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Acting Locally for Employment: Policies and Practices of Localized Employment Services in Germany

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The political context for employment strategies

When dealing with the emergence of local employment policies and its current state, it is always helpful to first have a look at the wider historical and political context of the present situation. For that reason I will reflect on the discourse on the localization of employment policies in the perspective of the European Employment Strategy before I move on to a brief summary of the recent developments of employment and labor market policy in Germany and its implication for local strategies.

With the Luxembourg Treaties 1997 the European Union decided for an ambitious European employment strategy, which caused a new quality of the coordination of the national politics for the labor market and employment itself. Because of the low growth rates and poor employment dynamics compared to the triad USA-Japan-Europe in the nineties, Europe got under pressure and had to take action to keep up with global competition. The causes of the poor prospects for employment were attributed mainly to structural deficits of the institutional framework conditions of the labor market. There was a consensus, that intensive reform efforts were needed in most of the member states of the European Union. Considering Europe's demographical situation, growing burdens of pensions in ageing societies and an increasing financial demand of the European welfare states, the labor force participation rate had to rise with an increasing productivity at the same time. Otherwise Europe's prosperity and quality of living would be untenable.

Another motive for a European employment strategy was the fact, that the monetary union, which was decided on at the early nineties, increased the need for a coordination of economic and employment policies. The previous adjustment mechanisms for national economies through the shift of the exchange rates were then, with a common currency, not effective anymore.

The European countries did not build the European employment strategies on a common European law; the strategy was rather designed as a process of mutual learning, setting of reform targets, reviews of the progress in implementing the strategy in the different member-states combined with benchmarking practices with regard to policies and the outcomes of member-states policies. At the meeting of the European Council in Lisbon in the year 2000, the EU-countries adopted „the open method of coordination“ as the conceptual framework, which was subsequently equipped with specific procedures and a common set of indicators. The method even expanded into fields of social policies.

In Germany as well as in other EU-member states this strategy generated a certain pressure for reforms and intense national engagement with successful models of labor market and employment policy. Transnational review and benchmarking practices created a new spirit of learning from others in Germany, which was considerably less successful in terms of growth and employment in the nineties, compared to Scandinavia, the Netherlands, Great Britain and Austria. The willingness of profound reforms concerning the welfare state and the labor market had risen in recognition of the fact, that the level of employment, the efficiency of the labor market and the functioning of the welfare state are strongly interrelated. The famous “Agenda 2010”, which opened up a new chapter in the development of the country's social and employment policies by the social democratic chancellor

Gerhard Schroeder in the year 2002, contained many elements of policies already implemented in other EU member states, which were transferred into the German context. The idea of the "Job-center" as a one-stop-agency and several new regulative measures for increased flexibility in the labor market were adopted as innovative elements within the German system. The reforms in the context of this agenda overcame path-dependencies in the German social and labor market policy, which have caused the failure of previous reform approaches. They were meant to overcome the incrustations and inefficiencies, which became obvious in the European comparison. This will be explained in more detail below.

Looking at the success of the employment strategy to date we find a mixed picture at the European level. The ambitious goal to make Europe the most competitive region in the world, which combines growth, employment and social balance, could not be fulfilled¹. Nevertheless it can be said, that at least for Germany, the European action approach gave an important impulse regarding national reform strategies, which together with the „Agenda 2010“ made it possible, not only to catch up with other European countries but to be ahead of them. From a present-day perspective the obvious problems of many EU-members, especially southern Europe and France, can be explained by the lack of a consistent learning process and the avoiding of far reaching reforms for too long.

