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Seven years of Hartz IV – a welfare reform under scrutiny

Handout summary

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1. Hartz IV : Basic ideas, aims and research questions

Since the mid 1990s, many European countries have debated and implemented welfare reforms which were inspired by the idea of 'activation'; the history and development of this thought was outlined elsewhere, but the basic ideas were the following: Basic income support, understood as regular payment without any conditions, draws people into benefit claimancy and locks them there (welfarisation), with dramatic effects on public budgets and public work ethics. This has to be overcome by putting the poor back to work and putting them under pressure if they refuse – apologies for simplification, but this is the way it sounded when Tony Blair and Gerhard Schroeder proposed this policy. It has to be doubted whether the preassumption of those ideas have ever been true, and too much of them sound like very old perceptions of the idle and undeserving poor, which we can trace back to the late middle ages. And it has to be stated that activation rhetorics almost completely ignored the various efforts and programmes to bring the poor back to work – which had mostly failed at least in that dimension.

More elaborated versions of activation concepts related to a mixture of progressive thoughts in social work (enabling approaches) and identification of some true deficits in social aid policy, which could often fight poverty and social disintegration, mainly by fulfilling basic needs and care for those who could not properly care for themselves, but could not end poverty, both in an individual and societal sense. Activities of the 'supplying' welfare state were thus seen limited to supplying food, money, shelter and care, and for the prevention of deviant behavior and neglect, while work- and education related activities were hardly to be found.

In opposite, the proposed 'activating' welfare state was seen to end persisting poverty and reduce budget problems by bringing people back to work as quickly as possible; From welfare to workfare, the German phrase was 'Fördern und Fordern', which can be translated into 'support and challenge' or, which I prefer, 'enabling and enforcing'.

But the protagonists of activation - where the so-called Hartz Commission played an interesting role - policies enforced their view through public debates and policy procedures until in 2005 the new Social Code II was issued. Looking at what the new law and the parliamentary discussions stated, the

main aims of the reform were to end poverty by better labour market integration and improved employability. Through individual periods of poverty, basic needs should be covered, but soon new debates arose what should be part of those basic needs: Just food, accommodation, clothes, covered by the so-called unemployment benefit II and the reimbursement of accommodation costs? Or cultural and social participation as well, which is crucial to contemporary interpretations of the German constitution since 1961?

At a formal level, the former 'long-term unemployment benefit' (Arbeitslosenhilfe), which made about 53% of the previous last wage for those who had been participating in paid work at least once in their life, was in fact abolished, just transferring part of its name to the payments of the new system, which were also labeled 'Arbeitslosengeld II), being in fact a workfare version of the old basic income support system 'Social Aid' (Sozialhilfe), applicable to all persons in need and able to work, aged 15 to 65 and their children and partner in the same household. In addition, the maximum duration for receiving unemployment benefit one was cut down to 12/18, later 24 months, depending on age, while before it was 24 months in any case and even longer for elder persons. There was (and still is) a lump sum payment of then 345, now 364 Euro per month for the adult household member in single or one-adult-households, 328 Euro for plus locally different accommodation costs, while other household members are provided a discounted sum. After various protests and bargaining during almost seven years, the system provides now equal treatment for adult men and women in one household, extended rates for single parent families, disabled persons, pregnant women as well as single extra payments after childbirth or school entry of children, plus a monthly top sum of 10€ paid as a cheque for childrens' educational, cultural and social activities. Interestingly, the old social aid system had provided the possibility for single extra payments, for example expensive household good like refrigerators, washing machines as well as winter clothing. Those extra payments were now generalized, which made the new unemployment benefit II exceed the old social aid by about 10 Euro per month, led by the heroic assumption that poor households would be able to save this amount for eventually purchasing a new washing machine. The details of the new system could fill books, but the most interesting changes compared to the previous systems were

- the application of a whole set of labour market policy schemes on the poor, some of which had never worked before
- the actual cease of extra payments,
- the disregard and devaluation of the clients' previous occupational and employment biographies, both in terms of money and social recognition
- The normative notion of the poor as 'normal laboring citizens' with normal patterns of rationality and behavior
- The slow, stepwise and so far mostly verbal acknowledgement of the necessity for cultural and social participation as a matter of social cohesion for those not 'automatically integrated' through labour and consumption

While the clients of social aid were observed by some regionally scattered and mostly case study research, some of which quite informative but widely ignored outside social policy/social work experts, the former long-term unemployed and their benefit system had hardly been subject to any research at all since the 1980s. Contrary to this, Hartz IV was accompanied by extensive research interests and programmes from the beginning.

