

How to make public policies supportive to employment in practice?

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**Workshop - Indicators and policies to make work pay
Brussels, March 17, 2005**

Content

The German Economy

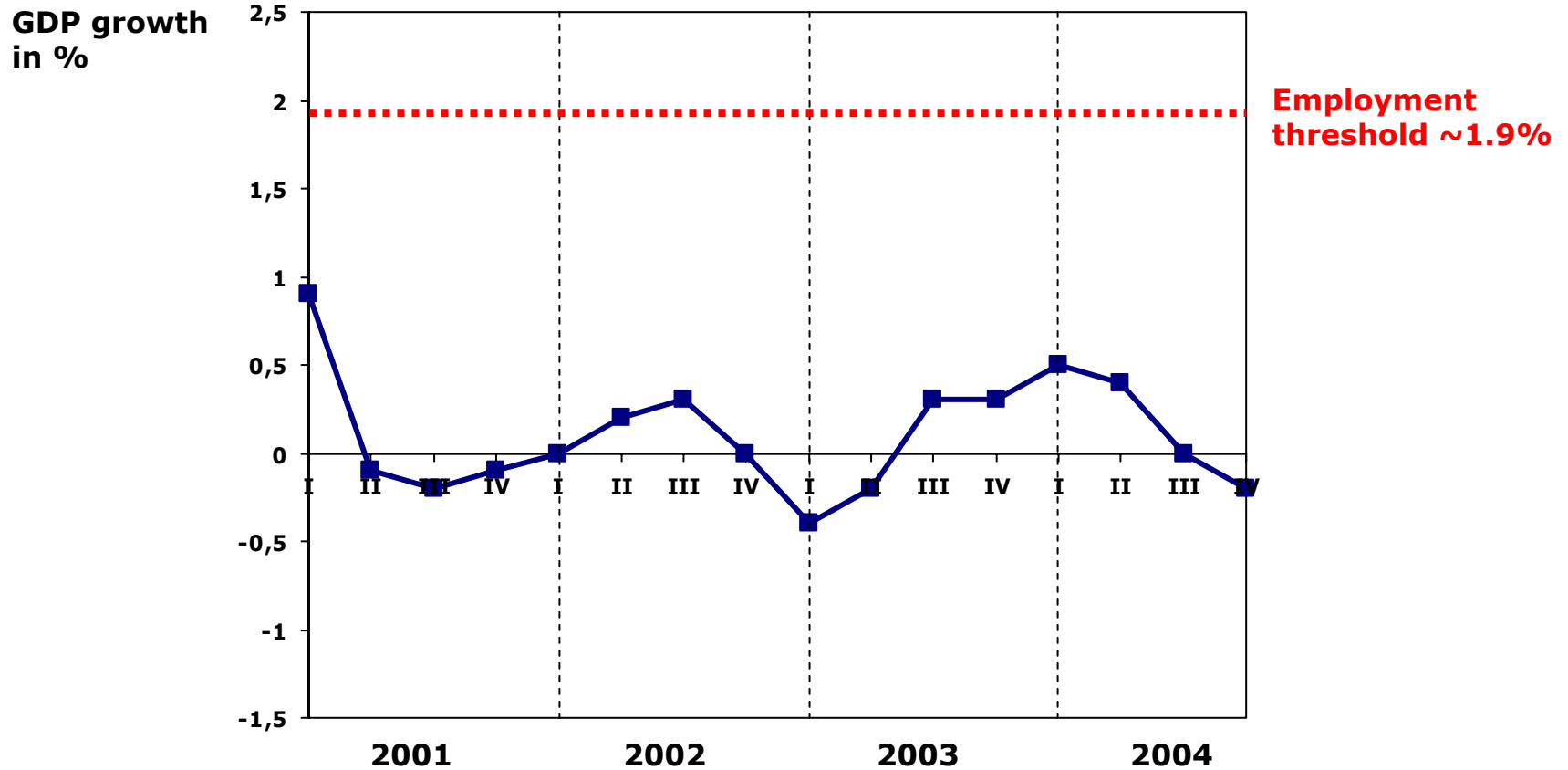
- **Statistics**

Making Work Pay Policies

- **Overview**
- **Evaluation results**

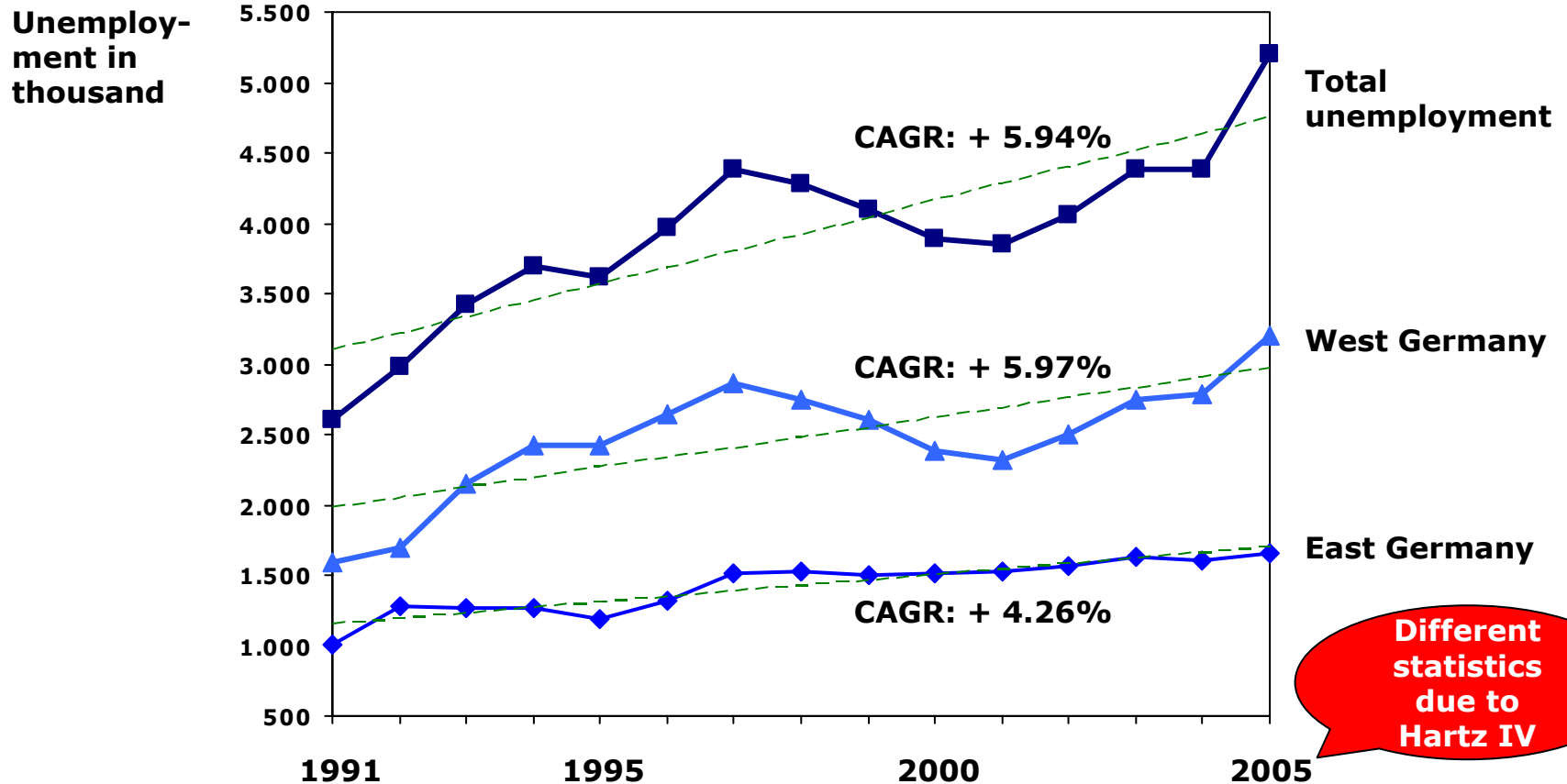
Germany has faced economic stagnation during the last four years

