

Chapter 2

Background for the Empirical Analyses: Institutional Details and Data

This chapter lays the foundations for the empirical analyses presented in chapters 3 to 6. In section 2.1, a description of the main features of the German welfare system before and after the 2005 welfare reform is provided. Section 2.2 summarizes the macroeconomic conditions in Germany during this time period and presents selected figures on the German welfare system in particular for the post-reform period. In section 2.3, the data sources used for the empirical analyses are introduced.

2.1 The German Welfare System and Its 2005 Reform

Prior to the 2005 welfare reform, Germany was characterized by a two-tier system of welfare benefits. This system differentiated between individuals who had contributed sufficiently and individuals who had not contributed sufficiently to unemployment insurance (see Wunsch, 2005).⁶ In case of sufficient contributions unemployed individuals were entitled to unemployment insurance benefits (*Arbeitslosengeld*), which were granted for no longer than 32 months, and, after exhaustion of these benefits, to unemployment assistance (*Arbeitslosenhilfe*).⁷ Unemployment assistance was means-tested and proportional to former earnings. Claimants received 57% of their previous av-

⁶ Contributions of an individual were sufficient if the individual had been employed and had paid social insurance contributions for at least twelve months during the final three years before becoming unemployed. In February 2006, this qualification period was reduced from three to two years.

⁷ The general setting of unemployment insurance benefits was not targeted by the 2005 reform. In case of unemployment, persons with sufficient contributions to unemployment insurance can claim unemployment benefits for a limited period of time. The time limit depends on the time of contribution and age. Before January 31, 2006 the time limit varied between 6 and 32 months. The maximum duration was afterwards reduced to 18 months, but in January 2008 again increased to 24 months for persons age 58 or above. Unemployment insurance benefits are earnings related. They replace

erage net monthly earnings if they had at least one dependent child. Without dependent children, the replacement rate amounted to 53%. Unemployment assistance was funded from general taxes and was paid for a potentially unlimited period of time until retirement age (see Eichhorst et al., 2010).

Individuals who had not contributed sufficiently to unemployment insurance could only apply for social assistance (*Sozialhilfe*). This was a means-tested, monthly payment whose amount depended on the income and wealth of all household members (see Backer and Koch, 2004; or Clauss and Schnabel, 2008). It was not related to previous earnings and provided a basic income in order to guarantee the socio-cultural subsistence level. Social assistance did not require the claimants to be unemployed. The “working poor”, who could not live upon their own earnings, were eligible, too. Moreover, persons in retirement age who had no sufficient income from their pensions or other sources could apply for social assistance. Like unemployment assistance, social assistance was financed from general taxes (see Wunsch, 2005). However, the means-test for social assistance recipients was stricter and the payments, in general, lower than for unemployment assistance recipients (see Wunsch, 2005, and Eichhorst et al., 2010). According to Ochel (2005), in 2004 the average base payment of social assistance (not including additional benefits like payments for housing costs) for a single person amounted to 296 euros in West Germany and to 283 euros in East Germany. The average amount of unemployment assistance (excluding additional benefits) was 583 euros in the western part and 516 euros in the eastern part of Germany, respectively (see Bundesagentur fur Arbeit, 2005). In cases where unemployment assistance was insufficient to reach the socio-cultural subsistence level, it was topped up with social assistance.

In addition to the different eligibility criteria, there were two different authorities responsible for the administration of benefits and the labor market activation of welfare recipients. The Federal Employment Agency (FEA), represented by its local employment offices (LEOs), had been in charge of unemployment assistance and was responsible for the labor market activation of unemployment assistance recipients and their job placement. For labor market activation, it could make use of nearly all Active Labor Market Programs (ALMP), which it also directed at unemployment insurance benefit recipients.

By contrast, local authorities were financially responsible for social assistance and in charge of the activation and placement of social assistance recipients. Yet there was only a rudimentary set of integration measures available to local authorities. In particular, local authorities had no access to ALMP of the FEA. Thus, the two-tier system of welfare benefits did not provide

67% of previous average net earnings for an individual with at least one dependent child. Without children, the replacement rate amounts to 60%. Unemployment insurance benefit recipients have to register with the local employment office (LEO), which is part of the Federal Employment Agency (FEA). The LEO is responsible for the labor market activation of its clients.

equal activation opportunities for unemployment assistance and social assistance recipients. While some local authorities used their limited activation means fairly well, others did not enforce a systematic activation approach (see Eichhorst et al., 2010).

The system also resulted in undesirable incentives. For instance, local authorities had an incentive to place social assistance recipients in temporary employment measures that were subject to unemployment insurance contributions. Participation in these measures created entitlements to unemployment insurance and unemployment assistance benefits and thus shifted the claimants from the local authorities to the FEA (see Eichhorst et al., 2010). Moreover, incentives for caseworkers at LEOs to integrate unemployment assistance recipients into employment were weak. Since the LEOs had been mainly financed by employer and employee contributions to unemployment insurance, their caseworkers concentrated their efforts on short-term unemployed receiving unemployment insurance benefits and neglected unemployment assistance recipients (see Tergeist and Grubb, 2006).

To remove these unintended incentives and to unify labor market activation of all welfare recipients, a reform of the welfare system was implemented in January 2005. The reform abolished unemployment assistance and social assistance and merged both types of benefits into a single program: unemployment benefit II (UBII, in German: *Arbeitslosengeld II*).⁸ Unlike unemployment assistance and like former social assistance, UBII does not depend on former earnings. UBII is means-tested, taking into account the income and wealth of all individuals living in the household⁹ of the claimant.¹⁰ To be eligible for UBII, persons have to be age between 15 and 64 and must be able to work for at least 15 hours per week. Current unemployment is not a prerequisite for UBII receipt. Individuals who work but who earn too little to have a sufficient household income are also eligible for the benefit. Since the means-test is conducted at the household level, all persons living in the household receive UBII provided that they fulfill the eligibility criteria. Those persons of a needy household who are not able to work for at least 15 hours a week and hence do not fulfill the eligibility criteria receive a so-called social allowance (*Sozialgeld*). This benefit is nearly identical to UBII but does not require claimants to actively look for a job and to participate in ALMP. Social allowance is predominantly paid to the children of UBII recipients age less than 15 (see Eichhorst et al., 2010). In this thesis, I will focus on UBII recipients.

⁸ The name UBII was created to distinguish the new welfare benefit from the unemployment insurance benefit, referred to as unemployment benefit I (UBI).

⁹ For the legal definition of the term *household*, I refer to chapter 7 of Book II of the German Social Code (*Sozialgesetzbuch Zweites Buch, SGB II*).

¹⁰ The means-test is similar to the one used for social assistance recipients, and is thus stricter than the means-test used for unemployment assistance recipients before the reform (see Bäcker and Koch, 2004; and Bruckmeier and Schnitzlein, 2007).

It is important to stress that welfare benefits (UBII, social allowance) are only granted to each individual of a household when all members of the household taken together are in need of governmental support. If one household member takes up employment and earns sufficiently, he or she must share his or her financial resources with all other household members to bring the household above the socio-cultural subsistence level. Governmental support in terms of welfare benefits is only subsidiary. In this sense, all households in the German welfare system form “communities with joint responsibility” (*Bedarfsgemeinschaften*).

At the beginning of 2005, the base payment of UBII (*Regelbedarf zur Sicherung des Lebensunterhalts*) amounted to 345 euros in West Germany and to 331 euros in East Germany. Since then the level of the base payment in East Germany has been adjusted to the level in West Germany, and the level in both parts of the country gradually raised – in order to compensate for inflation, with the base payment now totalling 364 euros. Thus, the base payment of UBII is less generous than unemployment assistance but more generous than social assistance. On top of the base payment, welfare payments also cover housing costs for rent and heating (*Bedarfe für Unterkunft und Heizung*) and social insurance contributions (*Zuschuss zu Versicherungsbeiträgen*). Further costs for additional needs (*Mehrbedarfe*) such as those that arise during pregnancy might be financed as well (see Kemmerling and Burttel, 2005).

