Convergences and dissonances within the Bismarckian welfare paradigm: a critical assessment of the impacts of Hartz-IV on the German unemployment insurance system

Stephan Treuке
CONVERGENCES AND DISSONANCES WITHIN THE BISMARCKIAN WELFARE PARADIGM: A CRITICAL ASSESSMENT OF THE IMPACTS OF HARTZ-IV ON THE GERMAN UNEMPLOYMENT INSURANCE SYSTEM

Stephan Treuke

Abstract: The paper deals with the repercussions of Hartz-IV on the German welfare system, implemented in 2005 in order to stimulate the labour market structure and to meet contemporary socio-economic and demographic challenges. Focussing on the convergences and dissonances between the historically contingent Bismarckian welfare paradigm and the Hartz-IV reform on the basis of Esping-Andersen’s typology of welfare regimes, it critically examines the modifications introduced into the system of unemployment insurance. Despite the overall reduction of the unemployment rate, the dualization between either the income-based unemployment benefit I (ALG-1), which guarantees the protection of the socio-occupational status, or the means-tested unemployment benefit II (ALG-2), providing for the strict minimum assistance to the jobless, has widened socio-economic inequalities. Evidence can be found for the introduction of recommodifying mechanisms, with regards to the tightening of eligibility criteria affecting the access to the ALG-1 and with regards to the implementation of the ALG-2 with a strong responsabilization of the recipients. Furthermore, an erosion of the principle of subsidiarity can be noticed, coupled with a formal weakening of the male breadwinner’s responsibility as the main income provider. Finally, the reforms have reaffirmed the rigidity of the social classes in Germany, thus creating structural obstacles to the economic upward mobility of the working poor. While the flexibility and greater absorbability of the employment market considerably increased German’s economic competitivity, the future yet has to prove whether the growing segment of working poor will be able to upgrade to full employment and social security coverage.

Keywords: German Welfare System; Unemployment Insurance; Hartz-IV; Labour Market.

CONVERGÊNCIAS E DIVERGÊNCIAS DENTRO DO PARADIGMA DE BEM-ESTAR SOCIAL BISMACKIANO: UM BALANÇE CRÍTICO DO IMPACTO DA LEI

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HARTZ-IV NO SISTEMA DE DESEMPREGO ALEMÃO

Resumo: Neste trabalho, propõe-se a explorar o impacto da reforma Hartz-IV no sistema de bem-estar social alemão. A lei Hartz-IV foi implementada em 2005 no intuito de dinamizar a estrutura do mercado de trabalho e de atender pelos desafios socioeconômicos e demográficos. Examinando as convergências e dissonâncias entre o modelo bismarckiano e a reforma Hartz-IV a partir da tipologia de Esping-Andersen sobre os regimes de Bem-Estar social, reflete-se sobre as alterações introduzidas dentro do sistema de seguro-desemprego. Não obstante a redução da taxa de desemprego, a dualização entre as prestações de substituição salarial (ALG-1) com forte proteção da qualificação profissional e do status social para um arranjo de auxílio-assistência universal (ALG-2) acirrou as inequidades socioeconômicas. Assiste-se à introdução de mecanismos de remercantilização implicando no endurecimento dos critérios de elegibilidade que condicionam o acesso a ALG-1 enquanto se registra uma maior responsabilização do beneficiário ALG-2 sob a lógica de ativação e coerção. Observa-se a erosão do princípio de subsidiariedade e do papel da família, principalmente do male breadwinner, dentro da distribuição do provimento de renda. As reformas solidificaram a rigidez da estratificação sócio-ocupacional na Alemanha, criando obstáculos estruturais para a mobilidade econômica dos working poor. Enquanto a dinamização da capacidade de absorção do mercado laboral incrementou a competitividade econômica da Alemanha, cabe-se perguntar criticamente se o crescente segmento dos working poor dependentes do ALG-2 terá a capacidade de se integrar dentro de relações de emprego estáveis garantindo o direito a uma cobertura plena de segurança social.

Palavras-chave: Sistema de Bem-Estar Social Alemão; Seguro-Desemprego; Hartz-IV; Mercado Laboral.
I. Introduction

The structural reforms introduced since the 1970s into the paradigm of national welfare systems of the global north in order to meet the socio-economic and demographic challenges, have provoked a series of critical assessments and instigated a controversial discussion in the field of Political Science (Boschetti, 2012; Palier & Martin, 2008; Pierson, 1998). As a result of the increasing discordances with the reforms’ impact on social equality and income distribution, paradigmatic terms like “welfare corrosion” (Boschetti, 2012) and “neoliberal adjustments” (Kerstenetzky, 2012) have spread throughout the debates. Grosso modo, these quantitative assessments have concentrated on large-scale international comparisons between different welfare state conceptions, using typologies to identify cross-sectional convergences and divergences. However, studies focussing separately on the salient characteristics of the social welfare paradigm of individual countries still remain an academic desideratum.

Hence, this paper seeks to examine the convergences and dissonances between the historically contingent Bismarckian concept of the German social welfare state and the paradigm of unemployment insurance posterior to the enactment of the Fourth Act of Modern Services on the Labour Market (henceforward Hartz-IV). The Hartz-IV reforms were implemented in order to improve simultaneously labour market services and unemployment policy measures in terms of efficiency, to achieve a more sustainable activation of the (long-term) unemployed in accordance to the principle of “rights and duties” (Fördern und Fordern) and to increase the employment demand by deregulating the labour market.

Prior to the Hartz I-IV enactments, implemented gradually between 2002 and 2005, the German welfare state was commonly regarded as the prime archetype of the conservative-corporatist welfare regime, rooted in the premises of income-related social status preservation. The structural consistency to these principles in conjunction with a set of particularities of the German political economy had consolidated the pathways of a welfare and employment system based on expensive passive social transfers, a sector-wide organised labour market and a tripartite consensus-based political process of decision-making that guaranteed the continuation and inertia of these policies.

More than a decade after the implementation of Hartz-IV, its repercussions on the German welfare system are still controversially discussed. On the one hand, Bäcker, Bosch and Weinkopf (2011) highlight the undeniable success attributed to the comprehensive reform package, which promoted an overdue modernization of the German labour market, severely paralyzed by structural deficiencies tacitly ignored for two decades of reform reluctance and
consensual negotiation within the tripartite basis. The authors acknowledge the Hartz-IV reforms for having “activated” the inert labour market and dynamized the economic competitiveness, thus providing an important protection shield against endogenously and exogenously caused conjunctural turbulences, which has proven its tenacity during the global financial recession of 2008 / 2009.

On the other hand, Hartz-IV has been blamed for the aggressive recurrence to liberal market-orientated strategies, including the implementation of policies that foster labour practices of flexibilization, precarization and subcontraction. Notwithstanding the overall positive achievements, considering the unemployment rate markdown under the historical threshold of two and a half million in 2018, these mechanisms are held accountable for the weakening of the principle of status protection and contribution-equivalence in unemployment benefits for the long-term unemployed. Furthermore, the new labour legislation has contributed to the deterioration of the income-protection system and to the dismantlement of stable labour contract relations, thus widening social inequities.

