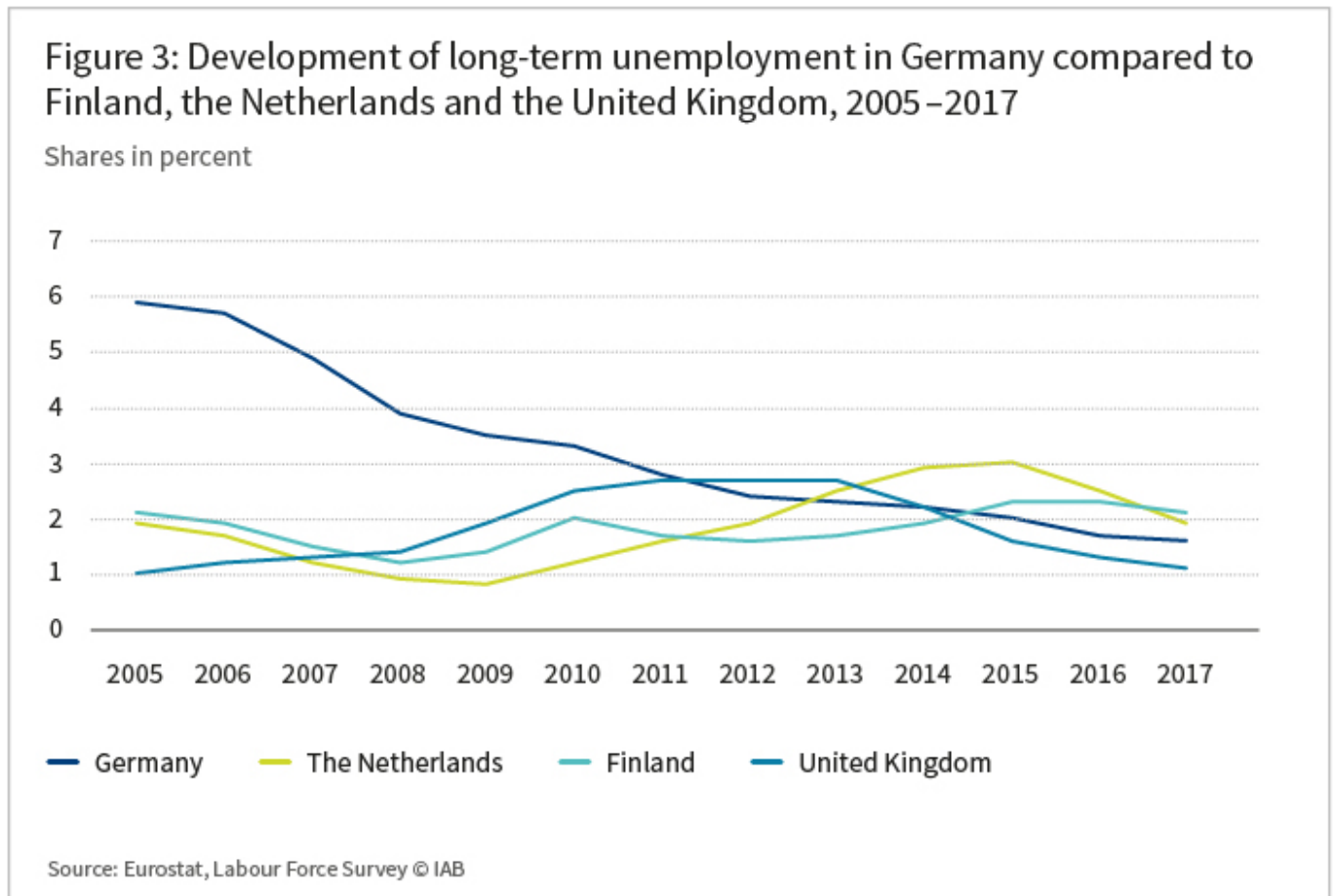
A key motive for the further development of the existing benefit systems is the improvement of the employment prospects for ALG II claimants, the German basic income scheme. Germany currently has the lowest unemployment rate compared to Finland, the Netherlands and the United Kingdom (see Figure 2). Unemployment in Germany has fallen almost continuously since the introduction of this scheme in 2005, and long-term unemployment has developed very favourably in international comparison (see Figure 3).

Although not without controversy among experts, numerous studies, e.g. by [Brigitte Hochmuth and colleagues in 2019](#), show that the so-called Hartz reforms have contributed to this positive labour-market development. However, the current reform debate is characterized not by job perspectives for ALG II recipients but rather by problems and

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weaknesses of the basic income system described below.



Frequent transitions between unemployment and short-term employment

In view of the improved situation on the German labour market, discussions on income distribution, low-paid work and the sustainability of employment are more important today than at the beginning of the millennium – i.e. during a time of very high and rising unemployment.