In addition to unifying the benefits, the reform also demanded that all welfare services (benefit payments, counseling, labor market activation, etc.) be provided by a single responsible institution per welfare district, as opposed to the former system where the responsibilities were divided between the federal and the local level (see Eichhorst et al., 2010). Yet there was no political consensus on where the new welfare agencies should be established: within the system of the centralized FEA or at the local authorities. Ultimately, as a compromise it was decided to experiment with two different organizational models – the one centralized, the other decentralized – for a limited period of time and then settle for the more effective one.¹¹

It was agreed to apply a centralized organization in 370 out of the 439 German welfare districts. In these districts, the LEO and the local authorities formed a joint venture to constitute the new local welfare agency. This joint venture is under the direct supervision of the FEA. The FEA is in charge of the administration of the base welfare payments (base payment of UBII, social allowance, social insurance contributions), job placement, and the application of ALMP. In particular, guidelines of the FEA on the use of ALMP and the application of technical standards, e.g. computer software, are binding for joint ventures. Due to the influence of the FEA, the joint ventures

¹¹ This compromise has been codified in the so-called experimentation clause of chapter 6c of Book II of the German Social Code. A description of the experimentation clause with details of implementation, context, and policy results is provided by Deutscher Bundestag (2008).

can be considered as institutions acting under central directives. I henceforth refer to them as centralized welfare agencies.¹² Local authorities in the centralized welfare agencies are tasked with administrating payments for housing costs and additional needs. Moreover, they provide counseling in specific contexts such as single parent families, home care for elderly/disabled relatives or alcohol and drug addictions (see Wunsch, 2005).¹³

Of the 439 German districts, 69 were allowed to opt for a more decentralized organization of welfare administration and to constitute their own decentralized welfare agencies.¹⁴ In the decentralized agencies, the local authorities autonomously organize welfare administration. They are responsible for the entire activation process, including counseling, the allocation of benefit recipients to ALMP, job placement, and the disbursement of benefits. The FEA is hence not involved, and decentralized welfare agencies can decide on their own on how to activate the welfare recipients. The decentralized welfare agencies are legally and organizationally independent from central directives and guidelines.

Table 2.1 summarizes the main features of centralized and decentralized welfare agencies. In both agency types, the largest share of welfare payments is financed by the federal government; only a small fraction of overall expenditure – identical in all agencies – is taken from local budgets. Potential advantages and disadvantages of both agency types will be discussed in chapter 3.

The number of decentralized welfare districts (69) has been determined based on political considerations. It is equal to the number of deputies in the *Bundesrat*, the second chamber of the German parliament. Each federal state could have between three and six decentralized districts, depending on its number of deputies in the *Bundesrat*. Within each state, districts could apply to opt out of the centralized system. In cases of excess demand, the state government selected from the applying districts.

In several federal states, the maximum number of districts that could opt for decentralized organization was not exhausted. The vacant places could then be filled by the districts not selected from other states in the first round. Looking at the regional distribution of applications, it appears that the selection process was strongly influenced by political affiliations. In the federal states Lower Saxony (*Niedersachsen*) and Hesse (*Hessen*), where the conservative governments were strongly in favor of the decentralized system, 13 dis-

¹² A centralized welfare agency is called *Arbeitsgemeinschaft (ARGE)* in German.

¹³ A variant of the centralized model emerged in instances where the LEO and local authorities could not agree on forming a joint venture. In 19 out of 370 cases, both institutions continued to work separately in the district (*Grundsicherungsstellen mit getrennter Aufgabenwahrnehmung*). But because tasks are shared in a similar way as in the case of the centralized model, this thesis does not differentiate between these two types in its empirical analyses.

¹⁴ The German term for a decentralized welfare agency is *zugelassener kommunaler Träger (zkT)*.

Table 2.1: Main features of centralized and decentralized welfare agencies

	Centralized agencies	Decentralized agencies
Number of entities	370	69
Legal form	Part of the Federal Employment Agency (FEA), but separate legal entity	Part of local administration
Organizational affiliation	Joint venture between local employment office of the FEA and local authorities	Local authorities
Main source of financing	Federal government	Federal government
Standards of the FEA	Binding for job placement, provision of ALMP, monitoring of job search efforts	Not binding, although legal restrictions exist

Remarks: The numbers are based on the 439 German welfare districts that existed as of October 2006.

districts were allowed to opt out, even though these states only had 6 and 5 seats in the *Bundesrat*, respectively. In contrast, hardly any districts were proposed from the federal states Mecklenburg-Western Pomerania (*Mecklenburg-Vorpommern*) and Rhineland-Palatinate (*Rheinland-Pfalz*), both of which were run at that time by social democrats. Hence, the rules for selection resulted in a concentration of decentralized agencies in certain states (see WZB et al., 2008).

Despite the different organizational settings, the enforcement of all other reform aspects was identical throughout all welfare agencies in Germany. In particular, the principle of “supporting and demanding” (*Fördern und Fordern*), was enforced uniformly across all centralized and decentralized agencies. This principle of mutual obligations requires both the welfare recipient and the welfare agency to do everything in their power to help recipients find self-sufficient employment as quickly as possible. The rights and duties of both parties in the activation process are set out in a so-called “integration contract” (*Eingliederungsvereinbarung*), an agreement between the welfare agency and the benefit recipient containing obligations with respect to job search activities and participation in ALMP, as well as detailing the services provided by the welfare agency. This contract states the number of job applications the welfare recipient is supposed to write within the next few weeks and the number of job interviews he or she should manage to attend. It also specifies the counseling offers of the welfare agency the welfare recipient can call upon and the ALMP he or she must participate in.

Welfare agencies offer a wide range of different ALMP. These include above all so-called Temporary Extra Jobs (*Arbeitsgelegenheiten in der Mehraufwandsvariante*), short-term training programs (*Trainingsmaßnahmen*), long-term training programs (*Förderung der beruflichen Weiterbildung*), wage sub-

sidies to employers (*Eingliederungszuschüsse*), and start-up grants (*Einstiegs-geld*) (see Huber et al., 2011). Temporary Extra Jobs provide work opportunities in the public sector (see Thomsen and Walter, 2010a). The work assigned within this program must be additional in the sense that it would not be accomplished otherwise by existing public or private sector firms. Temporary Extra Jobs last for up to six months with a typical work load of 20 to 30 hours per week. By contrast, short-term training programs have a usual duration of one to three weeks and do not last longer than twelve weeks (see Kurtz, 2003). They consist of three different types of measures that can be offered either separately or in combination. First, short-term training programs are used to assess the suitability of participants in terms of skills, capability, and labor market opportunities for specific occupations. Second, they aim at improving the participants' job search abilities. And, third, they provide general skills and techniques required for employment. Long-term training comprises a more substantial human capital investment and focuses on the adaption of the professional skills and qualifications of participants to recent labor market requirements, e.g. to mitigate mismatches in times of structural change (see Huber et al., 2011). The programs typically aim at improving skills in the individual's profession, providing additional qualifications, offering a first professional degree or retraining. Program durations vary from a few months to up to three years. Wage subsidies are paid to firms that employ individuals facing competitive disadvantages on the job market during the first months of employment (see Bernhard et al., 2008, or Boockmann et al., forthcoming). They are meant to generate an incentive to hire such individuals by compensating employers for initial productivity gaps. Similarly, start-up grants are bridging allowances for taking up a low-paid job or for creating a private business and becoming self-employed. They are directly paid to the benefit claimants (see Wolff and Nivorozhkin, 2008).