GDP growth in Germany 2001-2004



Unemployment has increased sharply over the last fifteen years

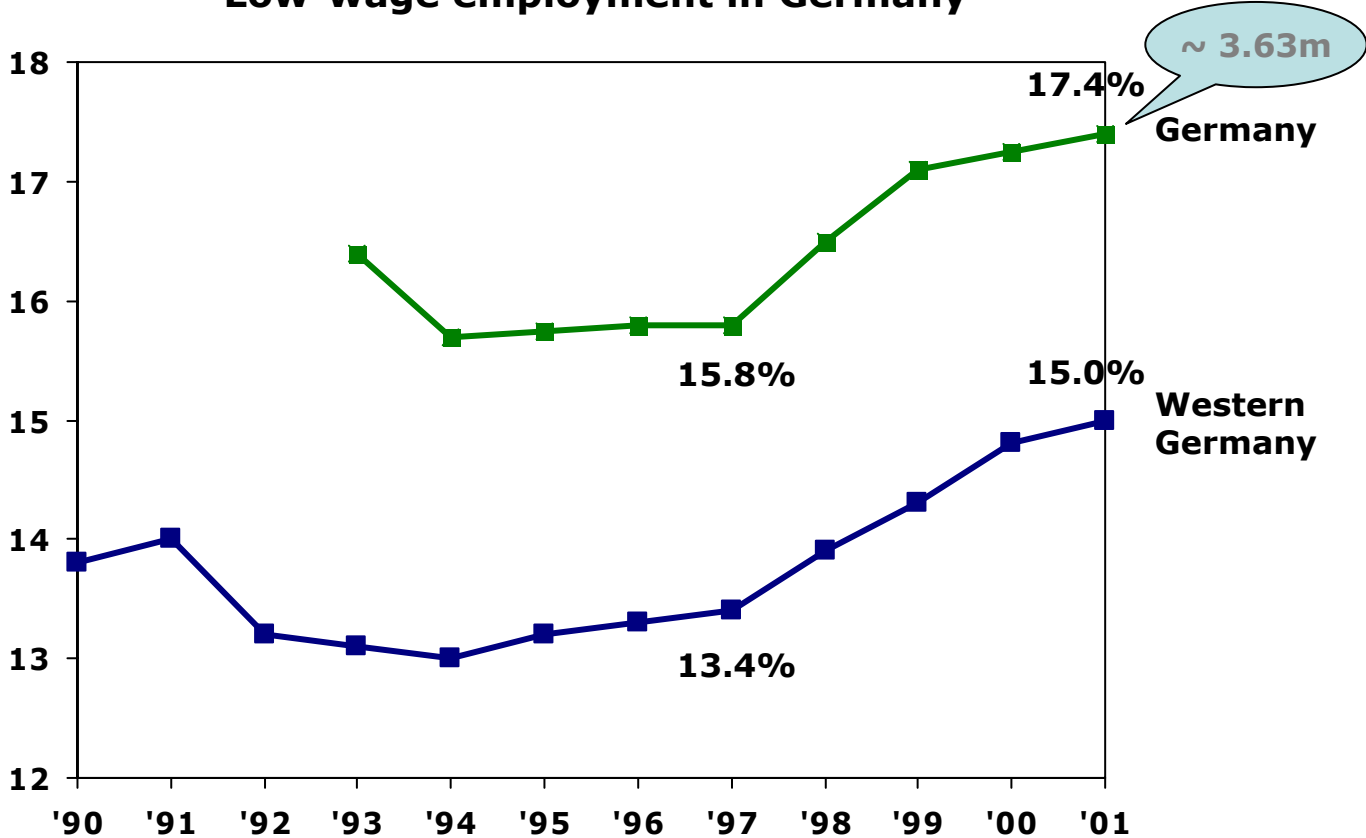
Unemployment in Germany 1991 to 2005



Low-wage employment in Germany was 17.4 percent of total employment in 2001

Low-wage employment in Germany

Low-wage employment as a percentage of total employment

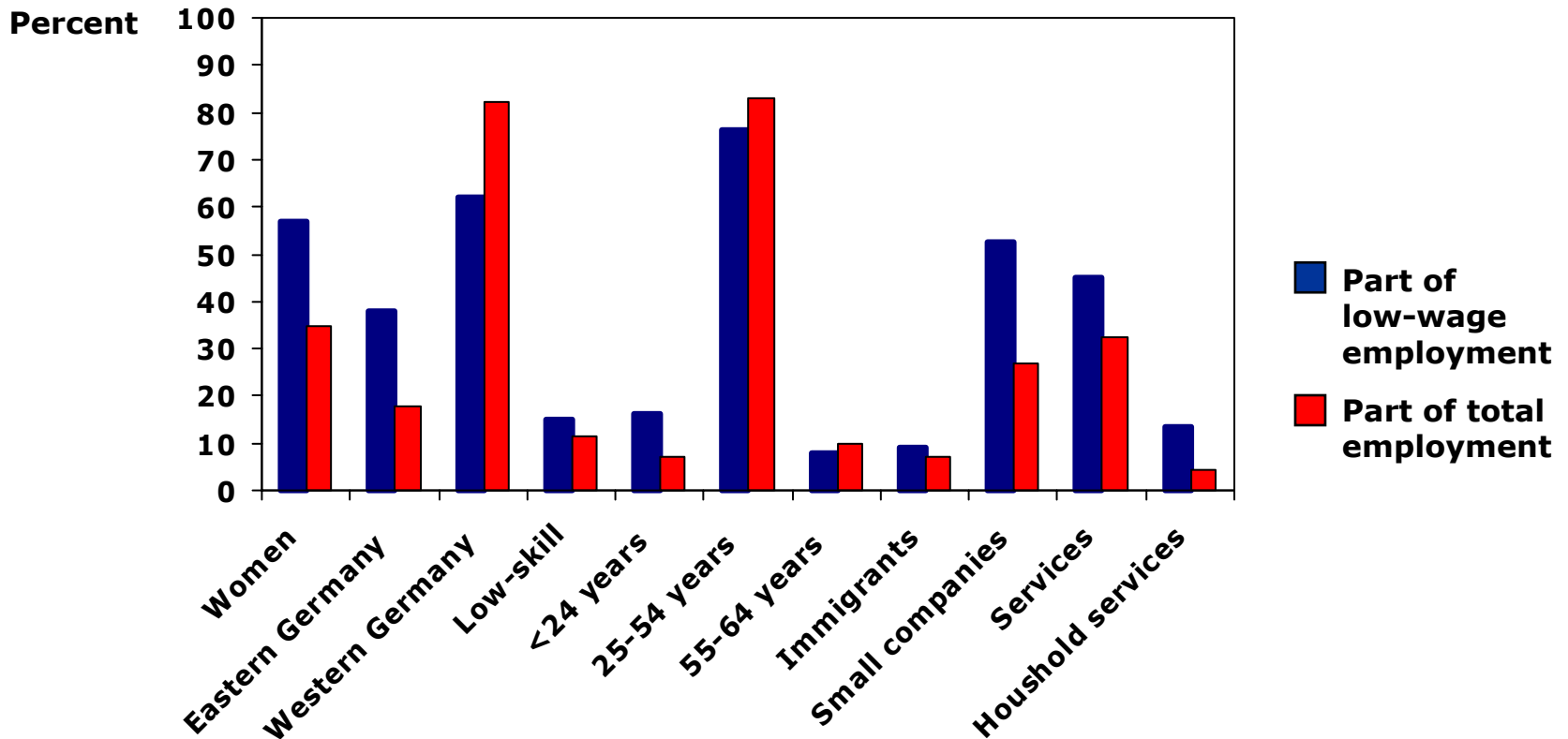


Note: Low wage defined as less than 2/3 of the median wage in Germany; only full-time employment covered by social security
 Source: IAB Kurzbericht Nr. 3, 10.03.2005

5/20/2005


Women and employees in Eastern Germany have the highest risk to have a job with low pay

Low-wage risk of selected groups of employees 2001



Note: Small companies are companies with less than 20 employees.
 Source: IAB Kurzbericht Nr. 3, 10.03.2005

Upward mobility for low-wage earners has decreased over the last twenty years

	Low-wage income	Above low-wage threshold (West)
<u>Germany</u>		
Low-wage income in 1996, still in full-time employment in 2001	67.5%	32.5%
<u>Western Germany</u>		