In the past decade, it has been possible to integrate a high number of ALG II recipients into the labour market. However, this has hardly contributed to reducing the total number of benefit recipients significantly. About half of the roughly one million newly concluded employment contracts by ALG II recipients annually, still rely on (in-work) benefits. This is because most of these jobs are in the low-wage sector and are often insufficient to meet the

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needs of an entire household. Additionally, a high proportion of benefit recipients works only part-time, as shown by an [analysis by Kerstin Bruckmeier, and Katrin Hohmeyer in 2018](#).

New jobs are often unstable: only about 60 percent of all benefit recipients who have taken up employment are still employed after one year. The frequent churn between unemployment and low-paid short-term employment is a problem that affects not only Germany, but also other European countries such as the UK. As shown by a large-scale social experiment conducted in Great Britain between 2003 and 2007, the upward mobility of long-term unemployed recipients can be encouraged to a limited extent through a combination of post-employment counselling and temporary wage supplements.

Bureaucracy and incentive problems

The question of how benefits and services can be delivered unbureaucratically and compatible with incentives to work unites the reform debates in various countries. The calculation of benefit entitlements needs a detailed review of assets, incomes, household constellations and demands in most means-tested benefit systems. Dismantling the associated bureaucracy was therefore a central topic of the basic income experiments in Finland and the Netherlands. The United Kingdom also bundled many social benefits in a single “Universal Credit” in order to limit the negative interaction effects of complex and poorly coordinated social benefits.

The reform proposals for the German basic income system have similar aims: reducing bureaucracy and increasing work incentives. The problem: people who receive ALG II benefits can only slightly increase their household income through gainful employment as long as withdrawal or taper rates are high. As mentioned, inter alia, in [a 2018 study by Kerstin Bruckmeier and Kartrin Hohmeyer](#), a significant part of additional earnings is deducted. The same applies if other means-tested benefits are claimed in parallel, especially housing allowance (Wohngeld) and the enhanced child allowance (Kinderzuschlag).

The debate about reducing transfer withdrawal rates and better coordinating different means-tested benefit schemes with the aim of avoiding high marginal tax rates is already under way. The reform of enhanced child allowance (Kinderzuschlag) is a first step in this direction as it includes higher tax-free allowance for additional income. However, to really improve the situation of the low income workers and families, further and more fundamental steps are needed.

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Conclusion

The debate on reforming the German means-tested basic income system (Hartz IV) resembles the discussions in other European countries such as Finland, the Netherlands and the United Kingdom. Despite various experiments to simplify basic income systems, a paradigm shift towards unconditional basic income is observable nowhere.

A complete abandonment of existing forms of social security would be associated with high fiscal costs and raise new distributional issues. As a result, European welfare states have so far focused on reforms within existing benefit systems and have tried to develop them further in order to address existing weaknesses.

More than in many other countries, the reform debate in Germany focusses strongly on aspects of social justice. In the Bismarckian tradition of the German welfare state the preservation of social status and the acquired standard of living is central. The introduction of a system of means-tested and flat-rate unemployment benefits (Hartz IV) for the majority of the unemployed interfered with the widely accepted principles of social justice embodied in an insurance-based system with earnings-related benefits.

The fact that unemployed people end up on the means-tested basic income system after just twelve months and then have to take on any reasonable job-offer is often perceived as unfair. It fuels fears of status loss mainly in the middle of society although the statistics of the [Federal Employment Agency](#) do not support such fears. The share of those unemployed making a transition from the insurance system to the welfare system is low. Recipients of unemployment insurance benefits account for less than ten percent of all inflows into the basic income system. Adding the unemployed, who previously had to top up their low unemployment insurance benefits with ALG II, the share is about 14 percent.

A general and nationwide introduction of unconditional basic income would be like flying blind. There is, however, a need for reform. Developing regional and time-limited experiments might be a way of testing alternative activation approaches in Germany, too.

There are already a number of proposals on the table. The IAB has recently made suggestions to improve the transfer system for low-income workers. These suggestions involve a better and simpler design of the additional income rules and the bundling of transfer payments such as housing allowance, child allowance and employment promotion measures in one benefit system in order to reduce the number of bureaucratic interfaces.

In addition, the goal of “work first” should be revised. Changes might be necessary to better

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align the goal of the fastest possible integration into the labour market and the goal of achieving the highest possible quality of employment at the same time.

The current Federal Government has already initiated partial reforms. For example, the law on “Opportunities for Participation” (Teilhabechancengesetz) enacted in January 2019 promotes the participation of hard-to-place ALG II recipients through subsidized employment. With the act on “Qualification Opportunities” the Federal Government is promoting social investments for broader population groups including the already employed. Since the participation of low-skilled people in further training is below average, it remains to be seen to what extent low-skilled workers who rely on ALG II benefits will be offered more training opportunities in the near future.

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