All activation efforts of welfare agencies aim at integrating individuals into jobs that generate a sufficient income such that no welfare benefits are needed any longer. The income must be sufficient to bring all household members above the socio-cultural subsistence level. Activation by welfare agencies thus targets the household as a whole.

The integration contract is usually set up after the first meeting of a welfare recipient with his or her caseworker. The caseworker counsels and advises the welfare recipient and decides about placement in ALMP. If the caseworker detects non-compliance of the welfare recipient during the activation process, the welfare agency is legally required to impose a sanction by benefit revocation (see chapter 31, 31a, 31b and 32 of Book II of the German Social Code). But it is at the discretion of the welfare agency to impose a sanction. Welfare recipients are informed about the possibility of sanctions in the integration contract and each time they are assigned to a program. Yet there is no formal warning process when non-compliance is detected. Although a hearing of the benefit recipient before the imposition of a sanction is legally required, there is evidence that this requirement is not implemented in practice (see

Baethge-Kinsky et al., 2007), and welfare agencies may immediately impose a sanction. Sanctions have a duration of three months and can be imposed for various reasons. For minor non-compliances, such as the failure to properly report on job search activities to the welfare agency or not showing up for an appointment with the caseworker, benefits are cut by 10%. More severe infringements (lack of job search effort, refusal to accept a suitable job offer, refusal to participate in a program) lead to a benefit reduction of 30%.¹⁵ In case of repeated incidents of severe infringements within a year, a second (60% cut) or a third sanction (100% cut) can be imposed. For welfare recipients below 25 years of age, benefits can be reduced by 100% even for the first incident of non-compliance.

With the enforcement of the principle of “supporting and demanding”, Germany followed other industrialized countries (e.g. the US, the UK, Denmark, Sweden, and the Netherlands), which reformed their welfare systems somewhat earlier and which also put emphasis on mutual obligations in the activation process of welfare recipients (see Konle-Seidl, 2008). With respect to the organization of welfare administration, Germany’s system of centralized and decentralized welfare agencies is unique. All other countries have installed a unified administration of welfare, though their administrative structures vary. While local authorities are responsible for labor market activation of welfare recipients in Denmark and the Netherlands, welfare administration is part of the central government structure in the UK (see Tergeist and Grubb, 2006; and Konle-Seidl, 2009).

2.2 Selected Indicators on Macroeconomic Conditions and the Welfare System in Germany from 2000 to 2009

To put the 2005 welfare reform into perspective, this section will shed light on the macroeconomic conditions in Germany before and after the reform. In addition, it will provide selected descriptive statistics on the German welfare system with emphasis on the post-reform period. Even though the empirical analyses in chapters 3 to 6 will focus on the years 2006 to 2008, the post-reform statistics will be presented for the years from 2005 to 2009 to describe the welfare system as exhaustively as possible. As indicated, the statistics refer either to the entire welfare system or to centralized welfare agencies only. Unfortunately, reliable information for decentralized welfare agencies is not available in many cases.

¹⁵ Irrespective of a 10% or 30% cut, the calculation base for a sanction is the base payment of unemployment benefit II. Since welfare recipients have little to no savings, sanctions are substantial.

As can be seen from [table 2.2](#), the number of social assistance recipients and particularly the number of unemployment assistance recipients increased strongly at the beginning of this century. While the number of all welfare recipients had amounted to about 3.0 million in 2000, it increased by more than a third to 4.1 million in 2004. This increase was due to a combination of a rising inflow into welfare and unsatisfactory low outflow rates from welfare. As has been described in the previous subsection, it is likely that the low outflow rates partly resulted from the fact that activation of unemployment assistance and social assistance recipients was not enforced systematically and was characterized by disincentives for the responsible authorities. The rising inflow into the welfare system had two main reasons. First, welfare benefits were increasingly used as part of early retirement schemes (see Bundesagentur für Arbeit, 2005). And second, unfavorable economic conditions led to a rise in the number of persons not able to earn sufficiently to cover their living expenses. After an economic boom at the end of the last century, Germany experienced a downturn beginning in 2001 (see [table 2.2](#)). Gross Domestic Product (GDP) stagnated in 2002 and even declined in 2003. The number of persons registered unemployed increased from 3.85 million in 2001 to 4.38 million in 2004 when a mild recovery set in with a moderate GDP growth of 1.2%.

Table 2.2: Macroeconomic conditions in Germany (2000-2004)

	2000	2001	2002	2003	2004
Unemployment assistance recipients ^a	1,418	1,581	1,815	2,067	2,262
Social assistance recipients ^b	1,620	1,632	1,681	1,783	1,867
Unemployed persons ^c	3,890	3,853	4,061	4,377	4,381
Unemployment rate (in %) ^d	9.6	9.4	9.8	10.5	10.5
GDP growth (in %) ^e	3.2	1.2	0.0	-0.2	1.2

^a Figures are in the thousands and measured on December 31st of each year. Source: Statistics of the Federal Employment Agency at <http://www.pub.arbeitsagentur.de> (accessed November 1, 2010).

^b Figures are in the thousands and measured on December 31st of each year. Source: Statistisches Bundesamt (2005).

^c Figures are in the thousands and measured as the average annual stock of persons registered unemployed. Source: Bundesagentur für Arbeit (2001, 2002, 2003, 2004, 2005).

^d The unemployment rate relates to the entire civilian labor force. Source: Bundesagentur für Arbeit (2001, 2002, 2003, 2004, 2005).

^e Figures on Gross Domestic Product (GDP) are price-adjusted and chain-linked. Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder (2010).

After abolishing unemployment assistance and social assistance, about 4.5 million persons registered for the newly introduced unemployment benefit II (UBII) in January 2005 (see Bundesagentur für Arbeit, 2006a). This number was considerably larger than the sum of former unemployment assistance and social assistance recipients. The reason for this increase was the changing eligibility criteria for welfare benefits prior to and after the reform.

Even though some of the former social assistance recipients did not qualify for UBII (they were not deemed able to work) and even though some unemployment assistance recipients did not pass the stricter means-test for UBII, the reform also made persons eligible who did not claim benefits before 2005. These persons mostly included partners and household members of former unemployment assistance claimants. While the relatively generous unemployment assistance put partners above the subsistence level, the lower UBII made them welfare dependent (see Kaltenborn and Schiwarov, 2006). It took several months until all eligible individuals registered for the new benefit, so that the number of UBII claimants increased steadily in the early post-reform period, producing an average of 4.9 million UBII claimants in 2005 (see [table 2.3](#)). In 2006, the average number of claimants increased to 5.4 million. Between 2006 and 2009 the average number of persons receiving welfare benefits sank to 4.9 million.

Table 2.3: Macroeconomic conditions in Germany (2005-2009)

	2005	2006	2007	2008	2009
Unemployment benefit II recipients ^a	4,982	5,392	5,277	5,010	4,908
Unemployed persons ^b	4,861	4,487	3,777	3,268	3,423
Unemployment rate (in %) ^c	11.7	10.8	9.0	7.8	8.2
GDP growth (in %) ^d	0.8	3.2	2.5	1.3	-5.0

^a Figures are in the thousands and measured as the average annual stock of persons receiving unemployment benefit II. Source: Bundesagentur für Arbeit (2006a, 2007a, 2008a, 2009a, 2010a).

^b Figures are in the thousands and measured as the average annual stock of persons registered unemployed. Source: Bundesagentur für Arbeit (2006a, 2007a, 2008a, 2009a, 2010a).

^c The unemployment rate relates the number of persons registered unemployed to the entire civilian labor force. Source: Bundesagentur für Arbeit (2006a, 2007a, 2008a, 2009a, 2010a).