The member-states of the European Union were the predominant addressees of the European Employment Strategy (EES). Nevertheless associated discussions about its implementation revealed a need for a local and regional dimension of the EES to be effective. Local strategies, in this perspective are the necessary counterpart of globalization and increased competition to avoid regional disparity and local imbalance as a matter of competition². *Localizing* employment policies in this respect is an important condition to "mobilize all actors involved", which has been formulated as a fundamental principle of the European strategy. Institutional incrustations and silo-mentalities can better be overcome on the local level by networks of trustful co-operations than at upper levels of the state, where the segmentation of politics is much more persistent. Furthermore networks based on mutual trust create the fundament for a culture of innovation, successful policy coordination and growth. This is the unanimous result of a bunch of specialized literature regarding network formation, network policy and „social capital“.

Not only the social partners and organizations of the civil society represent the promoters of these local strategies, but also and especially the local governments, therefore the councils and territorial authorities. They have a privileged position regarding

- a) the combination of resources and fields of policy
- b) the proximity to the problems of local businesses, the labor market and its stakeholders³.

Thus the municipalities in most countries have a range of responsibilities, which can be linked with local action for employment: economic development, creation of business friendly environment, support of local businesses, infrastructural development, as well as social services, youth welfare services, social welfare and education. Especially the combination of economical, social, and educational issues offers potential for synergies, which can be exploited for local employment policies.

¹ Wim Kok et al.: Jobs, jobs, jobs : creating more employment in Europe. Report of the Employment Taskforce. Brussels: November 2003

² Siehe: Schulze-Böing, M. / S. Feindt / K. Seibel / H. Siemon (2005): Die europäische Beschäftigungsstrategie. Die lokale Dimension, kommunale Handlungsmöglichkeiten. Offenbach am Main: Stadt Offenbach, Amt für Arbeitsförderung; Schulze-Böing, M. (2002): "The local government involvement in the Luxembourg Process on employment." In: Governance and the Open Method of Coordination, Brussels: CCRE/CEMR; Schulze-Böing, M. (2003): "Lokal handeln für Beschäftigung – die lokale Dimension der europäischen Beschäftigungsstrategie". In: H. Hackenberg (Hg.): Lokale Arbeitsmarktpolitik – Stand und Perspektiven. Gütersloh: Verlag Bertelsmann Stiftung.

³ Schulze-Böing, M.: "Local Employment Policy: Challenge for Local Government Strategy and Practice". German Journal of Urban Studies Vol. 42 (2003), No. 2

The conditions for municipalities and local action vary considerably among the European countries. There are European countries with a distinctive culture of local self-government, like Scandinavia, Germany and Austria, where local authorities have very strong democratic mandate and a wide range of responsibilities, including in Germany the right to raise local taxes and issue local law. The specific German federal system of “Länder”-states with strong competencies and the federal state has supported a culture of decentralized decision making and a widespread aversion against political centralism. On the other hand there are countries with more centralistic administrative structures, like France and Great Britain, with a rather small leeway for local strategies. Moreover possibilities and potential of local labor market policy highly depend on the institutional set up and financial structures of the individual countries.

Balance between central coordination and decentralization

The local and the national perspectives of the labor market policy do not form a contrast but complement each other. As the labor markets become regionally, transregionally and transnationally more and more interlinked, mobility between the regions and exchange processes in the market have to be supported. As labor market regimes highly depend on national legislation, it makes sense, to guarantee a minimum of cross-regional standards regarding job mediation processes and labor market services. On the other hand highly flexible mediation processes and “tailor-made” placement becomes crucial as small- and medium-sized businesses, with specific labor requirements, gain significance. Further on the individual job seeker’s circumstances and preferences become increasingly diverse. This requires a high sensitivity of local supply and demand terms, the capabilities of individuals and, if necessary, intense support of job seekers as well as of employers. Services with a strongly local embedding seem in some respect be better geared for that than services with large-scale standardized processes. The tight combination of traditional job service with social and personal support is especially important for job seekers, who are suffering constraints with regard to employability as a lack of qualification, experience of long-term unemployment or personal problems. The type of quality employment services needed more and more is customized, diverse and holistic, including case management and psychosocial counseling. There is evidence, that localized services with working connections to psychosocial institutions can manage this task much better than centrally organized authorities.

