

## Talking point

### Unemployment benefit Q and the elusive quest for social justice

March 16, 2017

**Time to enhance (social) justice is the election campaign slogan of the SPD and its leadership candidate, Martin Schulz. To bring this slogan to life the chancellor candidate and the Federal Minister for Labour, Andrea Nahles, recently presented plans for specific labour market policy measures. The duo is proposing that the existing unemployment benefit be extended to include an additional component and that the eligibility criteria be relaxed. The idea of the new benefit Q (for qualification) is to grant registered recipients the right to participate in qualification programmes. It could double the benefit period – for younger jobseekers from one to two years and for those aged 58 and above from two to four years.**

To facilitate access to existing benefits for people with unsteady working careers, the two politicians are also calling for an extension of the so-called frame period relevant for fulfilling a major eligibility criterion, namely the minimum contribution period. Only those who contributed to unemployment insurance for a total period of at least 12 months within a time frame of two years before their registration, or three years according to the new proposals, are eligible for the benefit\*. (These terms are longer for older unemployed persons wishing to qualify for a longer benefit period.)

With the proposal to no longer (partially) count qualification periods towards the benefit period – so that benefits will be paid for a 100% longer period instead of only for 50% longer as today – the SPD seems to hit the mark. Isn't it in line with the idea of "social justice" that older people be eligible for extended unemployment benefit periods – especially if they use the additional time to gain qualifications? After all, they have probably paid into the system far longer than younger people. What's more: Doesn't Germany need a qualification initiative especially for older jobseekers to enhance their skills given the challenges of an increasingly digitalised world of work?

People tend to hastily answer yes to these questions. The proposal to extend benefits for the older unemployed might intuitively gain much public support, particularly as it seems to be in line with a generally accepted concept of justice, namely the balance of performance and consideration, i.e. the contributions paid and the entitlement to benefits. However, the reference to this principle of equivalence is misleading here. Firstly, the proposed new benefit only corresponds to this principle to a very limited extent. According to current legislation, the duration of the paying-in phase is only one criterion with limited impact on a benefit term that depends much more on the beneficiary's age. The new proposal will exacerbate this problem.

Secondly, having a statutory unemployment insurance scheme that closely links the benefit period to the contributions paid would also be problematic in terms of justice across all age and social groups. This scheme, a statutory public institution, is not a collective "money sock" in favour of older jobseekers. This would contradict its purpose – namely to more or less safeguard unemployed people's standard of living for a limited period during which they look for work. It would also overstrain the system, allow an entitlement mentality to develop and encourage moral hazard, i.e. produce misguided incentives to claim benefits for those who have paid contributions for longer periods. Therefore the linking of the benefit period to former contribution payments should be limited. This happened in the early 1980's when in the course of the Hartz reforms the maximum benefit period was reduced to 12 months, and 18 months for the over 55s.

The reform's marked impact can be seen from the development of the employment rate for the population aged between 55 and 64. Germany has advanced from an unfavourable rank in the mid-range to the second best rank in the EU behind Sweden. However, in 2008 Chancellor Merkel's first grand coalition already extended the benefit period again – to up to 24 months for unemployed persons aged 58+. As explained above, the extended benefit period for older recipients is a non-insurance related benefit. If politicians think that such an extraneous benefit should be offered, it should be financed by funds from the government's budget.

But doesn't the end justify the means? Aren't the proposed qualification programmes important support and preventive measures helping the unemployed to find new jobs and keep them? With regard to the already existing qualification programmes the legislator's answer was obviously "yes", so that the employment agencies are instructed to act accordingly and to finance such programmes. Today, however, access to such programmes is provided based on a case-by-case assessment. The agencies propose participation in a programme if there is a prospect of success. This should be line with the principles governing Germany's social insurance schemes. As part of a mutually supportive group, contributors are prepared to help other members reduce the risk of becoming or remaining unemployed.