^d Figures are price-adjusted and chain-linked. Source: Arbeitskreis Volkswirtschaftliche Gesamtrechnungen der Länder (2010).

The number of persons registered unemployed also increased significantly immediately after the reform, rising from 4.38 million in 2004 to 4.86 million in 2005 (see [table 2.3](#)). This increase was mainly due to a more precise statistical recording of unemployed persons (see Bundesagentur für Arbeit, 2006a). Before 2005, not all unemployed social assistance recipients were registered at the local employment offices (LEOs). The same is true for partners and household members of former unemployment assistance recipients who had often been inactive. These people began to appear in official statistics in 2005, when welfare reform made UBII receipt conditional on being registered as a job seeker.

After the statistical increase in 2005, the number of registered unemployed decreased considerably from 2006 (4.49 million) to 2008 (3.27 million). This decrease was promoted by a favorable macroeconomic development. GDP grew by 3.2% in 2006 and by 2.5% in 2007. At the end of 2008, the banking

and financial crisis set in, causing a 5% decline in GDP in 2009. Unemployment increased only slightly due to, among other reasons, a large-scale use of short-term work (see Bundesagentur für Arbeit, 2010a).

Table 2.4 provides some more information on the German labor market and the population of welfare recipients in the post-reform period. As can be seen from the table, ca. 54 million of Germany's resident population of about 82 million are of working age, i.e. between 15 and 64. During the observation period, both of these figures declined slightly, while between 2005 and 2008 the number of persons working increased on account of favorable macroeconomic conditions. In 2005, the number of persons in the workforce amounted to 38.8 million; in 2008, it amounted to 40.3 million. Accordingly, the number of persons in employment subject to social insurance contributions increased from 26.2 million to 27.5 million. After the onset of the banking and financial crisis, both employment figures decreased slightly in 2009.

With respect to the number of persons in working age, the number of persons receiving UBII – 5 million – is quite substantial. Nearly 10% of the working age population is welfare dependent. In addition to the UBII recipients, almost 2 million people receive social allowance (mostly children less than 15; see section 2.1). Taken together, nearly 7 million people in Germany are welfare dependent. This is a share of more than 10% of the total population age less than 65. Even though this share declined to some extent beginning in 2006, it is larger than the share of UBII recipients of the working age population. This indicates that children under the age of 15 are particularly over-represented in the welfare system. An effective labor market activation is thus not only beneficial for activated adult welfare recipients; it is also crucial for their offspring, who may suffer from long-lasting welfare spells with potentially adverse effects on educational attainment and future labor market performance.¹⁶

In this regard, it is positive to note that the absolute number of young welfare dependent persons age 15 to 24 and their share of all UBII recipients have declined steadily from 2006. This reduction might be due to the fact that persons under the age of 25 are a special target group of welfare agencies. According to chapter 3 of Book II of the German Social Code (*Sozialgesetzbuch Zweites Buch, SGB II*), UBII recipients under the age of 25 must be placed into employment or vocational training as quickly as possible after entering the welfare system to prevent deterioration of human capital and employability. The declining share of young UBII recipients, however, comes at the expense of the elderly welfare recipients age 50 or above. While this group

¹⁶ Long-lasting welfare spells are rather common. According to Bundesagentur für Arbeit (2010c), the average completed duration of a welfare spell amounted to 20 months for persons who left welfare in December 2008. The median value was 13 months. Thus, a majority of all individuals who left the welfare system in December 2008 were receiving welfare benefits for more than one year. About a quarter of these individuals were on welfare for three years or longer. The elapsed duration of welfare receipt measured for the stock of welfare recipients in December 2008 amounted to 29 months on average and to 34 months at the median level.

Table 2.4: Selected figures on Germany's population and welfare recipients (2005-2009)

	2005	2006	2007	2008	2009
Population^a					
Resident population	82,438	82,315	82,218	82,002	81,802
Resident population age below 65	66,568	66,016	65,699	65,273	64,901
Resident population age 15 to 64	54,918	54,574	54,417	54,134	53,878
Working population age above 14	38,846	39,097	39,724	40,279	40,265
Number of persons employed ^b	26,178	26,354	26,855	27,458	27,380
Number of foreigners	7,289	7,256	7,255	7,186	7,131
Share of foreigners in resident population (in %)	8.8	8.8	8.8	8.8	8.7
Welfare recipients^c					
UBII recipients	4,982	5,392	5,277	5,010	4,908
Social allowance recipients	1,774	1,955	1,964	1,897	1,817
Welfare dependent persons	6,756	7,347	7,241	6,907	6,725
UBII ratio (in %) ^d	9.1	9.9	9.7	9.3	9.1
Welfare ratio (in %) ^e	10.2	11.1	11.0	10.6	10.4
Composition of UBII recipients^f					
Share of persons age 15 to 24 (in %)	20.7	20.8	19.7	19.1	18.6
Share of persons age 25 to 49 (in %)	59.1	58.7	58.4	57.4	57.1
Share of persons age 50 to 64 (in %)	20.3	20.5	22.0	23.5	24.3
Share of women (in %)	48.9	49.6	50.7	51.4	51.1
Share of persons unemployed (in %)	55.6	52.4	46.0	43.7	43.8
Share of foreigners (in %)	19.2	18.7	18.5	19.0	19.4

^a All figures on Germany's population are in the thousands unless stated otherwise. Source: Bundesagentur für Arbeit (2006a, 2007a, 2008a, 2009a, 2010a), Statistisches Bundesamt (2010) and information of *Statistisches Bundesamt* at <http://www.destatis.de> (accessed November 1, 2010, and July 11, 2011).

^b The figures refer to employment subject to social insurance contributions.

^c All figures on welfare recipients are in the thousands unless stated otherwise. Source: Bundesagentur für Arbeit (2006a, 2007a, 2008a, 2009a, 2010a) and own calculations.

^d The UBII ratio relates the number of UBII recipients to the resident population age 15 to 64.

^e The welfare ratio relates the number of all welfare recipients (UBII and social allowance) to the resident population below 65.

^f All figures are measured as the percentage of the respective group out of all UBII recipients. The figures on age might not add up to 100% due to rounding errors. Source: Bundesagentur für Arbeit (2006a, 2007a, 2008a, 2009a, 2010a) and own calculations.

accounted for 20.3% of all welfare recipients in 2005, they formed nearly a quarter of the welfare dependent population in 2009.

The share of women among the UBII recipients also increased during the observation period, rising from 48.9% in 2005 to 51.1% in 2009. An increasing share of welfare recipients was formed by persons who are employed but whose earnings are insufficient to cover living expenses. While in 2005 about 55% of welfare recipients were unemployed, this figure dropped to less than 44% in 2009. The reasons for this increase in people employed but dependent on welfare have yet to be uncovered (see Bundesagentur für Arbeit, 2010b).

Several explanations are possible. Labor market integration of unemployed welfare recipients might be only partially successful and concentrated on low-paying jobs so that additional welfare payments are needed even after employment uptake. The post-reform setting of the welfare system could also be exploited by employers to reduce wages so that employees are forced to claim supplementary welfare benefits to cover their living expenses.

A relatively stable share of the welfare population is formed by foreigners. From 2005 to 2009, about 19% of welfare recipients had a non-German citizenship. With this share, foreigners were highly over-represented in welfare. In the resident population, only about 8.8% of people were foreigners during those years. When counting not only foreigners but also persons who were born abroad or who have at least one parent born abroad, the Bundesministerium für Arbeit und Soziales (2009) reports that 34.8% of all welfare recipients in 2007 were immigrants. In the resident population, only 18.6% of persons had a migration background in 2005 (see Statistisches Bundesamt, 2007).¹⁷ Despite this over-representation, immigrants do not represent a special target group of welfare agencies such as welfare recipients under the age of 25. Book II of the German Social Code lacks a legal definition of the term migration background and does not include any activation measure specifically designed and used for immigrants. Instead, immigrants are assigned to the standard measures available for all welfare recipients.

