

## Germany: dispute over benefits rules for the long-term unemployed

Sebastian Plóciennik

The German government has proposed reforming the support for the long-term unemployed – currently known as “unemployment benefit II” (Arbeitslosengeld II) or Hartz IV. The new system, which is scheduled to take effect in early 2023, will be called Bürgergeld, or “citizen’s allowance.” The most visible change is the increase in the basic benefit rate from €449 to €502 per month. But the reform goes much further, combining the goal of activating measures with greater social protection than before. Bürgergeld reduces sanctions for those who evade employment and training meetings. The first six months of collecting the benefit are to be a so-called trust period (Vertrauenszeit), in principle free of more serious restrictions. It is only after this period that the benefit can be reduced by up to 30% if the beneficiary refuses to take courses or work.

The new system also takes a different approach to the wealth of benefits recipients. Until now, those with significant wealth were ineligible for the Hartz IV benefit. The reform changes this with the introduction of a two-year grace period (Karenzzeit), which allows the beneficiary to maintain savings of €60,000, with a further €30,000 for each additional person in the household. Beneficiaries will also be allowed to live in a larger flat or house than before. During the grace period, the state will also cover rent or mortgage instalments for the flat, as well as heating payments. As a result, the beneficiary will not immediately be forced to change to cheaper accommodation.

Another important area of change in Bürgergeld sees greater incentives to acquire new qualifications. A long-term unemployed person can receive up to an additional €150 per month if they decide to study towards a vocational diploma. The last marked difference from Hartz IV is an increase in incentives to “earn extra” while collecting the benefit. Previously, 80% of earnings between €100 and €1,000 counted against the benefit received, and above that amount up to 90%. The Bürgergeld formula will contain an additional, favourable modification: beneficiaries with earnings between €520 and €1,000 will be able to keep 30% of it.

The reform of the system is of great social importance: in October this year, 5.33 million people benefited from Hartz IV support, and this number may increase during the already visible downturn in the economy. This group of beneficiaries also includes refugees from Ukraine, who can claim the same social benefits as Germans. There are officially about 1.02 million Ukrainians in Germany, including about 200,000 children.

This proposal by the Olaf Scholz government has led to considerable political controversy. While a relatively stable compromise has been reached within the coalition – not easy due to the often differing priorities of the SPD, FDP and Greens – the opposition is putting up stiff resistance. In the upper house of parliament, the Bundesrat, where the opposition's influence is greater than in the Bundestag, the reform was rejected. A way out of the political deadlock may be negotiations in the joint Mediation Committee of the two chambers. These may include, for example, a slight tightening of punishments (which the Liberals are likely to support) and a reduction in privileges during the two-year grace period. If the talks are successful, the reform could be passed at the end of the month and go into effect as planned by the Scholz cabinet.

## Commentary

- The fundamental political dispute surrounding Bürgergeld does not concern benefit rates. In the face of high inflation and rising energy costs, even more money for the long-term unemployed has been considered, as advocated especially by social welfare organisations and the Left Party (Die Linke). The issue of sanctions for job evaders is being much more sharply debated. The CDU/CSU opposition argues that easing them will reduce the motivation for finding a job, and the consequence of this will be an increase in unemployment and public spending. There is also a lot of controversy over measures that benefit the wealthy, who in practice can collect benefits without affecting their savings. These regulations are criticised as socially unfair and generating unnecessary costs for the state. For these reasons, the Christian Democrats wanted to separate the introduction of the new benefit rate – which would come into effect in early 2023 – from the implementation of the other points of the reform. These would be implemented in the second half of next year, after the conclusion of negotiations in the Bundesrat.
- Supporters of the reform claim that the new Bürgergeld, which is less restrictive toward beneficiaries, is a reaction to changes in the labour market. Unlike in the early 2000s, when Hartz IV was drafted, there is no longer mass unemployment. Instead, Germany is facing labour shortages and unfilled jobs, the number of which reached 1.8 million in the third quarter of 2022, according to the IAB (Institute for Employment Research). The previous motto of “require and support” (“Fordern und Fördern”) has thus been superseded by the need to strengthen incentives to upgrade skills. In contrast, it seems pointless to force the unemployed to take any kind of job (especially one that is below their qualifications) or to impose hardships by requiring them to move quickly to cheaper accommodation or to raid their savings. Moreover, contrary to criticism, Bürgergeld does not mean that work “pays less”. According to an analysis by the DGB trade union, for example, employment still yields a higher income, although the situation can vary depending on where you live and the number of children in the household. Only in the case of families with many children may the overall support from the state prove to be higher than income from employment.
- The Christian Democrats' political resistance to reform should not come as a surprise. What is somewhat surprising, however, is the liberal FDP's quick approval of the changes as they stand. The easing of sanctions and strengthening of redistributive elements should prompt the party to block the new support system. However, it is advantageous from the Liberals' point of view to “protect the savings” of the wealthy, who are the main

electorate of Christian Lindner's party. It would also be difficult for the FDP to come out openly against the reform, which was previously written into the coalition agreement. The compromise on Bürgergeld is also likely to be part of the government's broader arrangements, including, for example, the return of the budget anchor or the introduction of regulation of the gas price.

- The SPD, which wants to remove the term Hartz IV from the political space, is the keenest to make changes. The reform by that name was introduced in 2005 at the end of Chancellor Gerhard Schröder's term in office in a wave of deregulation of the labour market and reduction of social state benefits. While Hartz IV is credited with being one of the sources of Germany's prosperity in the previous decade and success in fighting unemployment, it is also associated with growing income stratification and the expansion of unstable, low-wage employment. There is a fairly widespread belief among social democrats that the marriage with neoliberalism and the SPD being branded as the party of "social cold" ("soziale Kälte") cost the SPD a loss of credibility in the social electorate, worse results in subsequent elections and strengthened the far left under the Left Party. That's why Social Democracy needs a symbolic breakthrough, reflected in the end of Hartz IV and the transition to Bürgergeld, a more social system whose very name is a manifestation of egalitarian ambitions.