Hassel and Schiller (2010) associate the liberalization of labour contract relations and the statistical rise of the working poor to the precarization of the labour market and the growing use of deregulating practices. Accordingly, Hartz-IV has created permanent obstacles to the economic upward mobility of those facing unemployment and financial dependence on the unemployment benefit II (Arbeitslosengeld II – henceforward ALG 2), or of the working poor (the so called Aufstocker) lacking sufficient income to quit the social assistance program. Therefore, Hassel and Schiller (2010) consider the implementation of Hartz-IV as a critical juncture in German labour market policies which results in the shift from a conservative Bismarckian welfare state securing acquired standard of living towards an Anglo-Saxon welfare state relying on means-tested welfare and providing only basic needs.

Given the controversy about the impact of Hartz-IV on the welfare system paradigm and, in broader terms on income distribution, a number of critical assessments and counter-expertises have emerged. According to the working hypothesis of Knuth (2014), the statistical coincidence between the labour market take-off and the Hartz-IV enactment might lead to precipitated conclusions about its contributions in this upward process. The author claims that beneath the starting of the “fiscal or monetary impulse” (Konjunkturmotor) program Hartz-IV, a set of other mechanisms account for the revitalization of Germany’s labour market. Knuth (2014) affirms that the positive economic developments and the substantial reduction of the unemployment rate mainly arise from macrostructural reform devices, implemented
concomitantly to the Hartz-IV laws.

Accordingly, these policies enforced the deceleration of the labour productivity, which, in turn, permitted the distribution of the total demand for workforce to a higher number of employees by the means of the gradual reduction of the gross domestic product (GDP) per hour worked. He then correlates the increases in labour market competitiveness with the positive effect of the public old-age pension reforms and to the strategical weakening of labour tariff regulations, which both improved substantially the dynamism of the German labour market (Knuth, 2014).

With regard to the polarization into these oppositional assessments, in this paper we seek to reflect about the repercussions of Hartz-IV reforms on the unemployment insurance paradigm in the context of a more substantial reshaping of the German Social Welfare system.

The first section revises key methodological aspects whereas the second section retraces synthetically the main pathways of the German welfare system from its Bismarckian’ institutionalization to the moment before the Hartz-IV enactment. Section three then examines the modus operandi of the Hartz-IV law, identifying its main rationale and underlining similar tendencies registered in the realm of the public pension and health care insurance paradigm. The fourth section juxtaposes the two studies of Hassel and Schiller (2010) and Knuth (2014), both assessing the repercussions of Hartz-IV on the social welfare concept, though arriving at divergent conclusions. Finally, the results obtained in this paper are summarized and a set of critical outlooks, based on more recent labour market and unemployment statistics, are given.

II. Methodological considerations

With regards to the characterization of Germany’s welfare state, Esping-Andersen’s threefold classificatory scheme provides critical insights into its relative position within the landscape of different welfare regimes. In the first place, the author takes into account the degree of autonomy and independence provided by social policies to the survival of individuals and families beyond pure market logics. Whereas the liberal regime cluster tends to accentuate the commodification status of labour market reliance, the conservative-corporatist model establishes a direct association between the occupational status and the access to determined social benefits based on an income-relate money transfer system. Finally, the social-democratic welfare states promote the highest degree of decommodification by the means of universal social programmes conceded independently of the individuals’ class and labour market attainment (Esping-Andersen, 1990).
The author examines, in a second step, the distribution of social responsibilities among the three basic institutions of welfare system: market, State and household. Accordingly, under a liberal perspective the dominance of market principles of auto-regulation detrimental to the provision of social politics by the State and family prevails. Within the conservative-corporatist welfare conception, the family – and principally the male breadwinner – assumes the provision of financial resources, following the premise of subsidiarity. The social democratic model relies strongly on the assumption that the family and market may present certain deficiencies when it comes to the provision of a solid protection against the exposure to labour market vicissitudes.

Finally, concerning the capacity of the welfare system policies to positively interfere in the social stratification paradigm, Esping-Andersen (1991) argues that the liberal welfare regime relies on means-tested assistance and therefore strengthens the individual’s dependence on market-based mechanisms. The conservative-corporatist system is mainly based on meritocratic principles that reaffirm the highly segmented professional group hierarchies. Finally, the social-democratic welfare regime provides a high degree of tax-financed welfare universalism in order to achieve the emancipation of the individual from market-orientated principles.

Modifications registered along the historical pathways of each welfare regime are predominantly resulting from structural adjustments performed by each country’s government in order to better comply with varying circumstances, whether originated by exogenous factors or generated by internal system crises (Castles, 2004; Pierson, 1998).

Embedded in a more general discussion of welfare system reshaping, Esping-Andersen (1995) draws the attention to the fact that despite the adaptations introduced into its modus operandi, a general retrenchment of the welfare state has statistically not occurred.

Quantitative cross-sectional assessments on the development of welfare state posit that, whereas the national GDP suffers from considerable conjunctural oscillations, the quota of net financial expenditure in social programs has maintained its upward trends (OECD, 2018). Nonetheless, these interpretations may omit substantial changes operated within the instruments and principles of the social welfare state. Particularly, shifts in the resource allocation of traditional welfare programs, like the unemployment insurance system, require more research parsimony in each case.

In this sense, Peter Hall’s contributions about the adoption of the welfare states to the new macroeconomic policy paradigm may serve as theoretical framework for our research. The author’s typology distinguishes between three patterns of changes produced within the
paradigma of the welfare regime which show substantial variation according to the range and depth of the reform’s impact.

Accordingly, a first order change doesn’t provoke significant transformations regarding the historically contingent path of the welfare system but implies alterations in the setting of instruments, e.g. by increasing the level of social contributions or reducing benefit entitlements though without changing the mode of financing, the type of benefit or the mode of access to it. Hence, it doesn’t produce a change in the welfare policies’ modus operandi. A second order change introduces new instruments, for instance the implementation of new calculation rules or new entitlement rules in pension, though still showing a high degree of path dependency which preserves the existing system and its principles. Nevertheless, a second order change may entail substantial alterations once implemented and developed over time. A third and last order change introduces new instruments in order to comply with new goals and challenges which may produce long term paradigmatic changes (Hall, 1993).

As we will seek to demonstrate throughout this paper, Germany has not embarked on a radically new path of welfare policies but rather has modified ingrained principles of its conservative welfare architecture.

III. Historical-structural contingencies in the field of the German social welfare system

The origins of the German social welfare system can be retraced to Otto von Bismarck’s ambitious social welfare concept relying on three branches of social insurance which operate according to the principle of subsidiarity: health care (1883), accident protection (1884) and an old age and disability insurance for industrial workers (1889). This concept was then supplemented by a fourth branch in 1927: the unemployment insurance. During the post-First World War period, the social policies extended to a system of universal social protection based on redistributive logics.