The labor markets of advanced industrial societies and „postindustrial“ economic systems show a far bigger variety of problems than traditional industrial societies, which normally were shaped by „standard work patterns“, e.g. full-time jobs of unlimited duration, steady work biography and „single-bread-winner“-family. An appropriate concept for employment services has to respond to a variety of new conditions: individualization of society, increase of atypical working conditions, increase of discontinuous work biographies, single mothers or fathers, disabled and elderly people. Not to forget the various challenges, which are connected to the integration of immigrants into gainful employment. As the strength of central coordinated services are the efficient organization of large scale processing and trans-regional standardization, the capability of individualization and of tackling complex problems can be regarded as the specific strength of localized and devolved services. The local level enables the embedding of labor market services into numerous neighboring action fields of politics and administration.

This duality of qualities does not constitute an unsolvable dilemma. Both approaches, the localized and the standardized, can be combined under certain circumstances. Nevertheless the related questions of control and allocation of resources are still valid. Central coordination can be superior, if implementation of consistent standards and efficient processes are the goal. Decentralized systems have their advantages in being flexible and adjustable to specific problems, diversity and a fast changing environment. Those systems have a higher potential of innovation compared to centrally organized systems. Considering the always changing social and economic framework, innovation capability is key for an effective employment policy. Studies of the OECD indicate an advantage for

decentralized systems regarding the effectiveness of measures and services, as well as risks by fragmentation and subcritical size of organizations, which do not make proper use of the resources. In this respect looking for the balance between central coordination and decentralization is the key challenge for labor market policy in rapidly changing economic and social systems.⁴

With the paradigm "New Public Management" the idea of decentralizing resources and operational responsibility in service processes, controlled by management by objectives was raised. It is a combination of principals – giving operational management freedom of choice of how things are done on the one hand and setting objectives and controlling for results by politics on the other⁵. Operations are linked with top decision makers through a system of agreements on objectives, service standards and the measurement of outcomes (contract-management). We will see below that this model was chosen in order to provide a framework for localized labor-market services in Germany.

The development of localized labor market services in Germany

In this section I will describe the development of labor market services in the system of the Social Code II (SGB II), which has a very strong local component. I will first present some data on the development of the labor market, and then describe the system of "basic security benefits for job-seekers" under SGB II.

The socio-economic context

After reunification in 1990, Germany experienced initially a short boom, which was driven primarily due to the strong demand forced by the state for the construction of the new eastern states („reunification-boom“). This boom however did not last very long and resulted in a long-lasting employment crisis with a hitherto unknown number of unemployed in Germany.

