



Hartz IV – A Model for Austria?*

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Hartz IV: Change from standard-of-living security to basic security

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The report of the Commission “Modern Services in the Labour Market” (headed by Peter Hartz), presented in August 2002, contained proposals for reforms in the German labour market policy (e.g. job-creating measures, extension of marginal employment, deregulation of temporary work, integration subsidies) and job placement (e.g. restructuring of the Public Employment Service, introduction of placement-related instruments, complementation of placement services by private or non-profit parties). Further measures were developed to increase the willingness for job search of the (long-term) unemployed. The resulting laws were implemented in Germany in 2003 (Hartz I and II), 2004 (Hartz III) and 2005 (Hartz IV).

The probably most discussed element of Hartz IV is the incorporation of the previous unemployment assistance (*Arbeitslosenhilfe*) and the social assistance for those deemed employable into the new unemployment benefit II (*Arbeitslosengeld II*) scheme. Compared to the unemployment assistance, a change from a standard-of-living security to a basic security took place: The unemployment benefit II is purely means-tested (income and wealth) and thus, independent from previous earnings.

Keywords:
welfare programs,
income and wealth,
poverty

The underlying assumptions of the Hartz reforms can be summarized as follows: (i) unemployment can be significantly reduced without macroeconomic interventions; (ii) employment potentials can be increased with less regulation and the reduction of benefit and demand levels; (iii) labour market policy – using incentives and sanctions at the same time – plays a key role in a changing world of work (Bäcker et al., 2011: 9ff.).

* This Policy Brief is to a significant extent based on the following report/articles: a) Fuchs, M., Hollan, K., & Gasior, K. (2017). *Simulation der Umlegung der Hartz-IV Reform auf Österreich*. Study commissioned by the Austrian Federal Ministry of Finances, Vienna; b) Fuchs, M., Hollan, K., & Gasior, K. (2017). Simulation of an Application of the Hartz-IV Reform in Austria. *Public Sector Economics*, 41(4), 480-500; c) Fuchs, M. (2017). Hartz IV – Modell für Österreich? *Interesse 4* (edited by the Social Department of the Diocese Linz). We are grateful for comments received from Anette Scoppetta and Ricardo Rodrigues. We would also like to thank Willem Stamatou for linguistic editing.

Employment potentials can be developed with less regulation and the reduction of benefit and demand levels

A similar approach has also been discussed in the Austrian policy discourse. In this Policy Brief we investigate the (hypothetical) implementation of the Hartz IV reform in Austria: unemployment benefit (*Arbeitslosengeld*) recipients would receive the social assistance-type minimum income benefit (*Bedarfsorientierte Mindestsicherung*) instead of the needs-oriented insurance benefit unemployment assistance (*Notstandshilfe*) after termination of entitlement.

Immediate monetary impact: reduced budgetary expenditure vs. increasing risk of poverty

The analysis of the immediate monetary effects of a corresponding transfer of the German model to Austria was carried out by the European Centre for Social Welfare Policy and Research on behalf of the Austrian Federal Ministry of Finance. The tax/transfer microsimulation model EUROMOD/SORESI was used on the basis of representative income data (EU-SILC 2015).

Replacement of unemployment assistance by minimum income benefit would lead to considerably reduced public expenditure but ...

In summary, a replacement of unemployment assistance by minimum income benefit would lead to considerably reduced public expenditure per year: somewhat below EUR 800 million in Scenario A (= minimum income benefit regulations of the Federal States in 2017 using a control for capital income as a proxy for the wealth test, but without ceiling regulations) up to around EUR 1,100 million in Scenario B (= in addition to Scenario A, ceiling of EUR 1,500 per household and month for the sum of minimum standards)¹ (see Table 1).

The reduced budgetary expenditure is mainly a consequence of the following differences between unemployment assistance and minimum income benefit:

- considerably higher income exemptions for the benefit receiver and his/her partner within the means-test for unemployment assistance compared to corresponding income exceptions within the means-test for minimum income benefit;
- consideration of the household community (minimum income benefit) instead of the partnership (unemployment assistance) as needs unit;
- consideration of wealth in the means-test (minimum income benefit).