Low-wage income in 1986, still in full-time employment in 1991	49.3%	50.7%
		
Low-wage income in 1996, still in full-time employment in 2001	62.9%	37.1%

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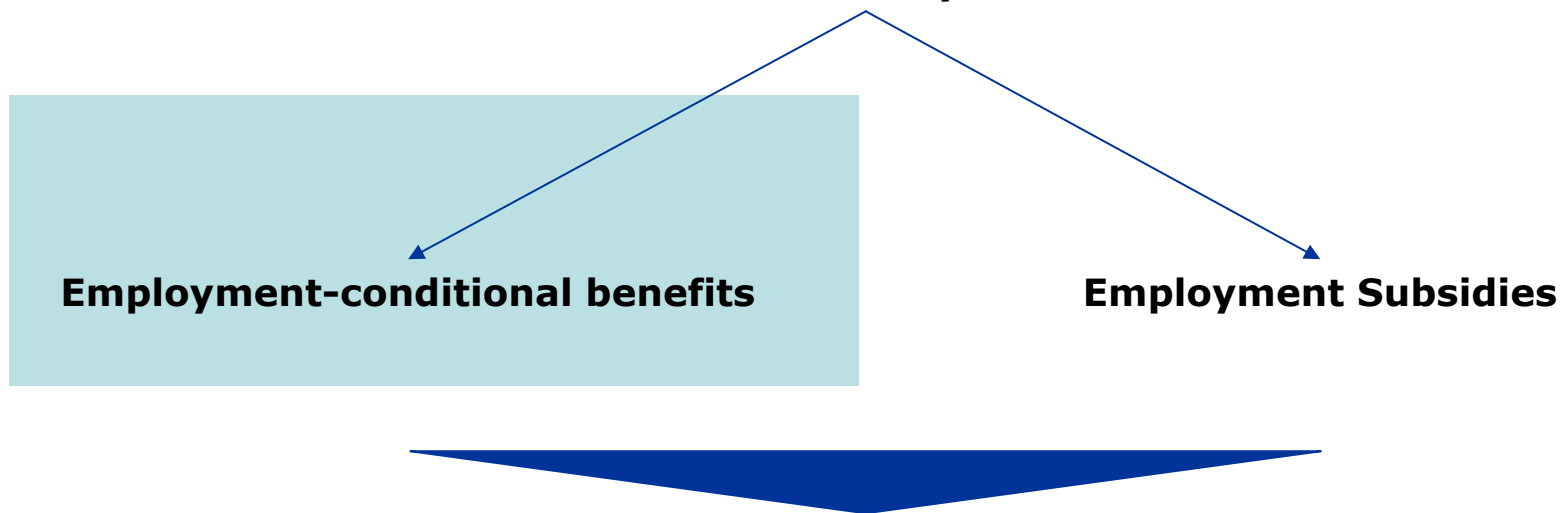
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„Making Work Pay“ policies are a relatively new instrument in German labour market policy

„Making Work Pay“ policies in Germany



Main aim: increase the incentive to hire and to accept work in the low-wage sector

=> economic inclusion through more employment

Secondary aim: redistribution towards families and the poor

Employment-conditional benefits are temporary and aimed at the low-skilled and families

Employment-conditional benefits

Employees are not willing to accept low-income jobs

Employers expect this and do not offer low-income jobs in the first place

⇒ **Employment-conditional benefits motivate the workless to take up low-income jobs**

Limited-term benefits

After a period of benefit receipt the employees' motivation has grown sufficiently to keep the job without state support