The most frequently used activation measures are Temporary Extra Jobs (*Arbeitsgelegenheiten in der Mehraufwandsvariante*) and short-term training programs (*Trainingsmaßnahmen*). Table 2.5 depicts the number of participants entering these programs from 2005 to 2009. With more than 700,000 participants per year, Temporary Extra Jobs are clearly the most common program. Short-term training programs are used somewhat less frequently but the number of participants is still large. It reached a maximum in 2008,

¹⁷ The definition of migration background differs slightly between the Bundesministerium für Arbeit und Soziales (2009) and the Statistisches Bundesamt (2007), but these different definitions cannot account for the different shares of immigrants in the resident population and in the welfare system. According to the Statistisches Bundesamt (2007), persons with a migration background include all men and women who were born abroad and immigrated to Germany after 1949, all persons who were born in Germany but do not possess German citizenship, and all persons with German citizenship born in Germany who have at least one parent born abroad or born in Germany as a foreigner. As stated above, the Bundesministerium für Arbeit und Soziales (2009) considers those persons to have a migration background who are foreigners or who were born abroad or who have at least one parent born abroad. Thus, the definition of Bundesministerium für Arbeit und Soziales (2009) does not restrict the immigration date and does not consider persons to have a migration background who are German citizens born in Germany with at least one parent born in Germany as a foreigner. Unfortunately, neither the Statistisches Bundesamt nor the Bundesministerium für Arbeit und Soziales survey the number of immigrants in detail on a regular basis. Hence, the figures of both institutions can only be reported for 2007 and 2005, respectively, when the latest detailed surveys were conducted.

when nearly 630,000 welfare recipients participated in short-term training.¹⁸ In addition to the number of program participants, [table 2.5](#) indicates the number of individuals who were sanctioned due to non-compliance during the activation process. More than 600,000 welfare recipients received a benefit cut each year. This number shares a similar magnitude with the number of individuals who participate in Temporary Extra Jobs or short-term training programs.

Table 2.5: Number of participants in Temporary Extra Jobs and short-term training programs, and number of sanctions (2005-2009)

	2005	2006	2007	2008	2009
New participants in Temporary Extra Jobs ^a	604,062 ^b	775,866	774,893	764,212	719,232
New participants in short-term training programs ^a	410,884 ^b	446,641	548,024	627,739	256,656 ^c
Newly imposed benefit sanctions ^{d, e}	-	-	784,385	764,912	732,648
Number of sanctioned individuals ^e	-	-	625,708	649,075	640,617

^a Figures obtained from Bundesagentur für Arbeit (2006a, 2007a, 2008a, 2009a, 2010a).

^b Number refers to centralized welfare agencies only.

^c Number is not comparable with the other years. On January 1st, 2009, a legislation amendment introduced chapter 46 into Book III of the German Social Code (*Sozialgesetzbuch Drittes Buch, SGB III*) which is the legal basis of most ALMP in Germany. This chapter subsumed short-term training programs and other ALMP under a new label (*Maßnahmen zur Aktivierung und beruflichen Eingliederung*) and changed the statistical recording of program participations. The statistics of the FEA do not allow single programs to be differentiated from the new label. According to Bundesagentur für Arbeit (2010a), 550,777 welfare recipients participated in programs labeled as *Maßnahmen zur Aktivierung und beruflichen Eingliederung*. The reported number of 256,656 participants in short-term training refers to individuals who started a program in the transition period until the legislation amendment was completely enforced.

^d Figures count all sanctions imposed on welfare recipients including those for repeated incidents of non-compliance.

^e Source: Statistics of the Federal Employment Agency at <http://statistik.arbeitsagentur.de> (accessed November 1, 2010). Figures for 2005 and 2006 are not available.

Finally, [table 2.6](#) summarizes the expenditures on welfare in Germany from 2005 to 2009. Since both UBII and social allowance are only granted if the resources of the entire household are insufficient to cover living expenses, the table also includes information on the number and size of households dependent on welfare. In total, there were about 3.7 million households on average claiming welfare benefits during the observation period. The average household size was 1.8 persons in 2005 and 1.9 persons in 2009. Households received on average monthly welfare payments of 838 euros in 2005 and 850 euros in 2009. These payments included the base payment of UBII, social allowance, housing costs, social insurance contributions and expenses for additional needs. While the amount of social insurance contributions declined

¹⁸ No reliable figures are available for 2009 due to changes in statistical recording.

over the years, payments for housing costs increased from 274 euros in 2005 to 320 euros in 2009.

Table 2.6: Expenditures on welfare in Germany (2005-2009)

	2005	2006	2007	2008	2009
Households on welfare					
Number of households on welfare ^a	3,717	3,979	3,725	3,576	3,559
Average size of households on welfare ^b	1.8	1.8	1.9	1.9	1.9
Average monthly payment to a household on welfare ^c					
Total payment	838	854	818	822	850
Base payment of UBII	340	342	341	338	343
Social allowance	14	14	15	15	18
Housing costs	274	295	308	311	320
Social insurance contributions	206	198	150	154	163
Expenses for additional needs	4	4	4	4	5
Expenditures on welfare ^d					
Spending for the base payment of UBII, social allowance and housing costs	32.8	34.7	31.5	30.2	31.1
Spending for ALMP	3.1	3.8	4.2	4.7	5.0
Administrative costs	2.6	3.1	3.2	3.3	3.7
Total expenditures	38.5	41.6	38.9	38.2	39.8

^a All figures are in the thousands. Source: Bundesagentur für Arbeit (2006a, 2007a, 2008a, 2009a, 2010a).

^b The household size is measured as the number of all welfare dependent persons living together in one household.

^c All numbers are given in euros. Source: Bundesagentur für Arbeit (2006a, 2007a, 2008a, 2009a, 2010a).

^d The numbers on expenditures are given in billions of euros and refer to centralized welfare agencies only. Comparable data for decentralized agencies is not available for the entire period from 2005 to 2009. Source: Bundesagentur für Arbeit (2006b, 2007b, 2008b, 2009b, 2010b).

On an aggregate level, centralized welfare agencies spent 32.8 billion euros on the base payment of UBII, social allowance, and housing costs in 2005. With 3.1 billion euros in expenditures on ALMP and 2.6 billion euros in administrative costs, the total spending on welfare amounted to 38.5 billion euros in that year. Along with the number of welfare recipients, total spending increased in 2006 to 41.6 billion euros. After this peak, expenditures declined in 2007 and 2008 but began to rise again in 2009 (39.8 billion euros). While spending for the base payment of UBII and social allowance was lower in 2009 (31.1 billion euros) than in 2005 (32.8 billion euros), expenditures for ALMP and administrative costs were considerably larger. Administrative costs increased by more than 40% (from 2.6 billion euros in 2005 to 3.7 billion euros in 2009) and spending on ALMP by more than 60% (from 3.1 billion euros in 2005 to 5.0 billion euros in 2009). According to Bundesagentur für Arbeit (2009b and 2010b), the increase in spending on ALMP

was due to a more frequent assignment of programs, while the rise in administrative costs resulted mainly from increased labor costs in welfare agencies and from increasing expenditures on external services, e.g. on technical maintenance and public relation services.¹⁹

2.3 Data Sources

In order to evaluate thoroughly the effectiveness and efficiency of labor market activation of welfare recipients, comprehensive and high-quality data on individual basis are needed. Before 2005, no appropriate data were available. In particular, there was a lack of information on social assistance recipients. Data on these persons were not collected systematically; it was collected only in small surveys, if at all. Information on unemployment assistance recipients was richer because the Federal Employment Agency (FEA) sampled these persons in administrative records. After the 2005 welfare reform, administrative data coverage was expanded to all welfare recipients. Yet the disruptions caused by the reform created considerable problems for the quality of administrative data during several months after the introduction of the reform. Reliable information did not become available until 2006. This thesis thus relies on data from 2006 and after. But since centralized and decentralized welfare agencies do not report their data in the same way, this thesis also makes use of comprehensive surveys at individual and agency levels. The data sources are described in this subsection.