¹ The ceiling provides that minimum income benefit can only be received as long as the total household net income does not exceed EUR 1,500 per month. Corresponding regulations are currently in place in the Federal States Burgenland, Lower Austria and Upper Austria.

**Table 1: Status Quo and simulated minimum income benefit-scenarios:
public expenditure in million EUR**

Scenario	Expenditure in million EUR
Status Quo	
Unemployment assistance	1,454
Benefits against social exclusion/data	338
Total	1,792
Scenario A: minimum income benefit regulations 2017 incl. proxy for wealth check, but without ceiling	
Minimum income benefit simulated	670
Benefits against social exclusion/data	338
Minimum income benefit simulated (+) social exclusion/data (= minimum income benefit total)	1,008
Difference 1: Unemployment assistance (-) minimum income benefit simulated	-784 (-54%)
Difference 2: Unemployment assistance (+) social exclusion/data (-) minimum income benefit total	-784 (-44%)
Scenario B: in addition, ceiling of EUR 1,500 for sum of minimum standards per household and month	
Minimum income benefit simulated	450
Benefits against social exclusion/data (effected by capping)	240
Minimum income benefit simulated (+) social exclusion/data (= minimum income benefit total)	690
Difference 1: Unemployment assistance (-) minimum income benefit simulated	-1,004 (-69%)
Difference 2: Unemployment assistance (+) social exclusion/data (-) minimum income benefit total	-1,102 (-61%)

Source: Fuchs et al., 2017: 26ff: own analysis with EUROMOD/SORES1.

**... with an increased
at-risk-of-poverty rate**

On the other hand, the reform would entail a considerable increase in the at-risk-of-poverty rate (by around two percentage points) and in income inequality. At the same time, a minority of affected household members (up to 18%) would benefit financially from a reform due to their individual situation (Table 2).

Table 2: Status Quo (unemployment assistance) and simulated minimum income benefit-scenarios: risk-of-poverty and income distribution

Scenario	Household members with reduced income in %*	People at risk of poverty in 1,000	At-risk-of-poverty rate in %	Poverty gap in %	Gini-coefficient
Status Quo	-	1,137	13	19	0.26
Scenario A: Base with wealth check capital income	82.2	1,229 (+92)	15	20	0.27
Scenario B: Capping with wealth check capital income	95.3	1,292 (+155)	15	20	0.27

* of all members in unemployment assistance households.

Source: Fuchs et al., 2017: 42; own analysis with EUROMOD/SORES.

The consequences of a reform beyond the immediate monetary effects were not subject of the analysis, but theoretical considerations and experiences from Germany may help to understand the broader consequences of implementing Hartz IV in Austria, as illustrated in the following.

Further (potential) individual and societal consequences

First, unemployment assistance recipients and their dependants are insured under the statutory health insurance. The contributions are paid by the unemployment insurance. Persons in households who are not alternatively entitled to minimum income benefit due to income and/or wealth test are consequently no longer health-insured if they are not otherwise insured (e.g. via co-insurance). The persons concerned would have to insure themselves which puts them under further financial strain and could limit their access to health care.

No pension insurance entitlements are obtained with the minimum income benefit claim

Second, periods of receiving unemployment assistance are considered as contribution periods for the pension fund (for persons born before 1955, unemployment assistance periods represent replacement periods). The contributions for the acquisition of pension entitlements are transferred by the unemployment insurance. This is not the case for the minimum income benefit, which results in lower pension entitlements for benefit recipients with follow-up effects on poverty risk in old age.

With minimum income benefit monetary savings have to be used up to certain exemption limits

Third, the effects on the wealth of affected unemployment assistance households also play a crucial role. Different from unemployment assistance, minimum income benefit recipients are required to use up their monetary savings up to certain exemption limits. After receiving minimum income benefit for six months, further benefit receipt is subject to granting securities to the public authorities for non-usable immovable assets. This can have serious long-term effects on the financial security of benefit recipients as, for example, older workers losing their job have quite limited chances of finding a new position.

Finally, potential negative effects on educational and participation opportunities of members in households affected by the reform, especially also on children, have to be considered, as available household income and savings would have to be used (to a greater extent) to cover the daily living costs.