The main questions were as follows:

- Population dynamics.
- Life circumstances under the new welfare regime:
- Access selectivity and treatment effects of activation measurements („econometric effectivity analysis“)
- Poverty during the life course (transitions, trajectories, biographical patterns and processes)
- Formation, structure, decisions, informal policies and side-effects of institutional practices („Implementation research“)
- Welfare reforms and living in poverty in the view of the people concerned
- ‚soft‘ and side effects of activation schemes – psychosocial stability, health, feelings of inclusion/exclusion, participation, family.
- Effects and problems with regard to social cohesion, social participation.
- Economic macro effects.
- Policy analysis at macro level

2. Selected findings from seven years of research

One of the first surprises for policy makers were **the unexpectedly high numbers of claimants** in the beginning of 2005. The former two systems have had included 3.92 Mio persons at the end of 2004, of which about 1 Mio were transferred into other systems like sick benefit or pension, get into employment or would lose their entitlements due to stricter access rules compared to the former system for long term unemployed. A seasonal growth of 63.000 and 0.6 Mio children who had been unrecorded in the long term unemployment benefit system were also entering, summing up to about 3.5 million expected claimants in the new Hartz IV. But there were actually 4.5 Mio, exceeding the expected level by about one million persons which could not be explained by additional, administratively caused or seasonal inflows. Also the cuts in the duration of unemployment benefit I have been taken into account. The only remaining explanation was a tremendous mobilization out of hidden or unrecorded poverty. The literature usually gives three causes for hidden poverty: Lack of information, low additional utility through small additional income and high claimancy efforts and shame or fear of stigmatisation. Information lacks are quite likely to have decreased, as the Hartz reform was accompanied by four years of broad public debate, ranging from expert commissions to boulevard media. The problem of low additional utility lies in the fact that basic income support is also paid at reduced rates – e.g. if someone has a small job, his income might still be below the maximum claimancy threshold, but claiming his rights may provide him only a small top up of 20 Euro. It may quite likely be the case that the rise of the monthly maximum payment made during the reform gives him now 35 Euro extra per month and increase the motivation to undergo the claimancy procedure. There is good reason to expect shame and fear of stigmatization be lower than in the old social aid system, as the benefit has been renamed into ‘unemployment benefit II’, and unemployment has seen a slow but strong destigmatization between 1980, wenn Rainer Zoll quoted an interviewee *“I want to shoot all those unemployed”* and a typical quote from my own qualitative panel survey in 2008 which went *“becoming unemployed can nowadays happen to everyone”*.

Another surprise for politicians and labour market researchers was the **overwhelming heterogeneity of the poor**, while poverty researchers knew that since long ago. Single mothers, families with more

than two kids, undereducated, persons with weak physic or mental health or in a personal crisis, older low skill workers with industrial backgrounds, immigrants with poor language skills, failed self employed, one million of people holding a job with insufficient income or having to combine different entitlements, and quite a few persons with behavior or practices deviating from the 'normal working citizen', wherever their practices come from – over- or unhealthy eating, substance abuse, behavioral problems and the like. But quite a lot beneficiaries are in educational or childcare periods and not unemployed in the strict sense. Concerning the unemployed Hartz IV beneficiaries, qualitative studies show that real remoteness from the labour market is not very common. Work readiness, motivation and even participation in the labour force is quite high, although the accessible jobs substantially lack agreeable payment, job stability – if there are accessible jobs at all. A participant observer at a local jobcenter in Nuremberg noted *"The men entering and leaving the counters do in all their manners, clothing, movements, language give me the impression that they are ready to at once take up the nightshift at the nearby TV factory – but this factory had been closed 8 years ago."* It has to be added that those habits cannot be copied by people preventing to be motivated, but usually are achieved in a long process of a biographical habituation and incorporation of industrial labour. But as much as this local report is one out of many examples of the work readiness of the population, it cannot confirm the idea of one dominant path into poverty caused by socioeconomic transformation and industrial decline: Only 15-30% of the annual inflow comes from standard employment through unemployment benefit one into unemployment benefit two, the exact level mainly depending on the business cycle.