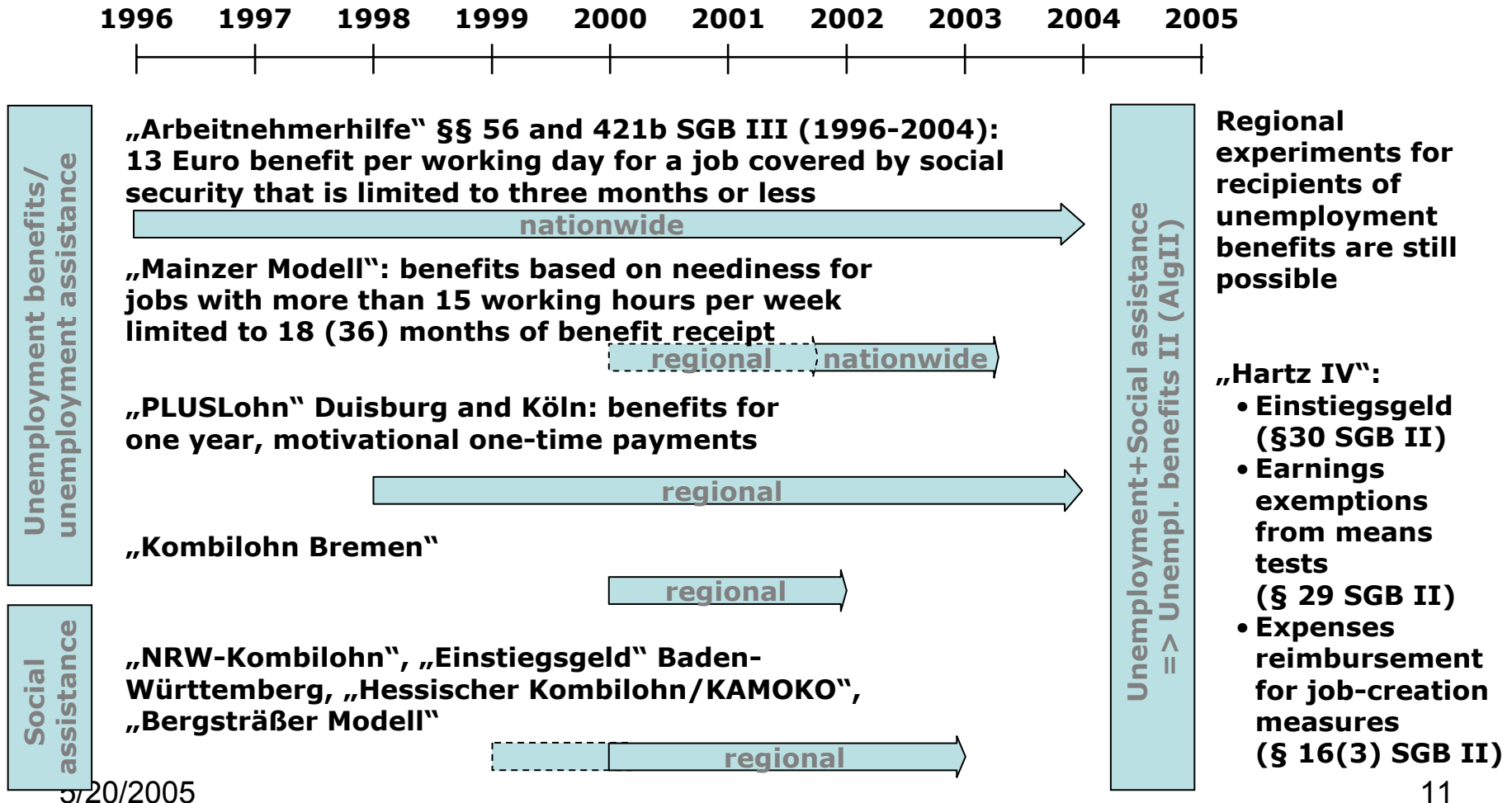
- **Higher income through experience/training on the job**
- **Higher motivation through habituation**

Target Groups

Low income stems from either a small number of working hours or low hourly earnings

- ⇒ **Small number of working hours: Families, (single) parents, women**
- ⇒ **Low hourly earnings: low-skilled workers, out-dated skills**

Germany has experimented with various forms of employment-conditional benefits



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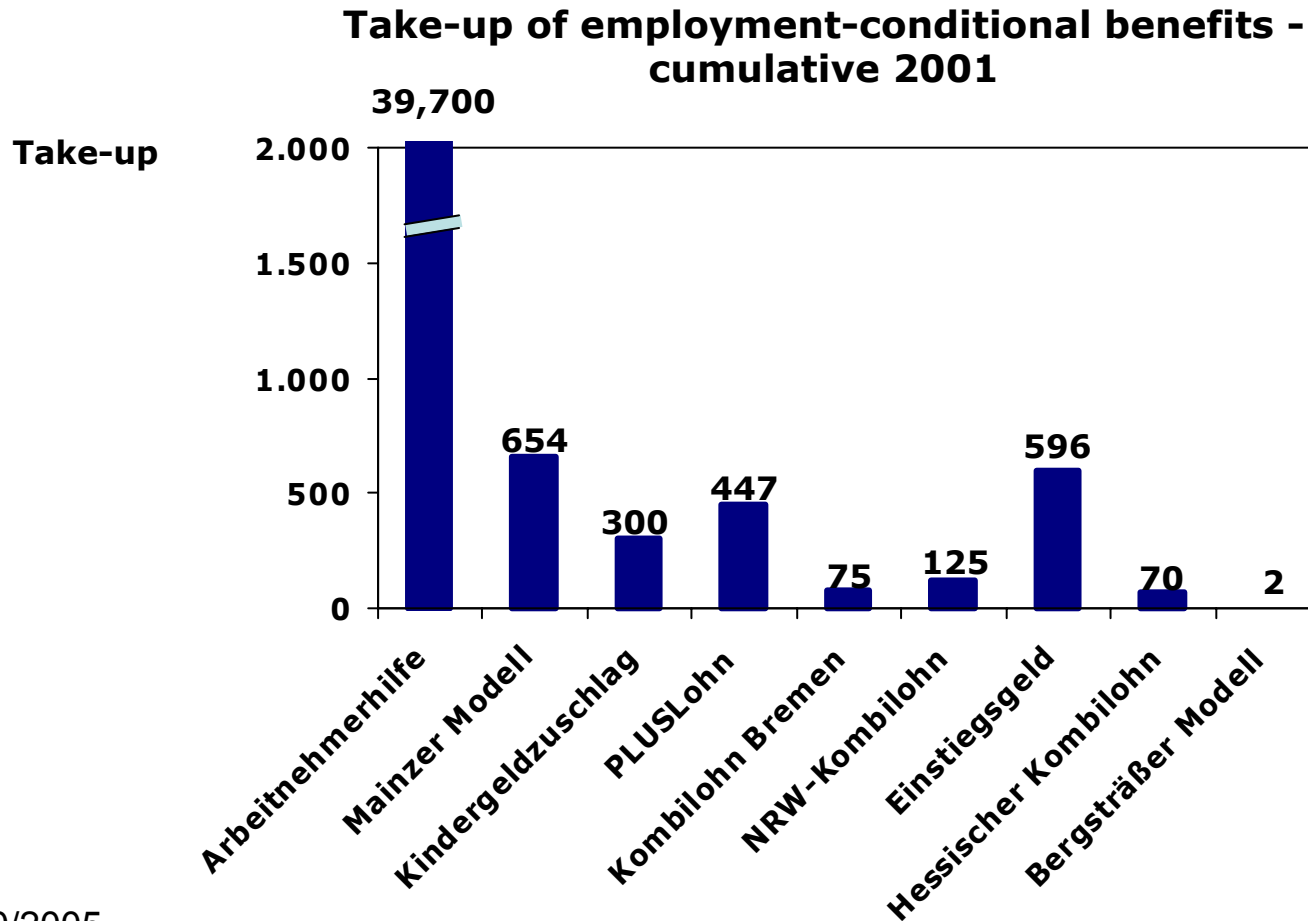
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Take-up of employment-conditional benefits in Germany has been low



Evaluation of the „Mainzer Modell“ signals little success

Implement- tation

Job agencies had no additional resources (money, personel) to implement the Mainzer Modell

- **Substantial information deficits among the unemployed and the employers**
- **Considerable work needed for consulting on complex regulations within the Mainzer Modell**