By contrast, if employment agencies were restructured and acted as qualification and training agencies as proposed, they would effectively be going far beyond their task as part of the social insurance system. It would burden the contributors, i.e. the employees and businesses, with costs that are not theirs to shoulder. This would result in higher contribution rates, in principle, and thus widen the gap between gross and net income to the detriment of employees, especially those earning lower wages. Where is the "social justice" in that?

A public agency for further training and qualification would have to know the future-oriented, promising qualifications and professions to be able to put large numbers of beneficiaries on the right track. This is not a task the state can manage. Local enterprises are probably in the best position to do the job. Business representatives have rightly pointed to the competencies and responsibility of such enterprises when it comes to qualification and further training, and that where the focus should be. Notwithstanding the necessity for state support on a case-by-case basis, we should also bear in mind that it is primarily the individual's own task to maintain his or her employability.

The employment benefit Q would be tantamount to a U-turn back towards a paternalistic public labour market policy which was recognised as inefficient and thus corrected by the Hartz reforms. Since then labour agencies have rightly given priority to employment. Their aim should continue to be to help the unemployed get back to work as soon as possible. Experience has shown that the longer people are unemployed the worse their prospects finding a job. As a result, many qualification measures are likely to fail if, like the current proposals, they go hand in hand with a longer period of unemployment.

Making employment a top priority implies that in some circumstances the unemployed have to accept offers for jobs that are not exactly what they were looking for. However, even a right to participate in qualification programmes would only partially protect them against this risk. It would overstretch the principle of solidarity if a social security scheme were to make such a promise. In addition, the right to obtain a qualification might prove to be a duty for many of those who have to claim unemployment benefits for a longer period, with a negative impact on their individual motivation to qualify.

No doubt, in many cases qualification programmes make sense and can sustainably enhance job seekers' employability. But this does not hold for a general right to participate in such programmes, even if it were to be granted especially to older jobseekers. On the contrary, there is a risk that too many people would (mis-)use an additional unemployment benefit Q as a bridge to early retirement. Thus, the benefit Q would clearly contradict the call for inter-generational justice.

\* These figures hold for the unemployed below the age of 50. For those over 50, the respective terms are longer.

Original in German: March 10, 2017



Author: Dieter Bräuninger (+49) 69 910-31708

...more information on **Economic and European policy issues**  
Talking Point - Archive

© Copyright 2016. Deutsche Bank AG, Deutsche Bank Research, 60262 Frankfurt am Main, Germany. All rights reserved. When quoting please cite "Deutsche Bank Research".

The above information does not constitute the provision of investment, legal or tax advice. Any views expressed reflect the current views of the author, which do not necessarily correspond to the opinions of Deutsche Bank AG or its affiliates. Opinions expressed may change without notice. Opinions expressed may differ from views set out in other documents, including research, published by Deutsche Bank. The above information is provided for informational purposes only and without any obligation, whether contractual or otherwise. No warranty or representation is made as to the correctness, completeness and accuracy of the information given or the assessments made. In Germany this information is approved and/or communicated by Deutsche Bank AG Frankfurt, licensed to carry on banking business and to provide financial services under the supervision of the European Central Bank (ECB) and the German Federal Financial Supervisory Authority (BaFin). In the United Kingdom this information is approved and/or communicated by Deutsche Bank AG, London Branch, a member of the London Stock Exchange, authorized by UK's Prudential Regulation Authority (PRA) and subject to limited regulation by the UK's Financial Conduct Authority (FCA) (under number 150018) and by the PRA. This information is distributed in Hong Kong by Deutsche Bank AG, Hong Kong Branch, in Korea by Deutsche Securities Korea Co. and in Singapore by Deutsche Bank AG, Singapore Branch. In Japan this information is approved and/or distributed by Deutsche Securities Inc. In Australia, retail clients should obtain a copy of a Product Disclosure Statement (PDS) relating to any financial product referred to in this report and consider the PDS before making any decision about whether to acquire the product.