This brings us to the **dynamics of the poverty population** which are fairly high with a 20-25% annual turnover rate, although much lower than in the short-term unemployed population. That does not mean neglecting poverty as a risk of social divide and declaring it a temporary biographical problem, dissolving the class or stratification and persistent inequality aspects, as the dynamic approach was said to do. On the contrary, additional analysis shows that there is a dynamic segment with actual insufficient jobholding or frequent ins and outs of precarious employment periods and benefit reciprocity periods. But there are also segments of mid and less dynamics, as well as of no dynamics despite changes from one transfer system to another. And those who leave Hartz IV are quite likely to come back soon. In terms of class, this would mean that there is a new (or previously underregarded) class of precarious labourers with 'perforated' biographies, but there are also different types of low-dynamic underclasses, and all those classes are relatively unlikely to exit: The precarious labourers have low chances to enter the more privileged parts of the working class, although this is not fully impossible, and the other 'underclasses' – I am not satisfied with this term – have hardly any chance to get out, while middle and privileged working classes face poverty risks only in case of long term sickness, unemployment at elder age or personal and family crises. Even the large job closures in Germany from the mid 1990s to the mid 2000s have proved to drive only very few people into long-term unemployment – elder single males with low skills, industrial biographies and bad self-reported health were the most likely ones. Anyway, despite all dynamics and turnovers, the class term can well be used, as the permeability between the respective social groups is quite low. What the observable high dynamics do, is to raise the question of the appropriateness of many 'activating' measurements, which may be falsely targeted on those already quite active, but just suffering of low wages, low skill and low possibilities of sustainable employment. Education and training might to much better – but there is still research to be done and policy makers to be convinced that in many cases it is not labour market remoteness, another modern term for the old

word 'idleness', but low skill that has to be fought in combating poverty for a huge part of the population concerned.

The life-nexus in poverty, as I would call it referring to Wilhelm Dilthey, means the biographic and historic layering of events, experiences and perceptions, resulting in people making sense of previous and taking action in future situations. And as we know since Karl Mannheim and Martin Kohli, the life-nexus is socially structured through class or generational structure as well as through social knowledge and social patterns of biographies. The latter are not only under change, which means that transitions in the life course rearrange in meaning, extension, connections, succession and content, but can also be seen as interrupted by status passages (Kohli, Van Gennep), of which some are more or less normal, like birth, getting adult, marriage, founding a family, taking up work, getting out of the active age, dying, while some of them are irregular, like getting severely sick, unemployed, divorced or poor and the reverse. Even normal passages can be seen as crises in the sense of dissolution and recomposition of identity and social role, which increase vulnerability. But even more so this has to be taken into account for irregular passages of the mentioned kind. On this theoretical basis it is worth looking into biographies and everyday life of the poverty population with qualitative and reconstructive methods. Doing so, some main findings are the **strong work orientation** of many, **young beneficiaries' feeling of being excluded** by not being able to keep up with the leisure and consumerist behavior of their peers, the **divergent rationality patterns** in contact with the poverty institutions (submissive behavior, cooperation as pseudo-work, superficial adaptiveness, legitimate basic income with no reciprocity requirements, tit for tat, market chance improvement, self improvement...), not all of which are suitable for the intentions of activation policies. There still are problems of hunger under Hartz IV, in an indirect sense, as the social event of eating out is absolutely restricted by budget scarcity, and the people concerned may face **a loss of social relations** otherwise maintained by the social ritual of eating out, but there is also **direct scarcity of food**, when mothers eat less or worse from mid-month on to allow their schoolchildren more budget for clothes and school activity participation to avoid stigmatization. Coming back to the lack of work, vocational or professional identity rooted in vocational training during adulthood seems to **stabilize** the self-perception, self-effectiveness, **laboring capacity and employability** even through long periods of unemployment, while non-participation in labour again evokes the destructuring powers on everyday life, family and social relations we all know since the Marienthal-Studie. This is the reason why **any labour-like participation scheme is widely accepted** among the people concerned, as it improves the structuring of daily life, microsocial relations as well as the feeling of being needed, meaningfulness activities and social recognition. Subsidized labour may therefore replace the 'natural' mechanisms of social inclusion provided by regular labour, although its direct labour market effects may be small.