Additionally, the implementation of the old-age pensions reform act of 1957 became the legitimating corner stone of the post-war welfare state, rooted in the premises of the “contract of solidarity among generations” (Generationenvertrag), which implied a pay-as-you-go redistributive scheme. The constant expansion of the financial expenditure on social policies was founded on the positivist conviction of full employment while operating according to capitalist mechanisms supported by the regulatory interventions of the State.

Facing increasing fiscal constraints, the social insurance system was subject to a set of minor cuts in entitlements during the conservative government of Chancellor Kohl (1982-
Convergences and dissonances within the Bismarckian welfare paradigm…

1998), though without suffering any structural alterations in the generous status quo. After reunification, Germany’s financial budget collapsed due to the unprecedented rise of social expenditure. The process of systemic-structural adaptation to the social-capitalist West Germany began in the early 1990s, largely supported by the “solidarity surcharge” (Solidaritätszuschlag), implemented by the government in order to attenuate the significant socio-economic disparities between the two politically and economically distinct regimes.

The fifth branch of the German Welfare State was introduced in 1994 – the “Long-Term Care Insurance” (Gesetzliche Pflegeversicherung) – designed in order to comply with demographic transformations and with the rise of financial expenditure on health care. The government tried to mitigate the increasing discrepancies between the annual economic growth rate and the expenditure on social transfer programmes by deploying legal measures that implied in a minor financial co-participation in different fields of social insurance.

Their introduction marked the introduction of new instruments seeking to shift the provision of social services to private insurers which, in combination with a moderate reduction of entitlements in different programs, still preserved the welfare system’s status quo. Corresponding to a second-order change (Hall, 1993), a growing incorporation of private social insurance and a more significant regulative action of the State can be observed, the latter being commonly referred as tax welfare. This term refers to the acquisition of insurance services provided by the private sector in return for significant tax reductions.

Summarizing, after the Second World War the scheme of public social transfer programs, operating according to redistributive principles based on corporatist structures, was restored and substantially extended until the 1980s. In accordance to Hassel and Schiller (2010), the path dependency of the German welfare system, taking into consideration its consistence with the Bismarckian principles, is traceable until the new millennium.

Germany can be classified as a conservative welfare state regime with regards to the medium degree of decommodification, the provision of benefits and entitlements according to occupational and social status and the maintenance of a conservative concept of society that emphasises family, traditional gender roles and intermediate social bodies such as churches, voluntary welfare associations and occupational status groups. The metaphor of the “frozen welfare state”, applied by Esping-Andersen (1995) to the case of Germany, denotes the strong reluctance of the political parties, syndicalists and the employers’ representation to reorganize the social policies institutionalized decades before.

Social insurance as the core of the German welfare state expresses a normative
compromise and consensus between collective and individualist values, through compulsory membership and earnings-related benefits. This modus operandi is particularly evident in the regime of pay-as-you-go pension insurance. This insurance scheme is based on the premise of a long and uninterrupted professional biography of the male breadwinner. Thus, the full coverage of social protection programs already excluded those professional groups marginalized by regular labour contract relations.

The case of Germany demonstrates a strong historical legacy of state corporatism extended and adapted to socio-economic transformations. This logic is mainly based on the premises of subsidiarity consistent with the conservative allocations of family responsibilities. This pattern emphasizes clearly the function of the male breadwinner as the main income provider whereas the woman is traditionally providing child and house care, hampering her economic integration. The provision of a set of benefits and tax reductions, like the married couple tax, free Health Insurance and survivors’ pensions presupposes the existence of intact families whereas the proportion of female workers on the labour market ranked below European average. One of the main reasons for women tail on the labour market relates to the scarcity of social services which would enable women to delegate housework and child care.

With regards to the social policies’ capacity to positively interfere in the social stratification, the social insurance paradigm strongly contributes to the consolidation of the social status hierarchies achieved in a highly segmented labour market by the means of a system of earnings-related social protection. This is marked by high criteria of eligibility in terms of the access to social programs which reaffirm the rigid structure of the German labour market (Lippl, 2008). Overall, social transfer programs favour the maintenance of social status and turn out to reduce the impacts of redistribution due to the fact that they largely reproduce the current stratification order mirroring the position in labour market.

Nonetheless, one can object that a set of non-Bismarckian elements integrate the German social insurance paradigm. The contributions made by the employees are combined with contributions by employers, though they are supplemented by state subsidies. At the same time, the aforementioned income-based benefit, reflecting market principles, is complemented by a compulsory-redistributive system which provides a more egalitarian access to insurance protection beyond pure status and market attainment. Furthermore, the Bismarckian’ principle of differentiation by occupational groups in Old-Age Pensions has been abandoned almost completely before 2000, excepted for those employed in the public sector. At the same time, the Health care system can be qualified as strongly egalitarian and nearly-universal.
IV. The impact of Hartz-IV on the unemployment insurance paradigm

Between 2003 (Hartz I-III) and January of 2005 (Hartz-IV) chancellor Schröder gradually enacted the four Laws for the Reform of the Job Market (Gesetze für Moderne Dienstleistungen am Arbeitsplatz). In details, they were devised to improve simultaneously labour market services and unemployment policy measures in terms of efficiency, in order to achieve a more sustainable activation of the (long-term) unemployed in accordance to the principle of “rights and duties” (Fördern und Fordern) - enabling or supporting the jobseekers on the one hand and demanding an individual effort on the other hand - and to improve the employment demand by deregulating the labour market.

In fact, the German economy had almost stagnated between 1995 and 2001 with average GDP growing rates of 1.6% a year, whereas the unemployment rate climbed to 8.7% in 2002, respectively 13.4% if participants in active labour schemes were included. While in economic doldrums, public expenditure on welfare continued in net expansion. Longitudinal research on labour market developments pointed to endogenously generated structural deficiencies, as a result of an ineffective labour market policy.

In this sense, the Hartz Commission was set up by Chancellor Schröder in order to investigate the enduring system of high unemployment, to reorganize the inefficient Public Employment Service (PES) and to reshape the labour market policy more substantially. Accordingly, the prevailing active labour market policies relied on extensive public subsidies for short-term work, public job creation and further training in vocational programs. These combined to create a secondary labour market absent of positive post-participation effects.

In details, the comprehensive set of Hartz reforms implied the elevation of the age of entry into old-age pension up to 67, the introduction of private contributions to health care and, by far the most important device, the fusion of the two systems of unemployment assistance and the means-tested social assistance program into one flat-rated unemployment entitlement Hartz-IV.

Before the Hartz-IV implementation, the German unemployment insurance was divided into a three-tier system of income protection: The status-protecting and income replacing unemployment insurance benefit (Arbeitslosengeld) amounted to 60%/67% (without children/with at least one child) of the last net remuneration until a maximum of 4250 euro per month and a duration up to 32 months of unemployment, depending on age and the period covered by contributions. Eligibility criteria conditioned the access to unemployment insurance...
benefit to previous compulsive social insurance contributions during at least 12 months in a period of three years. This wage-equivalence principle was supplemented by an occupational and social status attainment protection in order to guarantee the adequacy of eventual job offers to previous income and job-qualification levels.