All local employment offices (LEOs) and welfare agencies in Germany must collect data on the sociodemographic characteristics of their clients (unemployment insurance benefit and welfare recipients) and the activation measures applied. These data are used for administrative purposes and are transferred monthly to the FEA for statistical reporting. In addition, employers are required to submit individual information on all employees who are subject to social insurance contributions or who have minor employment (*geringfügige Beschäftigung*) on a yearly basis. The FEA compiles the incoming information into different data sources, described as follows (see Dorner et al., 2010):

- **Employee History** (*Beschäftigten-Historik*, BeH): The Employee History contains all employment spells of an individual provided that employment

¹⁹ Unfortunately, there is no comprehensive data available on the expenditures of decentralized welfare agencies for the period from 2005 to 2009. According to Bundesagentur für Arbeit (2008b), overall expenditures on welfare (including centralized and decentralized welfare agencies) amounted to 44.4 billion euros in 2005, to 49.1 billion euros in 2006, and to 45.3 billion euros in 2007. This information is missing for 2008 and 2009.

is subject to social insurance contributions or considered minor employment.

- **Benefit Recipient History** (*Leistungsempfänger-Historik*, LeH): The Benefit Recipient History documents all periods during which an individual received insurance based benefits from the FEA. These benefits include unemployment insurance benefits and, prior to 2005, unemployment assistance.²⁰
- **Welfare Recipient History** (*Leistungs-Historik-Grundsicherung*, LHG and XLHG, respectively): The Welfare Recipient History covers all spells of UBII and social allowance receipt. The method of welfare recipient data collection changed once welfare administration was divided into centralized and decentralized welfare agencies. While the centralized agencies use the standard software system of the FEA, each decentralized agency applies its own software solution to collect data on their clients. Even though the decentralized agencies are required to report their data in a standardized way to the FEA, the content of the data differed considerably from the data of centralized agencies in the early post-reform period.²¹ The FEA has since tried to harmonize the information, but the data of centralized and decentralized welfare agencies are still not identical which is why they are stored in two different data sets. The LHG contains the data of centralized agencies and the XLHG contains the data of decentralized agencies.²²
- **Jobseeker History** (*Arbeitsuchenden-Historik*, ASU and XASU, respectively): The Jobseeker History provides information about periods of job search including job search during spells of unemployment but also job search on the job. Moreover, it includes periods of up to six weeks during which an individual was not available to the labor market due to illness. Since 2005 the information of the jobseeking history of welfare recipients has been collected in a different way by centralized and decentralized agencies. Despite efforts to harmonize the information, it still differs in a number of characteristics and is stored in two separate data sets. In the case of

²⁰ In addition, prior to 2005, the LeH documented all spells of maintenance allowance (*Unterhaltsgeld*) receipt. Maintenance allowance could be paid to participants in ALMP.

²¹ Differences in the data did not occur with respect to the quality of the reported start and end dates of individual welfare spells but rather with respect to the structure of additional information on the welfare spells. For example, centralized welfare agencies reported in detail on the welfare payments associated with a spell separately for base payment of UBII, social allowance, housing costs, social insurance contributions and other expenses for additional needs, while decentralized agencies reported only an aggregate figure for all payments. The level of detail also varied with respect to sociodemographic variables as, for instance, family status (see ZEW et al., 2007 and 2008).

²² The first letter in the name of the XLHG data set refers to the interface XSozial, used by decentralized welfare agencies to report their data.

centralized agencies, the information is stored in the ASU data set; with decentralized agencies, it is stored in the XASU data set.²³

- **Program Participation History** (*Maßnahme-Teilnehmer-Historik*, MTH and XMTH, respectively): The Program Participation History lists all spells of participation in Active Labor Market Programs (ALMP). Since 2005, data for welfare recipients are collected separately by centralized (MTH data set) and decentralized agencies (XMTH data set). The data sets differ greatly (see ZEW et al., 2008). Names and labels of documented programs are not identical in MTH and XMTH. The classification of programs is much more detailed in centralized agencies. Yet the broader categories in XMTH are not an aggregation of the finer MTH categories. Some programs reported by centralized welfare agencies are not documented by decentralized welfare agencies, and some program names in XMTH do not match with programs reported in MTH. In general, program participation seems to be underreported in XMTH.

All data sets provide information on a daily basis, i.e. all spells of employment, unemployment, job search, benefit receipt and program participation are documented with their start and end date. Moreover, all data sets include a number of variables describing further characteristics associated with the respective spell (see Oberschachtsiek et al., 2009; and Dorner et al., 2010). The Employee History (BeH), for example, includes information on sex, age, nationality, family status, place of residence, professional qualification, profession, occupational status, industrial sector, and wage. The Benefit Recipient History (LeH) and the Welfare Recipient History (LHG and XLHG) provide information on type and amount of benefits received.²⁴ Moreover, the latter data set contains detailed information on household composition. The Job-seeker History (ASU and XASU) includes information on schooling of the job seekers and their desired form of employment. It also documents disabilities acting as potential obstacles to employment. The Program Participation History (MTH and XMTH) covers the type of the programs participated in as well as their planned and actual duration.

The FEA merges all five data sources in order to create a single data set that contains all documented labor market spells of an individual in chronological order. This single data set is referred to as **Integrated Employment**

²³ As in the case of LHG and XLHG, differences between ASU and XASU do not relate to the quality of reported start and end dates of job search spells but rather to the structure of additional information on the spells. Job search spells seemed to be underreported in XASU in the early post-reform period (see ZEW et al., 2008).

²⁴ As noted above, the information on benefits in LHG and XLHG differs in its level of detail. In both data sets, the reported figures are unreliable in several cases (see ZEW et al., 2007). For example, in some spells, negative welfare payments are reported, and in other spells, the documented figures are either implausibly high or implausibly low. The monetary values contained in the LeH and BeH data sets are similarly unreliable. For this reason, I do not make use of monetary values reported in the administrative data.

Biographies (*Integrierte Erwerbsbiografien*, IEB). For reasons of technical manageability, not all variables of the underlying five data sources are integrated into the IEB data set. But it is possible to combine each IEB spell with the original spell in order to add more detailed information.

The IEB data set is widely used for the evaluation of ALMP targeted at unemployment insurance benefit recipients (see Wunsch and Lechner, 2008; and Fitzenberger et al., 2010). Due to its large size, the long time period it covers, and the detailed information for various labor market states, it is often seen as more advantageous than survey data sets such as the German Socio-Economic Panel (GSOEP). With regard to welfare recipients, however, the IEB data set is not without shortcomings. As noted above, the division of welfare administration in 2005 also led to different data collection approaches by centralized and decentralized welfare agencies. The centralized agencies use the standard FEA software that is also used in the LEOs to collect data on unemployment insurance benefit recipients. The use of the standard software made it relatively easy to integrate data of welfare recipients on job search and program participation into the Jobseeker History ASU and the Program Participation History MTH, respectively. Along with the LHG, data on job search and program participation of welfare recipients registered at centralized agencies could thus be integrated quite early into the IEB data set, even though there were adjustment problems in the early post-reform period.