No public support from employers` associations or chambers of commerce

- **Negative public image of the Mainzer Modell**

Take-up

Regional experiment: 1,190 assistance cases

National experiment: 13,800 assistance cases

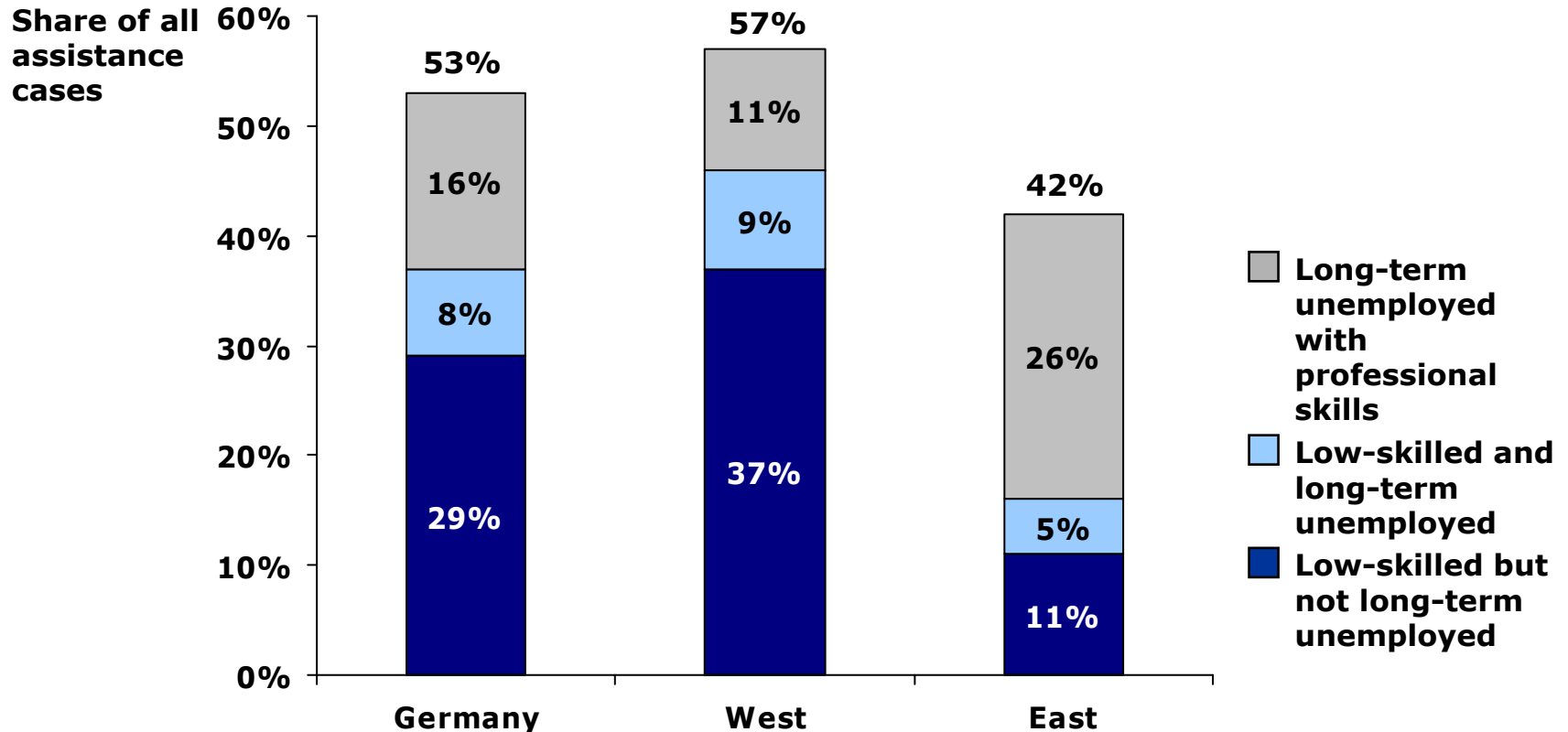
Eastern Germany: 30% of all assistance cases

No systemtic correlation between the regional labour market situation and the regional take-up rate

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Only half of the beneficiaries are part of the target group „low-skill/long-term unemployed“

Share of formerly long-time unemployed and the low-skilled of all assistance cases - national experiment



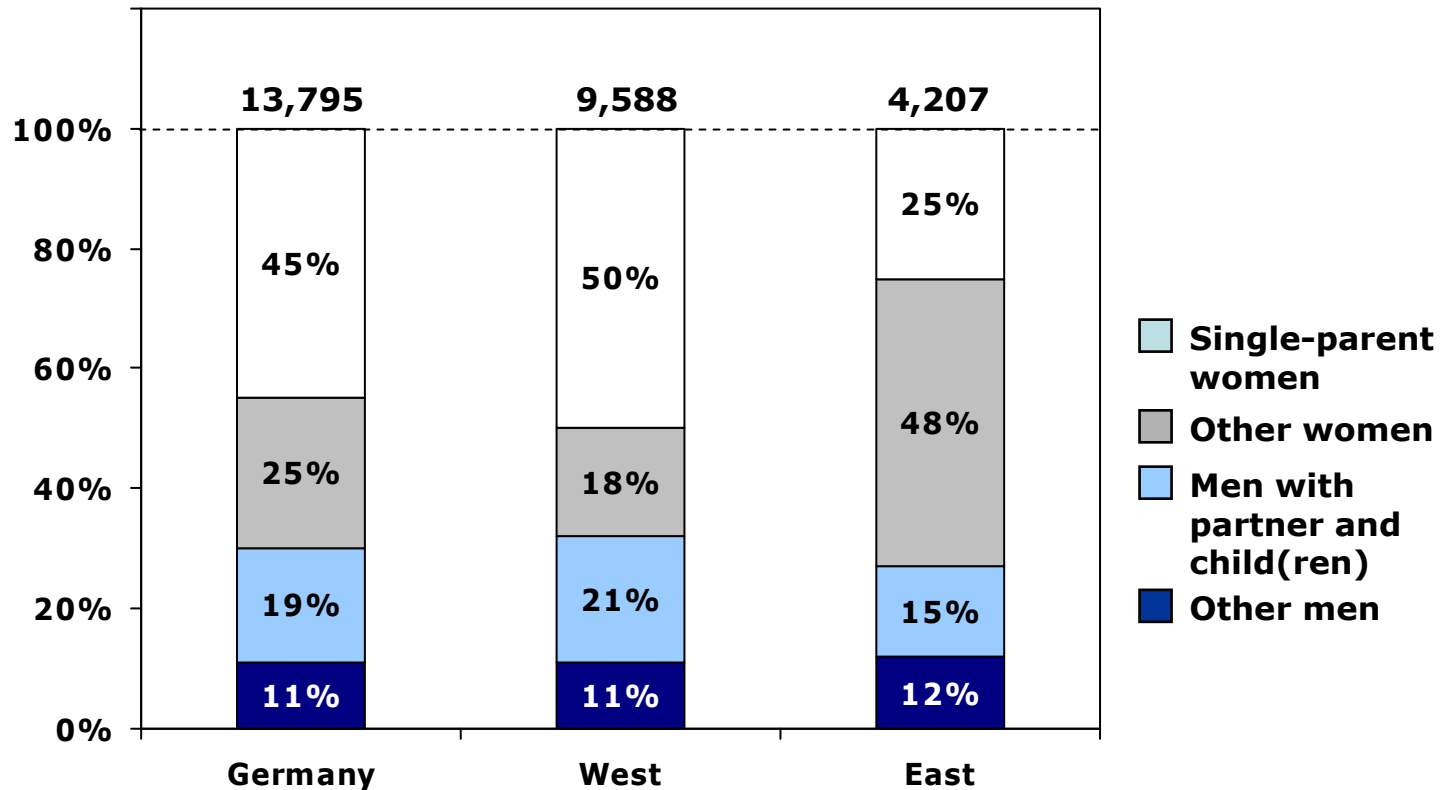
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Source: BMWA (2004): Drei Jahre Mainzer Modell - Eine Zwischenbilanz