After the unemployment insurance benefit expiry, the entitlements were shortened to a ratio of 53%/57% of the last net income. In this case, the jobseeker could apply for the lower echelon of unemployment insurance benefit, the tax-financed unemployment assistance (Arbeitslosenhilfe). Arbeitslosenhilfe was conceived as a means-tested though still earnings-related benefit program for long-term unemployment without time-limiting restrictions.

The third tier of income protection was represented by the tax-financed and also means-tested social assistance (Sozialhilfe), providing basic income protection and operating according to the principles of subsidiarity. Social assistance was the major protection system for unemployed with either no employment experience or unemployment insurance/unemployment assistance claims that did not match the minimum income.

The introduction of the fourth Hartz Law in 2005 had significant repercussions on the paradigm of unemployment insurance, due to the dualization between the compulsory unemployment insurance Arbeitslosengeld I (replacing the former unemployment benefit), with endured eligibility criteria and the flat-rate and means-tested unemployment benefit II (Arbeitslosengeld II, henceforward ALG-2), while Arbeitslosenhilfe was abolished. The former social assistance, though formally abandoned, continued to provide support for those unable to work because of sickness, disability or care responsibilities. Apart from the ALG-2, the introduction of a new basic income scheme (Grundbedarf) secured the outcomes of “persons sharing the household” (Bedarfsgemeinschaft) with other needy persons capable of working. The majority of the social allowance (Sozialgeld) recipients were kids below the working age of 15 years.

Whereas ALG-1 still corresponds to the traditional status- and occupation-oriented unemployment benefit regime, being conditioned to previous employment and compulsory social contribution during at least 12 months in a period of two years, the new ALG-2 was conceived as a measure for immediate integration of the unemployed into the first labour market to ensure an early and effective activation of jobseekers. It enforces the acceptance of any suitable work proposal offered by the Personal-Service-Agencies or “Jobcenters” in any employment district, irrespective of a jobseeker’s occupational status and tariff regulations. Moreover, the ALG-2 recipient was expected to participate in further vocational training programs offered at local level.
These two measures were devised to avoid any locking-in effect similar to the previous concept of temporarily undetermined unemployment insurance. The financial benefits are high enough to secure a subsistence level and conceded without any time limiting restrictions. Any person aged 15 to 65 and physically and mentally full capable of working at least three hours per day complies with the eligibility criteria of ALG-2.

Strict monitoring is complemented by legal sanctions, applied for example in case of non-complying to the request to report to the job agency or in case of a reiterated rejection of suitable job offers. The sanctions lead to possible financial curtailments and even to the temporary suspension of any financial entitlements.

In addition to the basic coverage of “ordinary expenses” (Regelbedarf) – including the daily expenses for food, personal hygiene, domestic equipment and personal requirements for daily use etc. – limited to a lump-sum of 416 euros per month in 2018 in accordance to the claimant’s age and family structure, ALG-2 stipulate contributions in health care, long term medical treatment and old-pension insurance. It is important to stress that during this evaluation of financial needs, the personal income and assets of the main claimant as well any member(s) of the joint household, parents, spouses or any recipient sharing a fridge with the benefit claimants members of living, are taken into consideration.

As a direct continuation of the old Sozialhilfe, the German government implemented the universal benefit program Hilfe zum Lebensunterhalt, a basic income scheme that can be applied for whenever financial resources from work and other personal incomes are insufficient to comply with the threshold of minimum income level established by federal law. This growing group of these ALG-2 recipients is called Aufstocker. The key-modifications produced within the German paradigm of unemployment insurance are synthesized in the following table:

<table>
<thead>
<tr>
<th>Table 1 - German unemployment insurance scheme before and after Hartz-IV.</th>
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<tbody>
<tr>
<td><strong>Three-tier unemployment insurance scheme prior to the Hartz-IV reforms</strong></td>
</tr>
<tr>
<td>1. Status-protecting and income-replacing Arbeitslosengeld (contributory records)</td>
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<tr>
<td>2. Means-tested though earnings-related Arbeitslosenhilfe (tax-financed)</td>
</tr>
<tr>
<td>3. Basic income providing and universal Sozialhilfe (tax-financed)</td>
</tr>
<tr>
<td><strong>Dualist unemployment insurance scheme after the Hartz-IV reforms</strong></td>
</tr>
<tr>
<td>1. Status-protecting and income-replacing Arbeitslosengeld I (ALG-II) with tightened eligibility criteria (contributory records)</td>
</tr>
<tr>
<td>2. Flat-rated Arbeitslosengeld II (ALG-II) for both unemployed and Aufstocker (tax-financed)</td>
</tr>
</tbody>
</table>

Beyond the aforementioned modifications registered in the paradigm of unemployment insurance, important reform initiatives could also be identified in the field of medical insurance. These strategies, consisting in a major responsibilization of the recipients towards a more conscient consumption of medicaments and use of health services, induced a timid shift from
public to private within the field of healthcare.

Concomitantly, the pension insurance system has been targeted by a set of reforms implemented to better correspond to the restructuring of the demographic pyramid in Germany. These reforms further fostered the maintenance of senior workers in their job positions in order to reduce the number of long term unemployed. In former times, unemployment benefit was often conceded after internal employer-employee arrangements, acting as a transitional scheme between early job exit of regular employment and the entry into official retirement (Knuth, 2014; Knuth & Brussig, 2012). Furthermore, a retrenchment of public pension entitlements can be noticed. Instead of being earning- and contributions-based, the old-age insurance paradigm has shifted to a more universal scheme with only basic financial coverage. Subsequently, these policies have largely favoured the contraction of privately funded pension-complementing packages.

Assessing the main rationale for the introduction of the labour market reforms, Bäcker et al. (2011), Hassel and Schiller (2010) and Knuth (2014) concur in pointing to the structural deficiencies of the former German social welfare paradigm. Due to the demographic transformations and their repercussions on the structure of resource allocations in the pay-as-you-go pension system as well as to the rising expenditure on public health care, the former conception of social insurance was doomed to collapse.

Given the particular conception of the Bismarckian welfare regime – based on compulsory social security contributions that reaffirm the rigidity of social stratification – high non-wage labour costs interacted with unemployment in a vicious circle. Though consolidating the core of the labour market, the institutional pattern of consensus-based policy also produced a strong professional segmentation of the labour market combined with high long-term unemployment. The German “high equality, low activity” equilibrium (Streeck & Mertens, 2011) substantially increased the burden of non-wage labour costs as a growing number of benefit recipients in the labour market directly contributed to rising social security contributions. This became particularly evident in times of increasing pressure on wage costs resulting from more intense international competition (Manow & Seils, 2000).

Furthermore, the interventionist strategies of the State into the labour market in order to stimulate the liberation of jobs in the seniors segment by early retirement, have proven merely temporizing policies. They thus retrained the labour market from the most experienced and competent works while shifting the expenditure on unemployment insurance to the pension budget (Esping-Andersen & Myles, 2009).