By contrast, decentralized welfare agencies use their own data collection systems with the result that XLHG, XASU, and particularly XMTH differ in many respects from LHG, ASU, and MTH, respectively. Thanks to the immense efforts to harmonize the data, XLHG and XASU could be integrated into the IEB in June 2009. Yet these data sets are still not identical with their counterparts from centralized agencies. The program participations documented in XMTH have yet to be integrated into the IEB. Thus, neither the IEB data set nor the underlying data sources provide a consistent and comprehensive basis of information on all welfare recipients in Germany.²⁵

This data restriction has crucial implications for the empirical analyses of this thesis. For the first empirical analysis – whether centralized or decentralized welfare agencies are more successful at integrating welfare recipients into self-sufficient employment – it means that administrative records cannot be used as the only data source. Comparable data on the characteristics of welfare recipients in centralized and decentralized welfare agencies are needed as well. Since such comparable information about the characteristics of welfare

²⁵ It is again important to note that the reported start and end dates of spells in XLHG and XASU can be considered as reliable except for the early post-reform period. Yet the structure of additional information on the spells is not identical with information in LHG and ASU. XMTH cannot be considered as a reliable data source. Program participations of welfare recipients registered at decentralized welfare agencies are likely to be underreported, and the documented information differs widely from the information in the MTH data set (see ZEW et al., 2008).

recipients could only be assured on the basis of a survey, it was decided to build up a new data base and to use the administrative data as additional information only. At the heart of this new data base is a large-scale survey of almost 25,000 welfare recipients in centralized and decentralized welfare agencies. The survey data can be combined with administrative records at the individual level. In addition, surveys were conducted at the agency level to gather information on internal organization and strategies of welfare agencies including information on the use of benefit sanctions within welfare agencies. The agency information can be combined with the individual survey data as well. The data base thus provides information for studying the relative success of centralized and decentralized welfare agencies and the effectiveness of benefit sanctions with respect to employment uptake of welfare recipients. Subsection 2.3.1 gives a detailed description of this data base used in chapters 3 and 4. [Table A.2.1](#) in the appendix to this chapter summarizes its main characteristics.

As for the evaluation of the effectiveness and efficiency of ALMP targeted at welfare recipients, the restriction of the administrative data implies that only program participants registered at centralized welfare agencies can be considered on the basis of these data. Welfare recipients registered at decentralized agencies must be excluded from the analysis because of missing or incomplete information in XMTH. Of course, program evaluation could also be based on survey data for centralized and decentralized agencies. But the administrative data are advantageous for the evaluation of ALMP. Due to their large size, they enable a detailed evaluation of ALMP with respect to different program types and subgroups of welfare recipients, particularly immigrants. Moreover, administrative data provide a more accurate recording of start and end dates of assigned programs than self-reported survey data. The analysis in chapter 5 is based on administrative data with the IEB data set as the main source. The fiscal cost-benefit analyses in chapter 6 build directly on the results of chapter 5 and are thus based on the same administrative data. Yet since the administrative data lack reliable information on post-welfare wages of successfully integrated individuals, chapter 6 makes also use of the GSOEP to estimate the fiscal benefits of an integration into employment after a successful participation in ALMP. Subsection 2.3.2 describes the data base used in chapters 5 and 6 in more detail. Its main characteristics are summarized in [table A.2.1](#) in the appendix to this chapter.

2.3.1 Data Base Used in Chapters 3 and 4

To evaluate the relative success of centralized and decentralized welfare agencies and to analyze the effectiveness of benefit sanctions, a unique data base has been created that combines individual information on welfare recipients with information on the welfare agencies at which the individuals are regis-

tered.²⁶ The data are confined to 154 agencies, a subset of all 439 German welfare agencies. Of the sample agencies, 51 exhibit a decentralized organization. The remaining 103 agencies have a centralized organization. They were selected to obtain regional units with local labor market conditions comparable to the 51 decentralized agencies. When choosing comparable agencies, this thesis is built directly on the previous work of Arntz et al. (2006). Based on comprehensive information on the situation of regional labor markets prior to 2005 (before the reform took place), the authors determine comparable welfare districts across Germany in a microeconomic analysis combining individual and regional data. In a first step, the authors identify regional variables that are, in addition to personal characteristics, relevant to the transition of long-term unemployed individuals into employment. Then, in a second step, the authors use the reduced set of relevant regional variables and apply the distance matching suggested by Zhao (2004) to identify comparable districts in a regional matching procedure. Figure A.2.1 in the appendix to this chapter illustrates the regional location of the sampled welfare agencies.²⁷

To obtain further information on the internal organization and the strategies of the sampled welfare agencies, case studies and management surveys were conducted in the agencies. These studies and surveys delivered information for the year 2006 about the type of case management, the activation concept, the placement approach, the mix of ALMP and many other organizational and strategical aspects, including the use of benefit sanctions within welfare agencies. In addition, a wide range of regional variables (e.g. unemployment ratio, GDP per employed person, rate of social assistance recipients) were collected for each welfare district on a monthly basis for the pre-reform period from 1999 to 2004.

The individual part of the data base consists of a repeated survey of welfare recipients registered at the 154 agencies. These individuals were randomly sampled from administrative records of the FEA. The sample is stratified according to the following characteristics: age (15 to 24 years, 25 to 49 years, 50 to 64 years), single parent status, and children younger than three years living in the household. This stratification is made to ensure that the number of observations is sufficiently high for these groups. Per household, only one welfare recipient was drawn. In the survey, two computer-assisted telephone interviews were conducted at the beginning of 2007 (January to April, first wave) and about one year later (November 2007 to March 2008, second wave). Depending on the size of the welfare agency, 100 to 300 telephone interviews with welfare recipients were conducted within each agency in the first wave.

²⁶ Parts of this data base have been made publicly available as a scientific use file at the Federal Employment Agency (FEA). See Oertel et al. (2009) for details on data content and access.

²⁷ The sampled welfare agencies provide a fairly representative picture of all welfare agencies in Germany, in particular with respect to internal organization, activation strategies, and the composition of welfare recipients registered at the agencies (see IAW and ZEW, 2006).

In total, 24,563 interviews were realized. About 80% (ca. 20,300) of the individuals interviewed were drawn from the stock of welfare recipients receiving welfare benefits in October 2006 (stock sample), whereas 20% (ca. 4,300) of the interviews are from an inflow sample of persons who entered the welfare system between August and December 2006.

Despite 93% of interviewees agreeing in the first wave to participate in the follow-up interview, attrition was high. Mainly due to relocation problems and refusal to participate, the second wave yielded 13,497 panel cases only. To compensate these losses, a refreshment sample of 7,086 cases was drawn from the same populations as the original samples (5,736 persons from the stock sample and 1,350 from the inflow sample). The participants of the refreshment sample had to answer retrospective questions to make up for the information collected from the panel cases in the first wave.²⁸

The survey data include individual characteristics (e.g. sex, age, marital and parent status, education, health and disability status), information on the members of the household (number and age of household members and interviewees' relation to them), and details concerning the labor market status, labor market history, and labor market activation (current labor market state, former spells of employment subject to social insurance contributions, former spells of minor employment, former spells of unemployment, receipt of welfare benefits, participation in ALMP). They also contain information about basic skills (e.g. reading, writing, math and computer skills), other qualifications (e.g. driver's license), job search activities, the concessions respondents would be willing to make to obtain a new job, and information about benefit sanctions. Information about sanctions is used in chapter 4 and is described in more detail there. Finally, the data contain comprehensive information on the migration background of interviewees and their parents, allowing for a detailed definition of immigrants. In the analyses of chapters 3 and 4, immigrants are thus categorized into three groups:

- 1) Individuals with non-German citizenship,
- 2) German citizens who were born abroad and who have at least one parent also born abroad, and
- 3) German citizens who have at least one parent born abroad and who use a foreign language as the main language within the family circle.