And this brings us to the question of **the 'effectiveness' of activation schemes** in terms of the so-called net treatment effect on the treated in the econometric sense. Subsidized labour in short term arrangements (One-Euro-Jobs) seems to have slight positive effects on women in western Germany, on elder persons and for most participants in the long term (2 years plus), and they improve the feeling of inclusion, but not that much as regular labour does, of course. Training schemes can accelerate returns into job, but mostly if they are provided by regular establishments, not by specialized training companies. There are almost no substitutional effects on regular labour by One-Euro-Jobs, as they seem mainly to replace older job creation schemes instead. Positive labour market effects are outbalanced by creaming effects and false targeting, or false measurements. Politics had

to learn a lot – e.g. not forcing young persons into paid labour when their education is still incomplete.

3. Synthesis

Conclusively and simplifyingly, we have to state that highly different living situations require different and case-adapted action. Fulfilling basic economic needs seems to be relatively simple, although even there are blank spots to be filled. Activation in the sense of improving employability and labour market integration is quite complicated. There is no one-size-fits-all activation recipe and a lot more of classical social work is needed, especially for those not many but undeniable groups remote from the labour market, suffering from bad health or bad psychosocial situations, low self-esteem and isolation. Still almost untackled is the problem of bad education and low skills, and of course the participation of the people concerned in political affairs on poverty, as the case of the standard payment fixation last year showed.

Most beneficiaries of Hartz IV are surprisingly close to the labour market in terms of motivation and readiness to work. But educational poverty, the precariousness or lack of simple labour are causing problems in labour market participation. Political criticism from the beneficiaries themselves mainly addresses the loss of former privileges of the long-term unemployed.

It seems that activation policies have in no way ended poverty, but have brought the relation of poverty and work under readjustment: Combined benefits, working poor, frequent transitions into and out of jobs and benefit claimancy, precarious labour market status in persistency. But this primarily an effect of fundamental changes in the employment system and the broad introduction of flexible and precarious employment, which secondarily shifts risks and social obligations from employers to society – which in that case means the welfare system. The German (or say conservative) pattern of a postfordist labour society and welfare state seems to be presently completing a change, replacing structurally persistent unemployment by precarious employment to a huge extent.

4. Open Questions

There are still quite a lot of open questions for research and open problems for anti-poverty policies. First of all, what helps really against persistent poverty? Which role do habits, poverty cultures and inherited poverty actually play? A better understanding of the emergent rationalities of living in poverty could be helpful. Should 'work first' in every case be the top priority? Don't we need to develop different and adaptive concepts and care for psychosocial stability and social participation first? A look across the borders might help – for example on the dutch concepts of social activation, which do not really leave the workfare ground, but accept that not everyone can take up work so easily. How good are counselling and case management really? There are huge differences from place to place, and the centralized new system has a strong tendency towards bureaucracy and tayloristic forms of work organization with low skill at the front office, which make case-sensitive solutions quite difficult. And, if we accept that there are more targets than just taking up work, may they be equally justified or interim steps, how can we measure the achievement of soft targets like employability, participatory effects, better health and social stabilisation effects of different schemes? And last but not least, how can educational participation be improved? A better interface

to educational research and policy would be a milestone on the long and winding road to reducing poverty. The second one would be, if we had an answer on how a good secondary or third labour market might look like. And third, how could the risks of precarious labour market integration be limited through social policy, if we can't go back to the age of the standard employment contract?

- To be completed -

Please note that this is a draft. Apologies for improper grammar, typos and lack of references. For extensive literature references please see my following earlier publications on that topic:

Promberger, Markus (2010): Hartz IV im sechsten Jahr. In: Aus Politik und Zeitgeschichte, H. 48, S. 10-17.

Promberger, Markus (2009): Fünf Jahre SGB II - Versuch einer Bilanz. In: WSI-Mitteilungen, Jg. 62, H. 11, S. 604-611.