At the societal level, purchasing power losses with macroeconomic consequences as a result of lower transfer levels have to be considered, which could lead to an additional loss of taxes and contributions due to a possible increase in informal employment due to stricter means-test conditions.

Experiences from Germany: effects on labour market and employment

While the above-mentioned effects are little if at all verifiable with experiences from Germany, since a corresponding marginal effect of the Hartz IV reform cannot be isolated, there are numerous empirical indications regarding the effects on labour market and employment.

Germany: decline in unemployment linked to Hartz IV?

In principle, a decline in unemployment has been observed in Germany since the introduction of the Hartz reforms. While this development according to some sources is clearly also linked to the Hartz reforms (see, for example, Sachverständigenrat, 2014), other sources consider this more likely to be related to other factors, such as the efficient reduction of working hours in the recession of 2008/09 (see e.g. Herzog-Stein et al., 2017) or the constant or even shrinking working age population in Germany since 2000 (see e.g. Marterbauer, 2015).

Concrete negative (-) and positive (+) effects of the unemployment benefit II and other measures in the context of the Hartz laws were assessed – partly based on longer-term research – on the following issues:

- (+) Access to labour market policy support was opened up to certain groups: Compared to recipients of unemployment assistance before the reform, a

significantly higher proportion of unemployment benefit II recipients participates in measures of active labour market policy (Fitzenberger, 2009: 18).

- (+/-) There have been increased incentives to work and an increase in labour supply of clients, including an increased willingness to also accept jobs with worse conditions (Koch et al., 2009: 263ff).
- (+) Unemployed persons with still insurance-based entitlement (unemployment benefit I [*Arbeitslosengeld*]), which roughly corresponds to the Austrian unemployment benefit, take up employment more quickly.
- (+/-) The reforms may (also) have had an effect on the employed, e.g. employment has become more insecure and more durable at the same time (Brussig & Knuth, 2011: 41).
- (-) “Activation” is often not meeting its goal: recipients of unemployment benefit II are, though willing to work, not able to find a job as there are simply not enough jobs available. There is a core of long-term unemployed people who, due to their limited employability, have no chance of integration into the primary labour market despite the application of integration instruments (Koch et al., 2009).
- (-) When integration “succeeds”, it is often unsustainable. A “revolving door effect” can be verified: A significant proportion of new benefit recipients has already received unemployment benefit II within twelve months before (Bäcker et al., 2011: 22).
- (-) The primacy of all forms of gainful employment ultimately led to a (further) increase of the low paid sector (Koch et al., 2009: 261).
- (-) There are indications of more or less strong crowding-out effects by the implementation of work opportunities with additional expenses compensation (“one-euro jobs”, etc.) (Bäcker et al., 2011: 81).

Hartz I-III more effective than Hartz IV; Hartz IV: deterrent effect instead of support effect?

Overall, it seems that long-term unemployment could not be tackled at its core. Whereas assumption (iii) of the Hartz reforms was confirmed, the fulfilment of assumptions (i) and (ii) is questionable. In addition, Launov & Wälde (2013: 8) report the measures of Hartz I-III (measures of labour market support, of assistance and placement) to be more effective in terms of employment and labour market integration than Hartz IV itself (Launov & Wälde, 2013: 8). Similarly, positive effects of the unemployment benefit II result rather from a deterrent effect than from a support effect (Brussig & Knuth 2011: 76). Thus, especially shortly before the individual termination of unemployment benefit I, job search activities have risen sharply (Claus & Schnabel 2008).

Limits of activation

With the change to the new benefit, priority was also given to a rapid but often unsustainable reduction in the need for assistance (Bäcker et al., 2011: 82). The limits of activation have become apparent: Due to labour market reasons, integration into unsubsidised employment succeeds only to a small extent (Baethge-Kinsky et al., 2010: 121), especially in the case of marginalised unemployed with multiple placement barriers.

The overall picture of the findings therefore suggests substantially reduced budgetary expenditure and possibly increased incentives to take up gainful employment due to a potential reform but with considerable impacts on at-risk-of-poverty rates, income distribution and other (potential) individual and societal follow-up costs. These factors have to be thoroughly scrutinized when discussing a potential implementation of Hartz IV in Austria.

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