In addition to the survey data, administrative data on the interviewed persons supplemented the individual information. The administrative data were provided by the FEA in terms of the IEB data set and the source files (X)LHG, (X)ASU and (X)MTH.²⁹ The version of the IEB used in this thesis

²⁸ The data contain individual sample weights that take into account both stratification and attrition.

²⁹ In this thesis, version V7.02 of the IEB is used (release: December 2008). This version does not include XLHG, XASU and XMTH. This is why these data sets were ordered separately. As noted above, for technical manageability, the IEB data set

covers employment spells on the basis of BeH from January 1990 to December 2007. Information on unemployment insurance benefit receipt derived from LeH has the same start date but ends somewhat later, in October 2008. ASU and MTH contain spells from January 2000 to September 2008. All other data sets (LHG, XLHG, XASU, XMTH) start in January 2005 and end in October 2008. The administrative data sets have a personal identifier, which is also used in the survey data. Survey and administrative data can thus be combined via this identifier for those persons who explicitly agreed with this combination in the interview. This allows the addition of further information on the labor market history to the rich survey data.

The administrative data also allow one to construct the outcome variable of interest, namely self-sufficient employment. This variable is measured as a binary indicator on a monthly basis through December 2007. It takes on the value 1 if an individual is employed and no longer receives welfare benefits. Otherwise, the variable is 0.³⁰

2.3.2 Data Base Used in Chapters 5 and 6

For the empirical analyses in chapters 5 and 6, a sample of all inflows into welfare in Germany from January 1, 2006 to December 31, 2006 is used. This allows one to construct a data base that is large enough to look at different ALMP and at different subgroups, in particular, persons with a migration background. The data on the inflows stem from administrative records of the FEA and refer to centralized welfare agencies only. To ensure that inflows in the data are not short-term recurrences of welfare episodes – due, say, to false reporting or data errors – only those persons are considered who have not been registered in welfare for three months before the sampling date.

does not contain all variables from LHG, ASU and MTH, respectively. However, all spells in the IEB can be merged with the original information. In order to be able to supplement the information in the IEB, the data sets LHG, ASU and MTH were ordered separately in addition.

³⁰ Employment and welfare status are measured on the first day of each month. As has been noted above, the information in LHG and XLHG on start and end dates of welfare spells is reliable. These data sets can thus be used for the construction of reliable outcome variables. The employment status is reported by employers and, thus, not subject to the different data collection approaches by centralized and decentralized welfare agencies. Note, however, that the outcome variable only considers employment subject to social insurance contributions. It does not include spells of minor employment or self-employment. The definition of the outcome variable does not preclude employers from receiving wage subsidies for hiring. Yet since German wage subsidies were found to give rise to huge deadweight effects (see Boockmann et al., forthcoming), I neglect the distinction between subsidized and non-subsidized hiring.

All considered individuals originate from different households, i.e. only one welfare recipient was drawn per household.

To obtain information on the sampled individuals, different administrative data sets are used. The main source is the IEB data set, which provides comprehensive information on welfare recipients with regard to sociodemographic characteristics, labor market history, and participation in ALMP.³¹ The detailed data allow the differentiation of short-term training programs and Temporary Extra Jobs. These will be evaluated in chapters 5 and 6.

The analyses of chapters 5 and 6 explicitly distinguish between immigrants and native Germans. In these chapters, immigrants are defined to comprise all foreigners and naturalized persons. Foreigners are persons who do not possess German citizenship. The naturalized group contains German resettlers (*Aussiedler/Spätaussiedler*) from the former Soviet Union and Eastern Europe and naturalized foreigners. Although citizenship is recorded in the IEB, identification of naturalized foreigners and German resettlers could only be carried out partially from this data set. To comprehensively identify resettlers, additional information of an extended version of the Jobseeker History (ASU) – dating back to 1990 – is considered, which contains resettler status. For the identification of naturalized foreigners, information is used from the IEB for the years 1990 to 2006 and from an extended version of the Employee History (BeH) for the years 1975 to 1989. A person with German citizenship at the time of inflow into the welfare system in 2006 who was recorded being a foreigner in any spell since 1975 is treated as a naturalized foreigner. Unfortunately, the administrative records of the FEA contain neither information about the place of birth nor about the parents of the individual. Moreover since minors (persons under 15 years of age) appear neither in the IEB nor in the BeH, it is impossible to identify immigrants who were naturalized at an early age and to distinguish between first and second generation immigrants. The remaining group of persons, who were not identified as immigrants and are labeled as native Germans, might thus include some persons with a migration background as well.

Based on this identification strategy of immigrants, an analysis sample was drawn in a 1:1 ratio of persons with a migration background and native Germans on a regional level. In a first step, about 80,000 immigrants were randomly drawn from the total inflow population into welfare in 2006. In a second step, for each immigrant randomly drawn from a welfare district one native German was drawn from the same district, resulting in an overall sample of about 160,000 welfare recipients. Due to the sampling procedure, immigrant-native German ratios are balanced across welfare agencies and should mitigate regional imbalances in the distribution of immigrants.

Like those in chapters 3 and 4, the analyses in chapters 5 and 6 focus on the binary outcome variable self-sufficient employment. Yet since programs are evaluated that start in 2006 and 2007, the IEB data set and its source

³¹ Like the data base described in subsection 2.3.1, version V7.02 of the IEB is used.

files are not appropriate for the construction of this outcome measure because of their limited time horizon. Instead, another data set of the FEA is used, the so-called **Verbleibsnachweise** (VbN). The VbN data set for labor market states of individuals is more up to date than the IEB. It allows one to construct the outcome variable on a monthly basis from the sampling date through July 2008.³²

It has to be noted, though, that due to delays in reporting by employers information available in the VbN has up to a two-year time lag. In a first step, the FEA forecasts the information included in the VbN and in a second step replaces the forecast by the actual reported information. As a result, assessing contemporary effects of ALMP is possible but based purely on forecasted employment information. As the evaluation of program effects should be based on reported rather than forecasted information, the observation period for the analyses in chapters 5 and 6 ends in July 2008. Data were extracted in February 2009. As the time span between July 2008 and the date of data extraction from the VbN for the analyses amounted to only seven months, the relation between reported and forecasted data was extensively checked. The share of forecasted data used in the analyses amounts to between 4% and 10% at most. See Fröhlich et al. (2004) for more information on the relation of forecasted and reported data in the VbN.

What is lacking in the administrative data is reliable information on wages. In particular, there is no reliable information on wages individuals earn after leaving welfare. Since this information is crucial for fiscal cost-benefit analyses of Temporary Extra Jobs and short-term training programs, chapter 6 also makes use of the German Socio-Economic Panel (GSOEP). The GSOEP is a large, nationally representative longitudinal data set that has been surveying households and individuals in Germany on a yearly basis since 1984 (see Haiken-DeNew and Frick, 2005; and Wagner et al., 2007). In this thesis, the waves from 2006 to 2008 are considered, with about 20,000 individuals in 11,000 households sampled in each year. Along with detailed sociodemographic information, the GSOEP surveys the labor market status and the monthly wage of interviewees. Based on this self-reported information, it is possible to estimate post-welfare wages of former welfare recipients. In turn, the estimated wages allow one to determine fiscal benefits of participation in ALMP and thus provide – together with information on program costs obtained from statistics of the FEA – the necessary ingredients for cost-benefit analyses. Chapter 6 will describe the conceptual framework for these analyses in more detail.

³² The definition of the outcome variable constructed on the basis of the VbN data set is identical to the one described in subsection 2.3.1. Again, employment and welfare status are measured on the first day of each month.

Germany's 2005 Welfare Reform
Evaluating Key Characteristics with a Focus on
Immigrants

Walter, Th.

2013, XII, 264 p., Hardcover

ISBN: 978-3-7908-2869-6

A product of Physica-Verlag Heidelberg