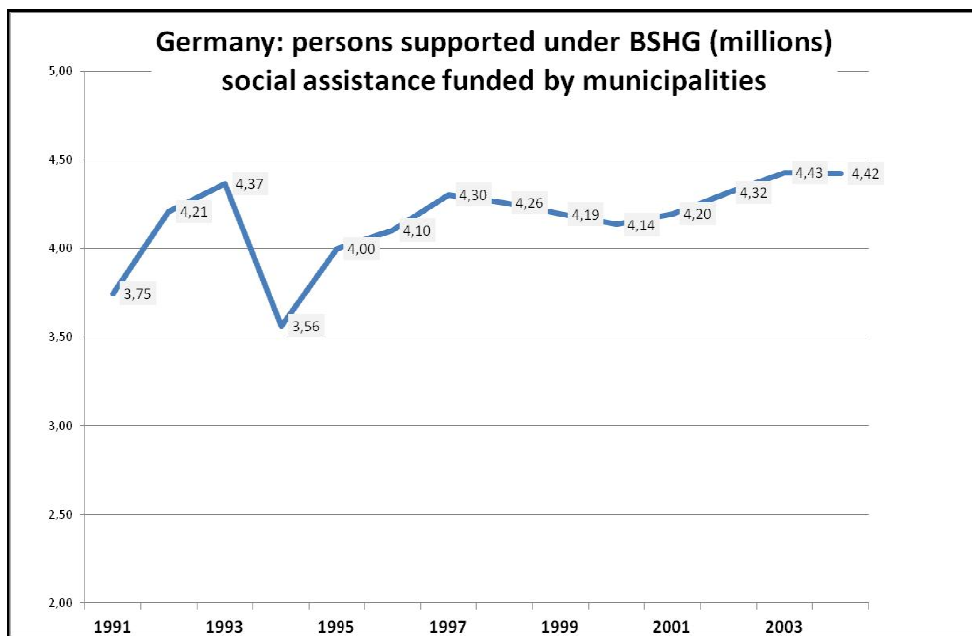
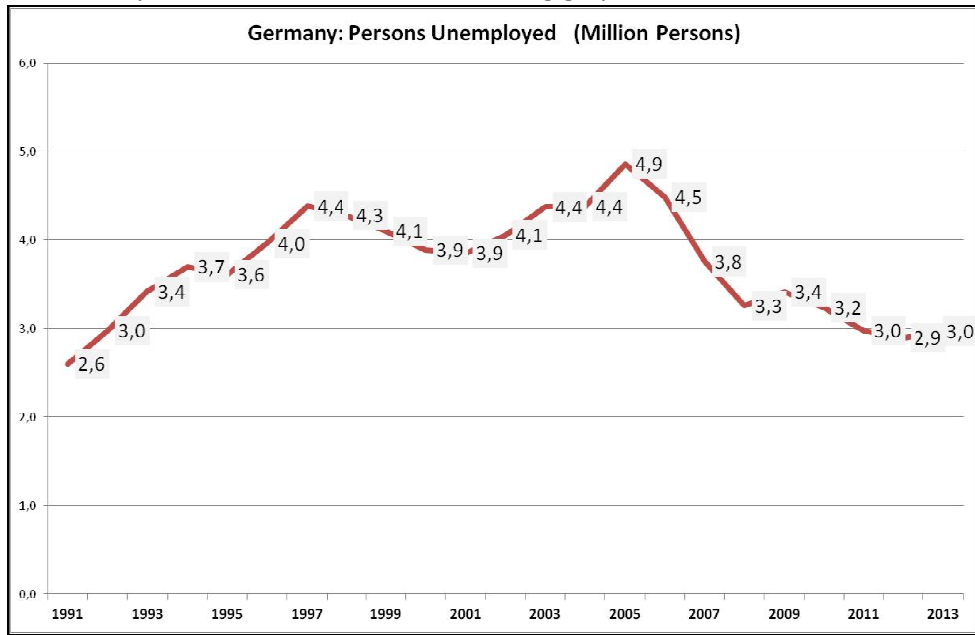
Even economic upswings have not reduced the unemployment rate significantly. The clearly by the reunification stressed budgets in the nineties forced to cut spending even the support for the unemployed. This was previously received in a relatively generous system of ongoing support, first paid in the form of an insurance claim (unemployment benefit) and when that finished in the form of a tax-financed "unemployment assistance". In addition the number of people increased, who had no claims to this system due to immigration, a broken employment history, or other life circumstances. Both the reductions in the primary coverage for the unemployed and an increasing number of unsecured people of working age meant that more and more people applied for social assistance under the Federal Social Security Act (Federal Social Assistance Act) to municipalities. There was a certain "negative municipalization of unemployment", which organizationally and especially financially stressed the municipalities very much⁶. This called for an active role of municipalities to prevent a downward spiral of worsening social conditions, financial pressure and a loss of capabilities for actively shaping the future of cities and regions.