Summarizing, the Hartz-IV law implied the shifting of an earning and contribution-
related unemployment insurance scheme towards a universal system of tax-financed assistance program. It provided less generous flat-rate entitlements while establishing stricter job suitability criteria in order to accelerate the job placement process, especially in the case of the long-term recipients. Furthermore, Hartz-IV strongly relied on the personal responsibility of the recipient in combination with a set of supporting interventions and vocational “measures” aiming to integrate the unemployed into gainful professional activities.

Parallel tendencies could be identified in the field of health care and in the gradual shift from the pay-as-you-go regimes of old-age pension to a more basic coverage with privately-funded pension complementing systems.

V. Hartz-IV beyond statistics: Two critical assessments

Based on surveys on the German labour market conducted by the Hans-Böckler foundation, Hassel and Schiller (2010) argue that the Hartz-IV Law has notably contributed to the polarization of the German labour market and reinforced the socio-occupational stratification model while excluding the traditional tripartite system of the State and its social partners from welfare policy negotiation processes. Accordingly, the strategically employed mechanisms of labour contract flexibilization and deregulation, legitimized by the principle of *Fordern und Fördern*, which follows a three-step operational logic of immediate activation of the unemployed – job placement – employment creation, clearly enforce the *Fordern* (duties) while neglecting the *Fördern* (rights).

Hassel and Schiller (2010) also point to the recommodifying impacts of Hartz-IV, as it caused the elimination of the lower echelon of *Arbeitslosengeld*. Thus, Hartz-IV has explicitly undermined the wage and occupational status protection principle of the traditional unemployment benefit scheme while enduring the suitability criteria of acceptable jobs. Likewise, the authors condemn the principle of equivalence set between Hartz-IV claimants that were never professionally active with the group of unemployed not entitled to unemployment insurance benefit I or those whose income-related ALG-I has expired.

The two authors denounce the use of different activation policies operating in alignment with a market-based logic which made significant concessions to the private sector as they offer public subsidies to integrate the unemployed into precarious jobs with reduced wages and social protection.

Hence, instead of aiming at the reduction of the persistent mismatch between the
employment demand and the labour force supply, the new legislation promotes the deregulation of stable work contracts by recurring to measures of internal flexibilization (flexibility of work schedules and weakening of tariff conventions) and external flexibilization (reduction of contractual protection against dismissal). These two measures account for a general reduction of unemployment rate, though, at high social expenses and contractual instability. As a collateral effect, the large-scale creation of atypical jobs, commonly depicted as “bad jobs”, exonerated from compulsory social contributions, threatens the redistributive structure of social insurance and therefore leads to shortcomings of the federal budget for social expenditure.

Bäcker et al. (2011) point to the fact that, due to the Aufstockers’ integration into predominantly precarious and flexible labour contracts, the ALG-2 recipients suffer from significant difficulties to surmount the financial dependency on public transfer programs. Thus, given their insufficient income to reach the minimum threshold, they risk to fall back into the income complementing entitlement Hilfe zum Lebensunterhalt. At first glance, the “successful” placement into atypical jobs contributes to the statistical markdown of the unemployment rate. However, in the long term the “work-first” principle and the job creation schemes continue to be detrimental for participants’ employment prospects and foster the dualization of the labour market between stable and unstable contract regimes, the latter with less probability of upgrading into employment forms with “full” social coverage.

Based on unemployment statistics for the year 2010, Bäcker et al. (2011) calculated that more than 28,3% of the ALG-2 recipients belonged to the group of atypically employed workers depending on “complementary wages” (Kombi-Löhne), given the insufficient income to ensure their financial needs, respectively the incomes of their joint household. Thus, they argue that the difficulty of entering the German labour market stems from the fact that Hartz-IV policies created specific segments of low-income and flexible employment, including the two marginal employments types (geringfügige Beschäftigung) Mini-Job and Mid-Job.

In the same vein, Hassel and Schiller (2010) argue that Hartz-IV accounts for the introduction of discontinuities in the (yet-to-be-activated) unemployed’ job records and therefore reduces the possibilities of economic ascension via the access to the regular labour market with full social insurance protection. Furthermore, due to the absence of a regular labour contract subject to compulsory contributions into the public old-age pension funds, the ALG-2 recipients risk to perpetuate their precarious financial situations beyond the age of economic activity (Walwei, 2014). As a result, from the age of 65 onwards, they can only claim a minimum public pension funded by ALG-2, which is generally considered insufficient to ensure the daily outcomes and expenses for medical treatment at the age of retirement.
Nonetheless, Bäcker et al. (2011) highlight a positive feature of Hartz-IV: the increasing employment integration of female workers, visualized as a rupture with the conservative conception of the family, based on the male breadwinner as the main income provider. Contrasting with the traditional principle of corporatist subsidiarity, grounded on the premise of family solidarity, Hartz-IV operates according to a scheme of resource allocation centred on the individual, while attending to his/her financial situation within his/her joint household when necessary. In this case, these mechanisms have strengthened the role of the State, concerning the distribution of social responsibilities, though exclusively in the context of ALG-2.

Following this rationale, the Hartz-IV reform changed the conditions for receiving welfare benefits towards the adult-worker model of the family, mainly by integrating the individual into the first labour market or into active labour market programmes, encompassing training programmes, job-creation schemes and job subsidies. In compliance with the Lisbon Strategy, the European Employment Strategy has particularly emphasized the activation of women, older persons and disabled persons. In order to adapt to the demise of the male breadwinner model and to life-course changes affecting the family composition, these measures have been accompanied by the improvement of family policies.

However, these activation strategies introduced into the unemployment insurance system ALG-2 are a double-edged sword since they contribute to reproduce or even widen the existing gender income inequalities by expanding a secondary labor market composed of part-time jobs, Mini- and Mid-Jobs, predominantly in the service sector (e.g. cleaning jobs, assistant jobs, waitress and clerk jobs, etc.). As a matter of fact, strong evidence can be found for the rising proportion of precarious and temporary employment in the forms of low-wage work with reduced entitlements to social security which by and large affects the female, young and non-qualified immigrant working force.

In 2010, 10% of all employed men in Germany were part-time employed whereas the share was 45% for women. In 2011, 15% of all employees in Germany were exclusively working under the marginal employment regulations, 65% of them being female workers (Körner et al., 2013). The authors emphasize that 70% of the Mini-Job employees remained in the same employment type for three years of longer, in other words, they didn’t upgrade to full employment entitling to social security coverage.

According to the modus operandi of Hartz-IV, from now on, all the family members may be targeted into means-tests to verify their financial needs. Like aforementioned, the eligibility criteria of ALG-II have the potential to challenge the patterns of traditional divisions.
of labour in the household, particularly in non-male-breadwinner households. However, the impact of Hartz-IV must be correlated with the different family policies employed by the German government, such as child benefit, child caring facilities, parental leave, and the married couple taxation scheme.

It has to be stressed that Germany has been significantly improving its work-family reconciliation policies since the new millennium by lengthening paid parental leave, increasing child benefit, protecting the right to part-time work, and expanding access to childcare. As a direct result, statistical evidence suggests that women were more likely to work in 2018 than in earlier decades, partially due to the expansion of family policies which facilitate the (re)entry to the labour market, irrespectively of the family arrangement (Bundesagentur für Arbeit, 2018). Yet, strong regional disparities remain in terms of the availability of childcare supply between the West (low supply) and East (high supply).