However, the social policy target group „families with children“ was well reached

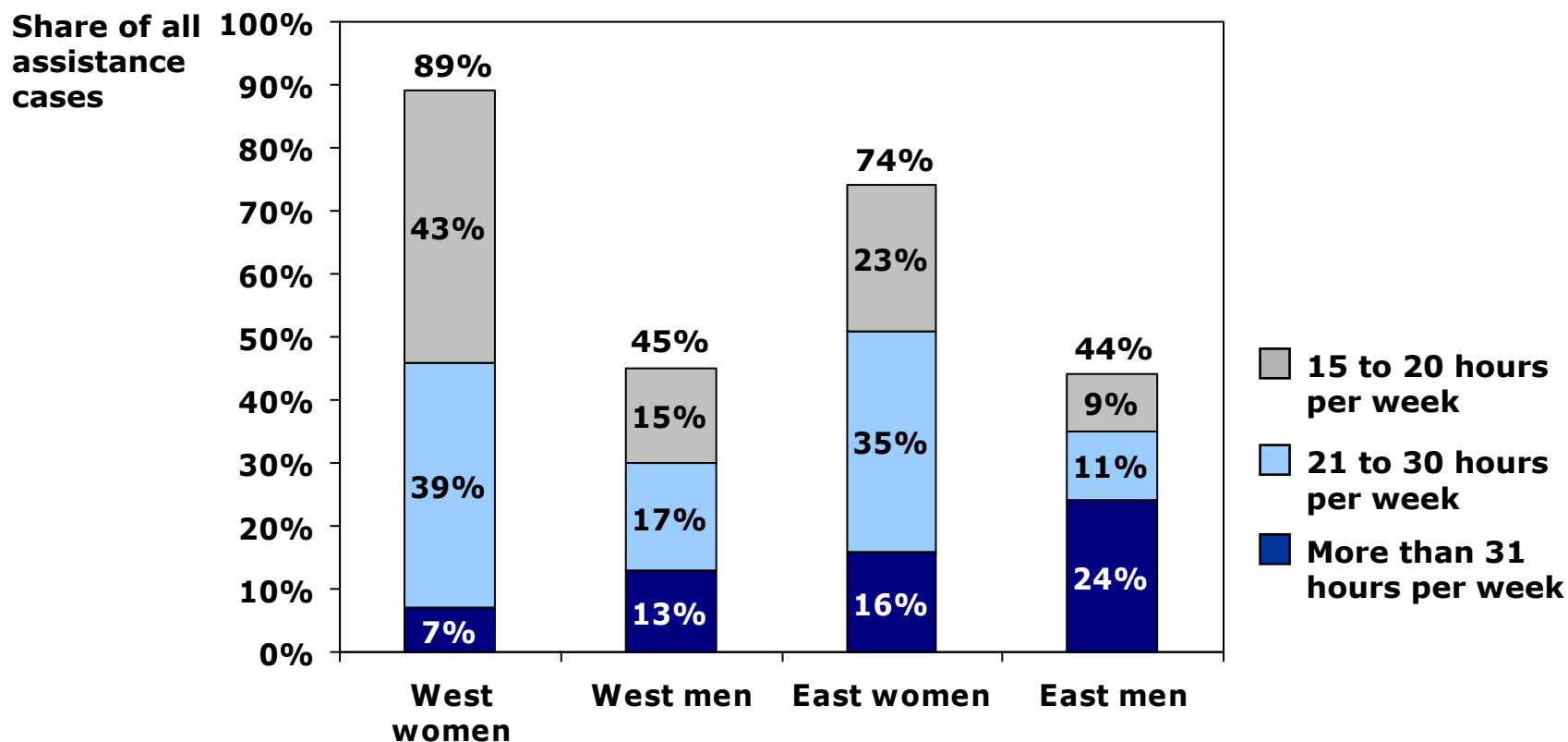
Take-up of the Mainzer Modell by sex and family size - national experiment