⁴ See „Venice Action Statement“ of the LEED-Forum within the OECD: Decentralisation and Coordination. The Twin Challenges of Labour Market Policy. Venedig 2008
<http://www.oecd.org/dataoecd/46/11/40483641.pdf>

⁵ Osborne, D / T. Gaebler: Reinventing Government. How the Entrepreneurial Spirit is Transforming the Public Sector. Reading (Mass.) 1992: Addison-Wesley

⁶ Schulze-Böing, M. (2000): "Leitbild „Aktivierende Stadt“. Konzepte zur aktivierenden Sozialpolitik und Arbeitsförderung auf kommunaler Ebene." In: E. Mezger/ K. W. West (Hrsg.): Aktivierender Sozialstaat und politisches Handeln (2. Auflage). Marburg/Lahn: Schüren

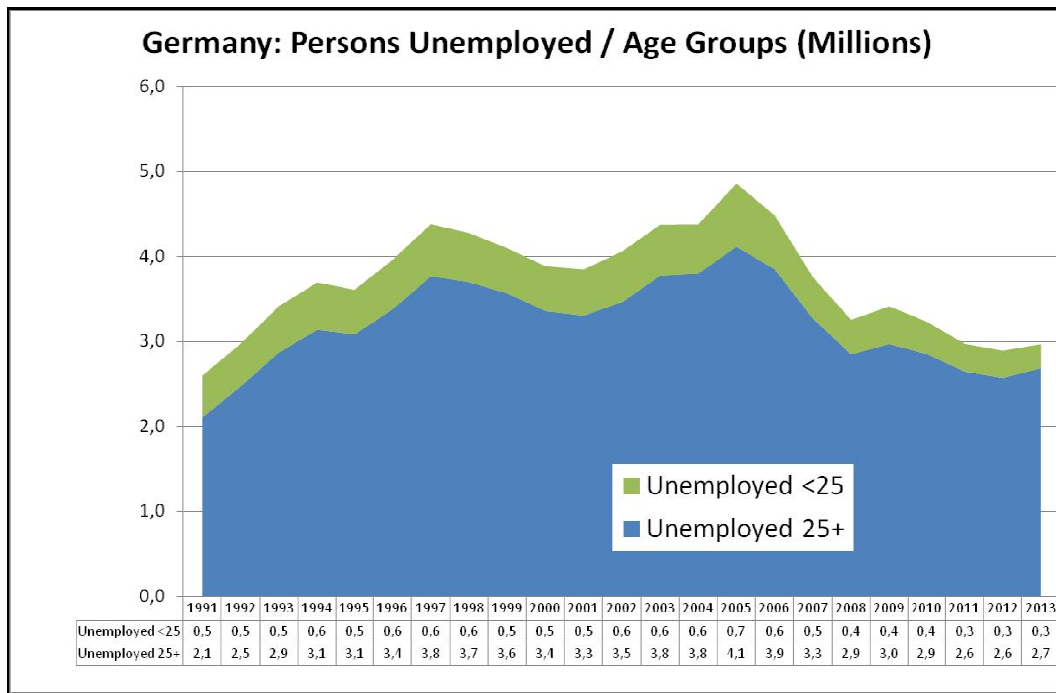
The development can be seen in the following graphs:



(The decrease in 1994 can be explained only with a reorganization of the official statistics, the asylum seekers were no longer carried in the statistics of social assistance)

The graphs show strongly rising unemployment in the years until 2005 and parallel to that a rise in the number of recipients of social assistance under the social assistance act (BSHG), which came into effect in the year 1963.

The next graph is displaying the development of unemployment with regard to age groups:



Germany had a higher unemployment rate than most of its peer developed countries in the years till 2005. An issue of major concern was the persistence of unemployment, which appeared hardly to be manageable by the traditional means of economic policy. The shifting of the financial burden of unemployment to the municipalities that had started in the old West Germany already in the eighties, has set especially large cities under pressure. In addition, unemployment in the most affected cities with high rates of poverty and many disadvantaged young people created a sort of social crisis that threatened social peace in those communities.

Research findings brought evidence that generous, unconditioned unemployment benefits granted for a long time like those provided in Germany can cause disincentives and an obstacle for the quick reintegration into employment⁷.