Nevertheless, it has to be stated that this rise in female activity has mostly favoured the increase in proportion of less protected and more precarious jobs, particularly the Mini- and Mid-Jobs which do not entitle to health insurance and limit pension entitlements to the subsistence minimum. The marginal employment type is attractive for married women because they are socially insured through their husbands while the unaltered scheme of the joint taxation of spouse earnings is mostly beneficial in the case of only one breadwinner.

Therefore, it can be stated that ALG-II and the government’s resorting to Mini- and Mid-Jobs – particularly relevant for the increasing number of Aufstocker benefitting from the Hilfe für den Lebensunterhalt – rather replicated than challenged womens’ previous labour market attachment relative to their partner, especially in the traditional male breadwinner households (Kopf & Zabel, 2017). Ironically, under these traditional household conditions, married women do receive substantially less job proposals by the Jobcenters than their male counterparts. At the same time, due to the marginal employments’ low remuneration and the lack of social entitlements, the risks to become dependent on ALG-II or on Hilfe für den Lebensunterhalt will be exacerbated if married women get divorced, especially in the case of female-headed households with children under 18.

Since the Hartz-IV reforms introduced activation measures for unemployed people, the statistical rise in the proportion of Mini-Jobs has to be partially attributed to these reforms. According to Hassel and Schiller (2010), this strategy bears the risk to institutionalise precarious employment patterns which in a long run widen gender income inequities, particularly for female-headed households.

Additionally, it has to be stated that the capacity to reduce gender income inequalities
and to break up with the traditional male breadwinner/femaler care-giver households is closely related to the taxation of spouse earning and the policies of parental-leave.

Germany is characterized by a long tradition of male breadwinners and derived spouse benefits, i.e. married women work on part-time basis and perform the bulk of unpaid care work. The marginal employment – in net expansion since the implementation of the Hartz-IV reform – is exempted from social security contributions on behalf of the employee. Since the decreasing splitting advantages is accompanied by social security contributions once gainfully employed mothers exceed the threshold for marginal employment (450 Euros in 2018), the marginal tax rates for the second earner are high (Kopf & Zabel, 2017). Therefore, marginal employment turns out to be advantageous for married mothers, assuming the existence of the male breadwinner, particularly when full-day childcare is not available.

In this sense, these developments must be correlated with parental leave and formal childcare service in order to investigate whether the Hartz-IV reform either promotes the dual earner family or reproduces the traditional male breadwinner model.

Kopf and Zabel (2017) argue that parental leave was not yet accompanied by sufficient childcare supply, particularly in West Germany, thus creating obstacles to the mothers’ return to work after the end of the parental benefit payment. Accordingly, there is also a gender divide in the use of parental benefit. Despite increasing take-up rates of fathers since 2007, they lag far behind their female counterparts, therefore reproducing the traditional male breadwinner model.

Concluding, Bäcker et al. (2011) state that a certain dualization in the unemployment policies can be observed between a compulsory ALG-1 financed by contributions (Sozialstaatmodel) and a non-contributive ALG-2 financed by taxes (Fürsorgemodell) with reduced entitlements and a means-tested logic that forces the immediate integration into the labour market, predominantly in marginal employments.

These measures have lead to a slight shift from a redistributive logic towards a flat-rate unemployment insurance. Posterior to the implementation of Hartz-IV laws, the compulsory social contributions allocated to the unemployment benefit I have been reduced, whereas an increase in tax expenses for the transfer programm ALG-2 can be registered.

Matthias Knuth (2014) comes to a different conclusion as to the impacts of the fourth Hartz Law on the Social Welfare paradigm. The author argues that the rise of critical voices should not obscure the improvements in the labour market structure attributed to Hartz-IV, if considering its recovery and the reduction by 40% of the unemployment rate in ten years.
In accordance to Knuth (2014), these positive impacts have to be imputed to the simultaneous implementation of two large scale reforms: Hartz-IV and the reshaping of the service sector in the labour market. Nevertheless, the author stresses that despite the coincidence between the implementation of the Acts for Modern Services on the Labour Market and the first European economy’s labour market take-off, the major reason for this positive development can be identified in the field of macro-economic devices deployed concomitantly to the Hartz-IV enactments.

According to the author, these devices consisted in the desacceleration of the per capita productivity. This instrument had modified substantially the distribution scheme of the total labour force demand by addressing a higher number of employees and reducing the GDP per hour worked rate. At the same time, the labour market has profited from a general economic boom and from constant export surpluses.

Knuth (2014) further emphasizes the importance of the public pension reforms; these reforms imply the gradual elevation of the pension’s entry-level age to 67 years and the elimination of the frequently used arrangements between early-entry pensions and transitory long term unemployment. While many elderly workers profited from early retirement (Frühverrentnung), others were unavailable for labour market activation, due to the participation in long-term educational programs.

Furthermore, Knuth (2014) stresses the significance of the weakening of the labour tariff systems and the erosion of collective regulations. Concomitantly, the author demonstrates statistically that the stagnation of the real wages, the increase of income distribution inequalities and the rising proportion of atypical jobs with low remuneration levels and restricted access to social protection can be retraced to a period prior to the implementation of the Hartz-IV reform.

Discarding tendencies of large scale substitution of temporally undetermined labour contracts by atypical professional activities, Knuth nonetheless draws the attention to the particularly coercive character of the Hartz-IV Law, taking into consideration the immediate job placement strategies with endured eligibility criteria for the acceptance of any suitable job. While this might have positively influenced the matching rate between labour force demand and offer, the “work-first” principle clearly fails in proposing any sustainable perspectives for the further integration into regular job activities that entitle to ALG-1 unemployment insurance protection and full old-age pension coverage.

In this case, the scholar agrees with the observations made by Hassel and Schiller (2010) with regards to the negative repercussions of the permanent use of job placement strategies fostering the rise of atypical activities. Nevertheless, Knuth (2014) affirms that this upward
trend of flexible work contracts can only be observed in the initial phase of Hartz-IV implementation (2005-2006), whereas a considerable increase of the proportion of regular professional activities can be registered in the year 2009, mainly as a result of Germany’s conjunctural take-off.

According to Knuth (2014), the most valuable contribution of the new labour legislation consists in the dynamization per se of the process of reinsertion of the unemployed into the first labour market. Following the author, one could though object that this positive development only applies to the short-term job placement scheme, accelerating significantly the ALG-2 recipients job integration during the third to sixth month of their unemployment period and targeting those ALG-2 potential recipients with due-to-expire active labour contracts. An overall positive take-off of the placement-ratio for long-term unemployed still cannot be observed.

Based on recent statistical surveys, Knuth (2014) asserts that the capacity of reallocation of the German labour market, or Labour-Turnover-Rate, significantly decreased while the professional mobility rate suffered a similar downward tendency. These two dynamics have widened the socio-economic asymmetries between those employed in undetermined labour relations and those employed in atypical occupation forms. Thus, the new labour market policy strongly reaffirms the rigid status stratification order of core-workers while increasing the absorbability of the labour market by the means of flexible employment strategies (Klinger & Rothe, 2010).