Share of all assistance cases



The „Mainzer Modell“ concentrated on part-time employment

Share of part-time employees by sex and working hours - national experiment

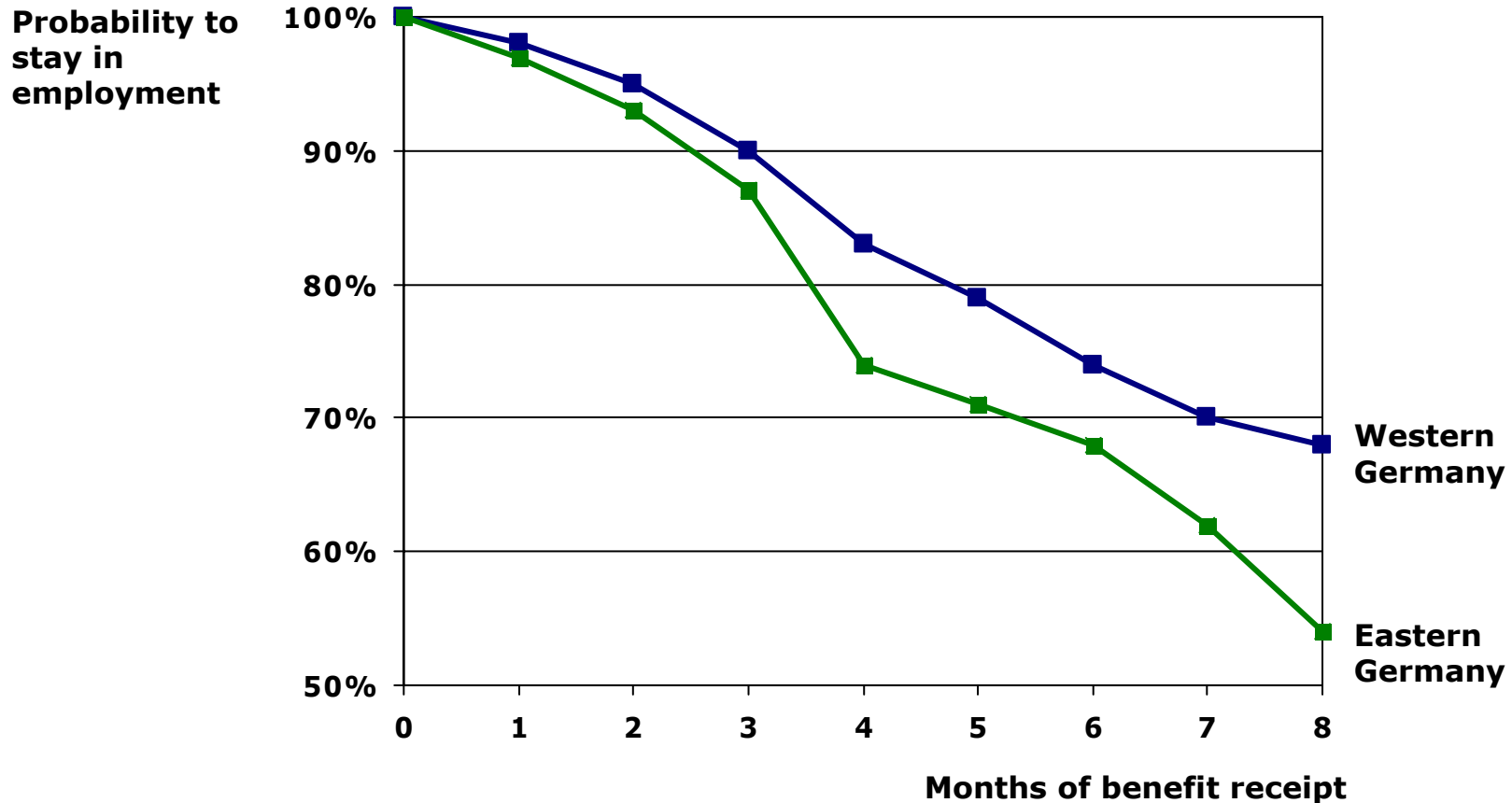


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Source: BMWA (2004): Drei Jahre Mainzer Modell - Eine Zwischenbilanz

Assisted employment in the Mainzer Modell has proven not to be very stable

Stability of assisted jobs - national experiment



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Source: BMWA (2004): Drei Jahre Mainzer Modell - Eine Zwischenbilanz

Conclusion: „Making work pay“ policies have to regain popularity in Germany

Mainzer Modell

The Mainzer Modell did not reach Germany's expectations particularly because of its small take-up rates

Potential reasons

- **Political opinion on the necessity and the design of the programme was discordant**
 - **Complexity of the programme was too high for good public relations work**
 - **Very little demand for low-paid work in the trial period**
 - **Little resources for implementation, little motivation among the employees of the job agencies**
- ⇒ **The only success of the „Mainzer Modell“ was redistribution towards families**

Making work pay policies in Germany

Making work pay has not been the dominant theme of the Hartz-reforms

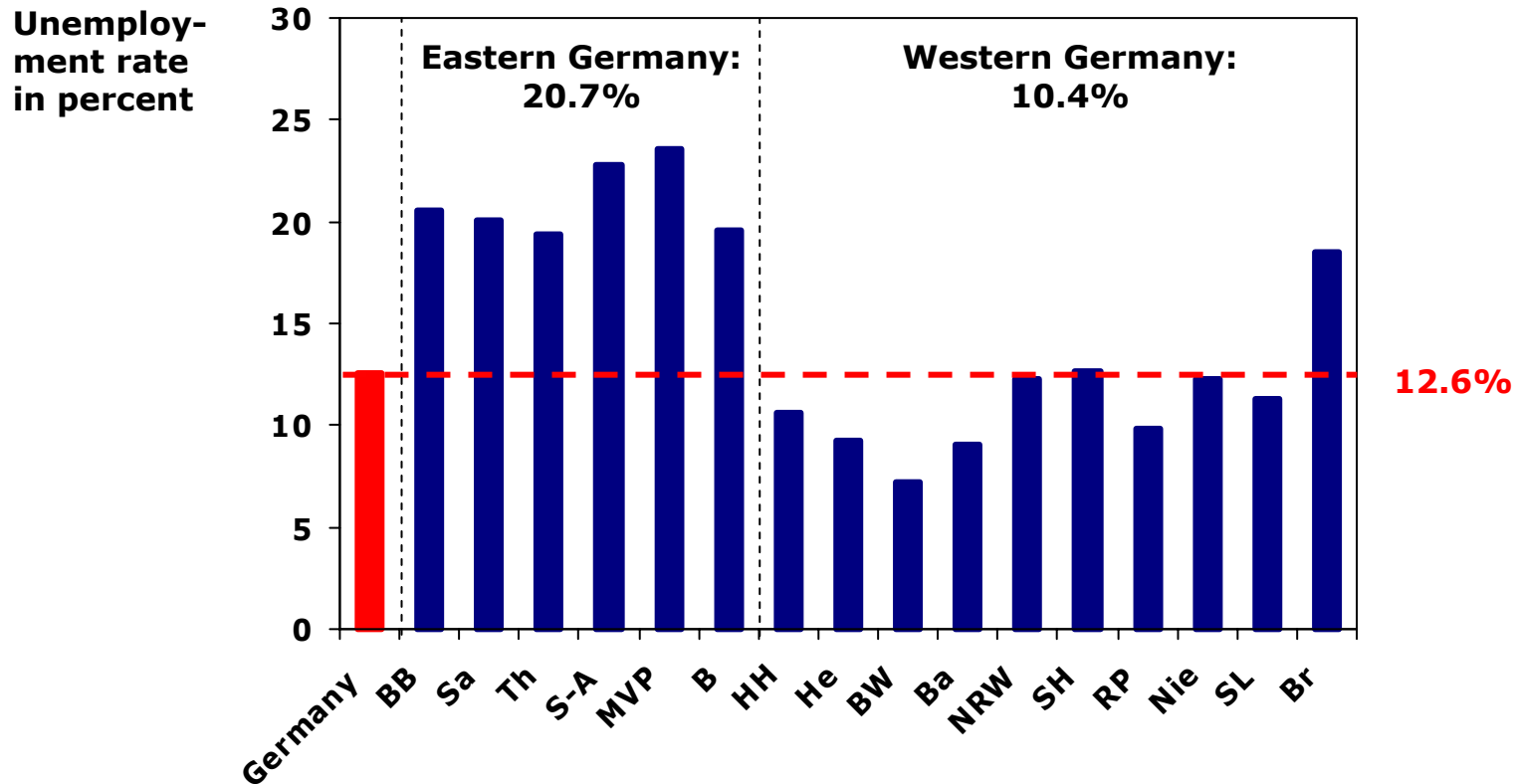
The concept is regaining momentum in public discourse at the moment triggered by the number of 5.2 million unemployed

- **However, the focus lies on earnings exemptions from means tests, not on employment-conditional benefits**