First initiatives of municipal and local labor market policy emerged, which were directed primarily to recipients of social assistance, long-term unemployed and disadvantaged youth. Thus, measures were introduced to create sheltered and transitional employment-schemes, which offered the unemployed subsidized temporary employment and in some cases also training and placement services. Centers of vocational education for disadvantaged youth and preparatory orientation measures financed by the municipalities were another field of practice within these municipal practices.

These local employment initiatives were more or less ad hoc, emerging out of the specific situation of each community, but more and more these were backed by systematic strategic approaches and local action plans, which were often perceived as an alternative to the obviously ineffective active labor market policy of central state agencies⁸. In a way this can be regarded as an evolutionary innovation, by which the municipalities, without a clear overall strategy, took over an increasing share of the responsibility for labor market policy. The local practices differed from the rigid, standardized and heavily regulated practice of public employment services through diversity, pragmatism

⁷ See Günther Schmid, Jacqueline O'Reilly, *International Handbook of Labour Market Policy and Evaluation*, Cheltenham 1996: Edward Elgar; Günther Schmid, *Full Employment in Europe. Managing Labour Market Transitions and Risks*, Cheltenham, UK und Northampton, MA, USA 2008: Edward Elgar

⁸ Schulze-Böing, M. (2005): „Erfolg ohne Mandat. Die Kommunen als arbeitsmarktpolitische Akteure in Deutschland.“ In: Leo Kissler / Werner Zettelmeier (Hrsg.): *Lokale Beschäftigungspolitik in Deutschland und Frankreich*, Frankfurt am Main: Campus; Schulze-Böing (2003) a. a. O.

and flexibility, but time and again also by a lower degree of structure and in parts by conceptual and strategic deficiencies.

The increasing pressure from the labor market, the realization that other countries in and outside Europe were fighting unemployment more successfully, the serious financial problems of local governments and finally the critique of the inefficiency of the existing state controlled public employment services eventually led to the labor market and social reforms of the year 2002 and following. They were named as "Hartz-Reforms", according to the chairman of a committee appointed by the then Chancellor Schroeder, Peter Hartz, at that time human resources manager of the Volkswagen Group. The reforms claimed to move from traditional "active" labor market policies to "activating" labor market policies, putting benefits under conditionality and taking a variety of measures leave persons in unemployment as short as possible, by setting strong incentives to take up work, even if it is lowly paid and in a distance to the place of residence.

The most significant part of these reforms was the "4th Act for Modern Services on the Labor Market". It laid down the abolition of the former state funded "unemployment assistance" (Arbeitslosenhilfe) as well as it brought an end to the social assistance, funded by the municipalities. They were replaced by a new integrated scheme, the "basic security benefits for job-seekers" (Grundsicherung für Arbeitsuchende), into which the two previous backup systems were merged. It is providing assistance, housing grants and some complementary grants for needy jobseekers and their families. It is means tested and funded by the state *and* the municipalities. The scheme also includes needy persons, which are employed, but with too low wages to cover the needs of the person and it's family.

Simultaneously the reference period of unemployment benefits in the insurance system ("unemployment benefit 1") was reduced to one year maximum. After that the recipients are transferred to the "basic security"-scheme with significantly lower entitlements.

In contrast to previous unemployment assistance these basic security was not only open to people with acquired rights, but to all persons of working age in need of assistance. Those people now got access to measures of active labor market policy of the state, which were not accessible by recipients of social assistance before. The new basic security was thus more "inclusive" as the previous dual system of unemployment assistance and social assistance, which was excluding the recipients of social assistance, which were left to the occasional employment measures of the counties and cities. Through an intensified support of the individuals addressed and a sharp rule of conditionality, sharply formulated rights and obligations ("Fördern und Fordern", i. e. promoting and demanding) the scheme aimed at the activation of jobseekers and the mobilization of potentials of self sustainability.