The scholar concludes that the major impact of the reforms arouses from its’ dissuasive effects of the anticipation of these reforms, since Hartz-IV financial dependence is perceived as a dramatic socio-economic downgrading to minimal social protection, featuring “sanctionary” benefit entitlements and a subsistence-based old-age pension.

Increasingly, Hartz-IV became the synonym for social stigmatization; the reform imposes benefit cuts and a disciplinary supervision of jobseekers forcing the unemployed to accept any low-wage job. According to Knuth (2014) the social pressure created by the Hartz-IV “spectre” draws its main force from the anticipation of possible sanctions and the deterioration of their achieved living standards. In turn, these ex ante effects reduce the permeability and replacement rate of the labour market, while enforcing a higher disposition of the currently employed to make tariff concessions to avoid Hartz-IV.

Synthesizing the results of the two research groups juxtaposed in this section, a certain convergence can be observed concerning the evaluation of the repercussions of Hartz-IV on the
German welfare state. Both scholar groups point to the negative impacts of the reforms, whether in terms of social deterioration by forcing the Hartz-IV recipients to integrate themselves into professional activities or by introducing dissuasive *ex ante* effects with a strong disciplinatory character. The “work first” orientation in labour market policy has enforced the concessionability of the unemployed to accept any suitable job offer and deteriorated the labour market turnover rate (Kettner & Rebien, 2009).

The dissonances observed in the identification of the main rationale for the overwhelming 40% reduction of the unemployment rate in ten years reflects the dilemma of the divergent interpretation of labour market statistics and macro-economic tendencies in the context of the controversial policy debate. This discussion has polarized between a group advocating the abrogation of the Hartz IV law by its initiators (the Social Democratic Party of Germany, Alliance ‘90/The Greens and The Left), and a group defending, though timidly, a more flexible organization of labour contracts under Hartz-IV legislation, given the macro-economic challenges of globalization (the Christian Democratic Union of Germany, Christian Social Union in Bavaria).

Returning to Esping-Andersen’s idealtypical classification of Welfare States, strong evidence for recommodification tendencies could be identified which result from the reshaping of the unemployment insurance system (ALG-1 and ALG-2), thus further increasing the ALG-2 recipients’ exposition to labour market vicissitudes. Concerning the distribution of the provision of social welfare between the State, market and households, a slight shift towards the principle of individual allocation of ALG-2 resources and measures according to the need of the main claimant and his joint household can be observed.

This mechanism strengthens the role of the State as the warrant for the provision of a social subsistence level, though at a timid level of performance. At the same time, it formally weakens the function of the family and particularly that of the male breadwinner as the main provider of family income. Though, it has to be stated that the rise in the share of female occupation has mostly favoured the proportional increase in Mini- and Mid-Jobs, partially due to the persistence of conservative family policies, like the splitting advantage and the persistent lack of child-care facilities in the West.

ALG-II does not take into account derived family responsibilities but has generated individual entitlement for partners/spouses and children, thus furthering the individualization of welfare claims and stressing job search requirements for all employable members of a needy household (Knuth, 2006).

Due to the modest financial transfers orientated to the needs of the lowest income group,
the decommodification effect, however, has a limited scope in comparison to the Scandinavian welfare model.

Finally, the capacity of the Hartz-IV reform to modify the socio-occupational stratification system points out to the consolidation of the rigidity of the labour market structure, because of the dualization between a full social protection of core-workers, conditioned to stable employment, and a flat-rate social protection, which requires the unemployed’s proactive behaviour and a general disposition to accept unstable low-wage jobs. Hence, the Hartz-IV reforms have reinforced the existing hierarchies in terms of access to labour market and significantly increased the income inequality in Germany, even though they reduced unemployment.

In this sense, the qualitative reconfigurations of the paradigm of unemployment insurance can be interpreted as a rather radical strategy deployed by the government that recognized the structural deficiencies of the former policies of unemployment insurance with strong historical-structural consistency to the patronal principles of Bismarck.

The reform of the unemployment benefit system corresponds to the recommendations from both the OECD Jobs Strategy and the European Employment Strategy (OECD, 1998, 2004). A large number of “activating” devices deployed in the field of unemployment insurance policies in Germany since 2004 coincide with the OECD recommendations, such as the reduction of after-tax replacement ratios, the curtailment of unemployment benefit entitlements in the period of intensive job search when a rapid job take-up is highly probable, and the tightening of conditions on indefinite-duration assistance benefits for the long-term unemployed segment.

 Particularly, the combination of former earnings-related benefits and infinite benefit duration was considered as one of the main explanations for high levels of structural unemployment, a characteristic for the German labour market prior to Hartz-IV.

VI. Conclusions

The main objective of this paper was to delineate the key developments made in the German social unemployment insurance paradigm since the implementation of the Hartz-IV Law in 2005. It provided a critical insight into the gradual shift from a status- and wage-protected system, rooted to conservative-corporative principles, towards an activating labour market policy of minimal unemployment assistance. In this sense, the paper questioned about
the introduction of operational mechanisms diverging from the Bismarckian welfare conception, whose strong structural consistency has remained unquestioned until the implementation of the Hartz Laws.

The results obtained on the basis of a critical revision of contemporary literature point to a significant contingency of the modus operandi of the unemployment insurance system, discarding the introduction of path-breaking policies which would sustain the Hall’s hypothesis of a third order change (Hall, 1993). Nevertheless, a rather radical break can be identified within the shift from a tripartite consense-based social policy-making towards the state’s enforcement of welfare reforms, the erosion of labour tariff systems and the weakening of collective bargaining. Altogether, these mechanisms have permanently shaped Germany’s welfare policies and induced a strong dualization of the labour market while the relative impact of Hartz-IV on these developments remains a controversially discussed issue.

Synthesizing the above outlined changes produced within the paradigm of unemployment insurance, in the first place, evidence can be found for the introduction of recommodifying mechanisms, with regards to the tightening of eligibility criteria affecting the access to the ALG-1 and with regards to the implementation of the ALG-2 with a strong responsabilization of the recipients.

In the second place, as far as the distribution of social responsibilities among the three instances State, market and household is concerned, an erosion of the principle of subsidiarity can be noticed with a formal weakening of the male breadwinner’s responsibility as the main income provider. This has led to a reinforcement of the position of the State.

In the third place, Hartz-IV may be classified as a labour market policy that strengthened the “natural order” of the social stratification, due to the dualization of the two unemployment benefit programmes ALG-1 and ALG-2.

It has become evident that this new legislation has sharpened the contrasts between stable labour contracts with full social insurance coverage and atypical job contracts, since the shifting between short periods of unemployment and the integration into low-wage employments has generated discontinuities in the ALG-2 recipient job’s record.