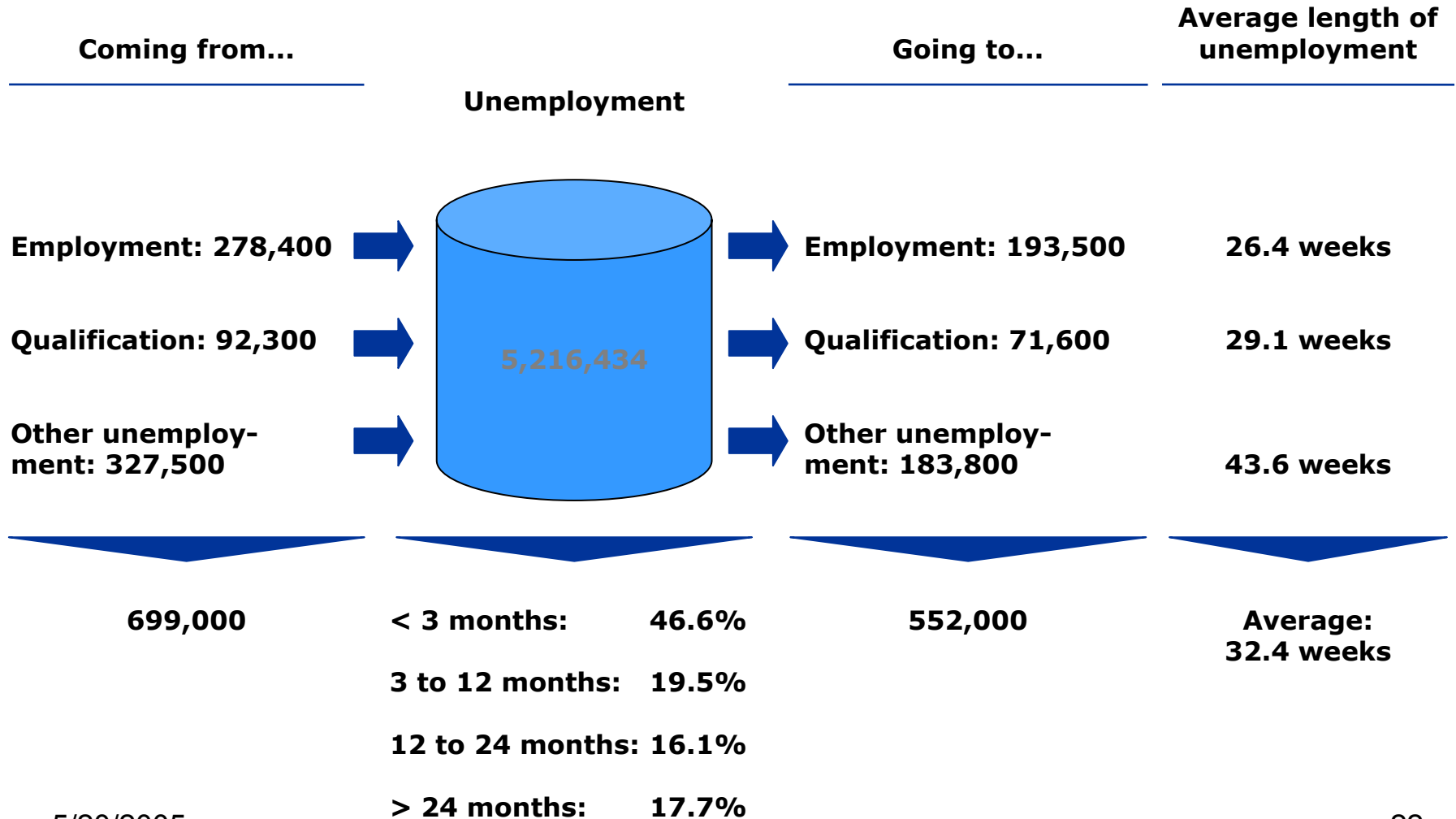
Backups

The unemployment rate in Eastern Germany is twice as high as in Western Germany

Unemployment in Germany - February 2005

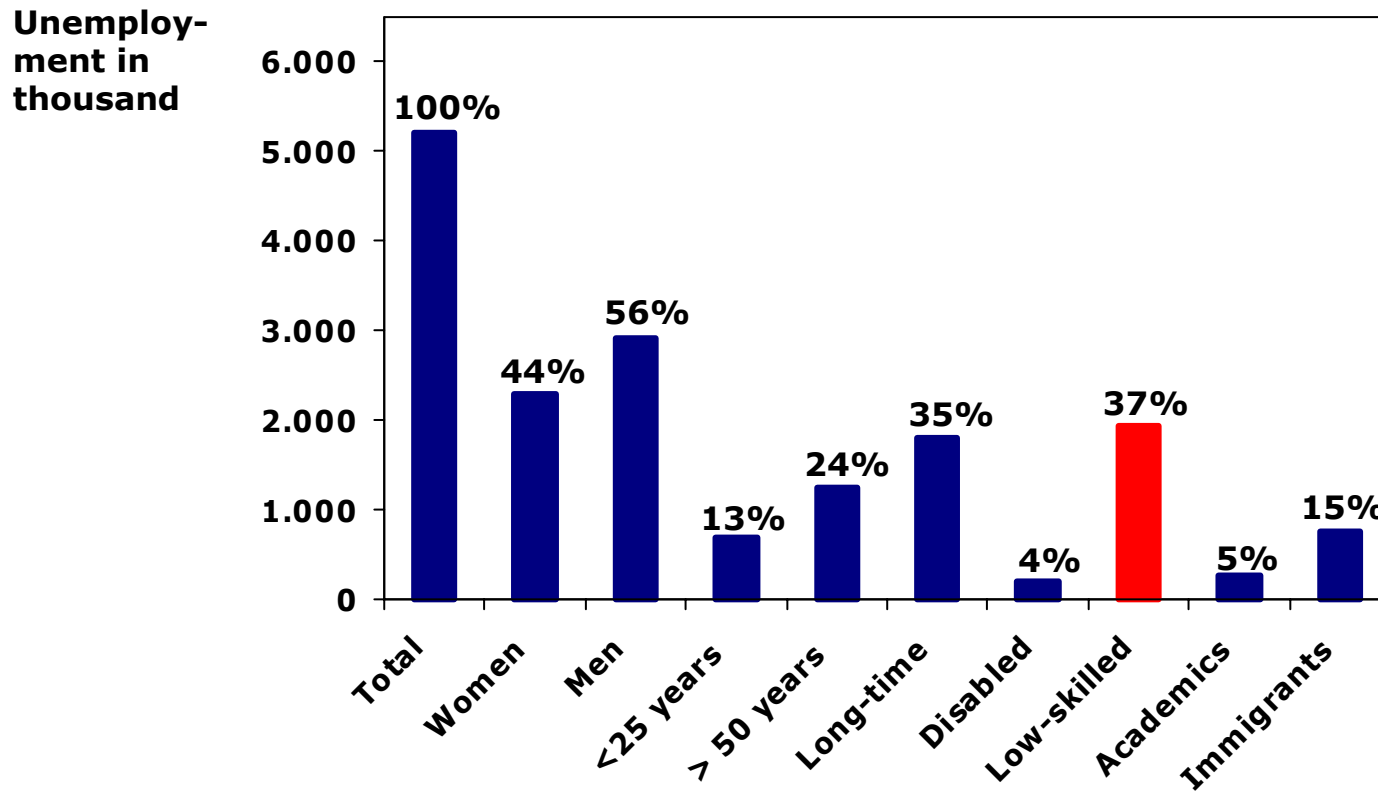


In February 2005 unemployment has been 32.4 weeks long on average



The low-skilled account for 37 percent of total unemployment in Germany

Unemployment in Germany - February 2005



Employment covered by social security has decreased while total employment is constant

Employment in Germany 2003 and 2004