This reform broke with some deep-rooted principles in the history of the German welfare state, in particular the separation of social welfare on the one hand (with a strong social control of the receiver and an exclusion from the institutions of the labor society and their services) and the support for the unemployed on the other hand, which realized quasi "acquired" claims (and remained included in the institutions of the "work society" even when out of work)⁹. In addition to that the long es-

⁹ This split of welfare into a relatively privileged core group of insiders, secured by well established institutions for social security and generous support in times of hardship with a selective access only for those who have acquired claims on the one side and more or less precarious peripheral group with much lower standards of support on the other side has been described by Gösta Esping-Anderson as a basic feature of the continental European model of the welfare state as opposed to lean Anglo-American model of minimum welfare on the one the side and to the inclusive and developed welfare states of the Scandinavian countries on the other side (G. Esping-Andersen (1990): *The Three Worlds of Welfare Capitalism*. Cambridge: Polity). With regard to Germany and its traditional system of labor market administration another aspect is worth mentioning in this context. The institutions of social security, such as the national pension agency, the public health care insurance, and last not least the federal agency for employment services are subject to a tripartite governance system, where the employers association, the unions and federal and state government have an equal say. This articulated system of subsidiary self-government of huge bodies of public administration has often been regarded as a basic feature of the specific German model of corporatism, which has been a cornerstone of the West-

established division of labor between the central government and local authorities has been questioned by the reform. The central government in Germany had the sole responsibility for unemployment insurance and employment services since legislation in 1927, local authorities held the responsibility for the relief for the poor in a tradition reaching back to the Middle Ages.

This reform proved to be very controversial. There was much debate on it. Critics blamed “Hartz 4” to be simply an abolishment of social rights and a downgrading of the status of persons unemployed to recipients of social welfare.

These critics, however, fail to see that the traditional presuppositions of the German welfare state, a majority of people living in orderly conditions with continuous standard employment, full time jobs, and a coherent work biography has been undermined by societal change since long. The old German model turned out to be rigid and exclusive towards all groups, which did not fit into the traditional patterns of normality. The old rules had left more and more people to the municipal social assistance and excluded them from quality employment services. The division of labor between state and local authorities had been called into question by reality for long. In this respect, the reform was a necessary, although in some respect painful, adaptation of the welfare state to a changed social and economic environment.

Stages in the evolution of local employment policies in Germany

Bringing these steps of localization into a coherent perspective three stages of development of local employment policies in Germany can be distinguished.

Beginning from the mid-eighties some pilot cities started employment initiatives of their own, mostly reacting to the “negative municipalisation” of unemployment and the related financial burdens caused by social welfare expenditures. After the German reunification, as unemployment rose to heights never seen since World War II local employment policies started to become acknowledged as a complement to the policies implemented by the federal agency for employment. Especially the large scale job creation measures taken by the federal government in the nineties for the long term unemployed and as a buffer in the labor market of new eastern states of Germany required NGO’s and municipalities as agents for local and regional implementation. As a consequence a certain professionalization and structural institutionalization of local practices took place. But still, these institutionalizations had no regulative foundation, there were results of discretionary local strategies and restricted to a number of cities with advanced systems of local governance and not mainstream. The third stage of development however was started with the “Hartz-4”-reform, which has transformed the welfare and labor market regimes in Germany to a large extend. It has given localized services a strong legal foundation and has generalized a localized approach at least for major parts of employment policies and services. But, as we will see, it implied also some restrictions to local action and a narrowing of the focus of local employment policies.

In a tentative scheme these different stages can be characterized as follows

- | | |
|-------------|---|
| 1985 – 1990 | Experimental initiatives in pilot cities (Hamburg, Bremen, Offenbach, Frankfurt et al.): <ul style="list-style-type: none"> • „secondary labor market“ • <i>workshops for disadvantaged youths</i> |
|-------------|---|

German political and economic system after the Second World War (“Rhineland-Capitalism”). This system has been at least in parts been eroded by globalization and the consequences of the German re-unification, which has given the state a much bigger regulative function than before. The “Hartz-4”-reform was another step of shifting responsibilities from this tripartite governance system to the state and, to a certain extent, provocative to some stakeholder, bringing into play the municipalities, a formerly more or less marginal actor in the arena of employment policy. Nevertheless the corporatistic system is still an important element of German politics and the German economic system, which has recently been confirmed by the successful joint action of state, unions and employers during the financial crisis in years from 2009.