Therefore, Hartz-IV has heightened the barriers for the access to full employment and, in a broader sense, widened income inequalities in Germany. However, the results do not reveal any major rupture with the ingrained institutions of the welfare state. In more general terms, the Hartz legislation does not favour explicitly a large scale externalization of social insurance services to the private sector, like in other OECD countries.

Nevertheless, if the repercussions were analyzed from a perspective that claims more
equality in terms of access to social rights – which necessarily abstracts from the technocratic-productivist philosophy defended by the Hartz-IV initiators – the distancing from the conservative Bismarckian model can be considered as a rupture with paternalistic welfare policies. This has created a schisma in the German social landscape, whose rigid stratification concerning the participation in the labour market has been reinforced due to the division into two “classes” of unemployment benefits ALG-1 and ALG-2.

The operational logic of the allocation of ALG-2 resources led to an increase of the working poor, or Aufstocker, inprisioned in a vicious circle of minimum social rights. This increasing group risks to migrate permanently between measures of reintegration into the labour market and the pursuit of atypical professional occupation forms complemented by the Hilfe für den Lebensunterhalt.

In this sense, the “German Labour Market Miracle”, referring to the overall positively evaluated increase in labour market competitiveness and the historical reduction of the unemployment rate, may have obscured the vision for a sharp incline in income inequalities and the dualization of the labour market, as the OECD report in April 2012 already stated: “Germany is the only [EU] country that has seen an increase in labour earnings inequality from the mid-1990s to the end 2000s driven by increasing inequality in the bottom half of the distribution.” (apud Fredriksen, 2012: 9).

However, it needs to be stressed that economic inequalities have always characterized the German social stratification based on social and occupational status attainment, though at significantly lower levels than today. As a matter of fact, income inequalities in Germany have been increasing since Reunification, thus long before Hartz-IV’s implementation in 2005. Nevertheless, more recent data confirm that despite the labour market’s positive developments and GDP growth, the upward trends in income inequalities continue (OECD, 2018).

The two research groups juxtaposed in this paper concur on the argument that a prolonged reform inertia ceteris paribus would have widened the disparities between tax income and the expenditure on social welfare programs. Given Germany’s historical reluctance to embark on the shift towards activation policies, the Hartz reforms implemented gradually between 2001 and 2005 were interpreted as a rather radical change of welfare policies when compared to other European Member States.

They also share the opinion that cuts in benefit entitlements might further changes in wage structures and promote a higher occupational mobility for the long-term unemployed. As a result, positive spill-over effects might reshape the labour market structure, since a more
intense job-seeking activity would positively interfere in the process of wage bargaining at the lower end of the scales as already argued by Kummerling and Bruttel (2005).

Nevertheless, the authors emphasize that these dynamizing strategies of activation need to be supplemented by a more sustainable long term integration of the unemployed into stable occupational forms entitling to “full” social insurance coverage. Instead of enforcing practices of labour market deregulation and fostering discontinuities in the worker’s labour biography, Hartz-IV should mainly be employed as a transitory device to give perspectives for a long-term socio-economic integration.

While the flexibility and greater absorbability of the employment market considerably reduced the negative effect of the economic downturn of 2008, in comparison with other EU-member countries, the future yet has to prove whether the increasingly precarious working poor segment will be able to “upgrade” to employment relationships subject to social security deductions.

In this sense, recent data convey a rather positive image of current labour market developments: The increase from 40.6 million gainfully employed persons in 2010 to 44.3 million in 2017 has been accompanied by a rise in the proportion of jobs subject to social security deductions from 27.7 millions in 2010 to 32.2 millions in 2017 (Bundesagentur für Arbeit, 2018). Concomitantly, the GDP per hour rate has decreased proportionally, confirming Knuth’s hypothesis of the German government’s resorting to macrostructural devices in order to reduce the unemployment rate.

At the same time, more recent statistical data confirm that the total number of ALG-2 recipients, comprising both unemployed and the Aufstocker (including non-gainfully employed married women, gainfully employed persons, lone parents, children under 18 living in Bedarfsgemeinschaften, disabled persons, among others), remains at high levels: in 2017 approximately six million persons received ALG-2, whereof 72.8% received Hilfe für den Lebensunterhalt (Aufstocker) and 27.2% were not employed. However, this number reflects an overall downward trend, starting at the level of 6.415 million in 2010 before stabilizing at approximately 6 million from 2014 onwards. Concerning the relative proportion of Aufstocker, recent data corroborate the same downward trend considering the decrease from 29.7% in 2014 to 27.5% in 2016 (Bundesagentur für Arbeit, 2017).

Despite this positive development, ALG-II has proven to be a long-term phenomenon and, regarding its low benefit levels, for many individuals and households it turned out to be a poverty trap: In 2016, 42.2% of the Hartz-IV recipients remained for four years and more in the programme whereas only 26.6% left financial dependency within 12 months. The average
duration of Hartz-IV dependency amounted to 650 days in 2018, a substantial increase in relation to 555 days in 2010 (Bundesagentur für Arbeit, 2017).

In other words: notwithstanding the overall encouraging labour market developments and rising GDP, the ALG-II recipients experience very low chances of integration into gainful employment entitling to full social security coverage.

In 2016, 23% of the total number of gainfully employed were pursuing Mini-Jobs, of which 60% were female workers. Like aforementioned these marginal employment schemes in conjunction with the joint household taxation and the insufficient child-care infrastructure by and large reinforce gender income inequalities and reproduce the conservative male-breadwinner/female care-giver model. At the same time they exacerbate the risks to become financially dependent on ALG-II for divorced women and female-headed households with children under the age of 18.

Furthermore, it is important to emphasize the growing proportion of the elderly persons employed in Mini-Jobs, an aspect which has not been treated in this paper: Accordingly, more than 22% of the gainfully employed Aufstocker were older than 60 years, which signifies an increase in 48% since 2006. Most strikingly, the number of Aufstocker older than 65 years has increased in 38% during the last 10 years and climbed to one million in 2017.

Last but not least, child poverty is on the rise in Germany, thus increasing the risk of the intergenerational reproduction of poverty and reducing the probabilities for upward social mobility for those children living in Hartz-IV Bedarfsgemeinschaften. The proportion of children living under these conditions amounted to 14,7 in 2015, representing a slight increase in relation to 14,3% in 2011, and shows substantial, albeit decreasing, regional disparities (13,2% in the West and 21,6% in the East).

This development has to be embedded into the upward trend of the poverty rate in Germany from 14,5% in 2010 to 15,7% in 2015. At the same time, the unemployment rate followed its downward trend from 7,7% in 2010 to 6,4% in 2015 while the proportion of ALG-II recipients decreased from 10,4% in 2010 to 9,4% in 2015. Ironically, more than 1,2 million job vacancies were registered in 2017, pointing at a substantial labour market mismatch on the demand and supply side (Bundesagentur für Arbeit, 2016).

Given this scenario, widened income inequalities and the statistical rise of poverty have to be assessed within the causal interplay between Germany’s labour market developments, macrostructural (labour) policies and the implementation of the Hartz-IV reform, while it must be acknowledged that the rise of marginal employments represents one, albeit not exclusively
the only, of its main driving forces.

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