- *assisted complimentary apprenticeships*
- 1991 – 2004 **Mainstreaming local employment policies:**
- *local employment initiatives – part of „good governance“ at local level*
 - *from ad hoc to strategic approaches*
 - *integrated strategies linking with economic development, education, city development*
 - *increasing budgets*
 - *start of nationwide networks, benchmarking*
- 2005 – (...) **Institutionalization of localized employment services within the system of the basic allowance for jobseekers:**
- *Jobcenters as consortia of employment agencies and municipalities*
 - *Jobcenters in „opt out“ municipalities*
 - *Serving 4,5 million jobseekers and 70% of all persons unemployed*
 - *Strongly co-funded by the federal government, but (co-) managed by local authorities.*

The basic allowance for jobseekers

In a compromise reached in difficult negotiations between the federal government and the governments of the federal states at the end of 2003, the basic security for job seekers was designed as a new integrated scheme for assistance and employment services jointly provided by the federal government respectively its Federal Employment Agency and the municipalities, each of which is responsible for the funding and supervision of its respective benefits and services. Despite these two strands of accountability the benefits and services of the new scheme should be delivered in an integrated mode in newly created organizations, the German model of *Job-Centers*. The dual responsibility for the scheme laid down in the law should be coordinated in a way, that there is single coherent practice at the point of delivery (one-stop-shop). The model provides an integrated provision of cash benefits for the livelihood, job placement, job-counseling, job-mediation, training and various support measures, but also social and psychological advice for overcoming barriers in access to the labor market if necessary. By this drug-abuse counseling, debt counseling and support of parents in the access to child care are part of the service portfolio of job-centers.

The following graph is giving an overview over the services and entitlements within the new scheme:

Legal responsibilities under Second Book of Social Code (SGB II)

Benefits SGB II	Federal State (via federal agency for employment)	Local Authorities
Minimum income	<ul style="list-style-type: none"> • Assistance for job seekers (Alg 2) • Family support (Sozialgeld) • Social security 	<ul style="list-style-type: none"> • Housing / heating • Complementary benefits
Integration measures	<ul style="list-style-type: none"> • Measures for job integration • Community work schemes 	<ul style="list-style-type: none"> • Social integration measures • Complementary social services
Education and participation for children in jobseeker's families		<ul style="list-style-type: none"> • Repetitional lessons • Culture, social participation • Lunch at school • School excursions

The organization of the job-center has been a significant innovation in the institutional landscape of Germany. For each territorial district at NUTS 3-level, be it a county or an independent city, one job-center has been established. As the federal government and the municipalities are jointly involved in the implementation of the law, a solution had to be found for a cooperative and in fact joint administration of the SGB-II-scheme by the central state and its employment agency and the local authorities, which are in legal terms part of the "Länder"-states (although the German constitution stresses the separation of the levels of governance in practice to secure always a clear accountability of the diverse governmental bodies).

This was done by two organizational models. There is the model of "common facilities" of the agencies working under the umbrella of the Federal Employment Agency and the municipalities (model 1). The implementation of this model has been challenging because the administrative cultures and service philosophies of the federal agency and the social services within local authorities are quite diverse. But after all, these organizations "sui generis" have been set up successfully. There are 306 of these common facilities throughout Germany.

As an alternative, local authorities could apply for the sole responsibility for the implementation of the SGB-II-scheme and opt out of the model of joint management with the federal agencies, even if the central states keep on funding its part of the services of the scheme. This model 2 has been implemented in 106 districts throughout Germany.

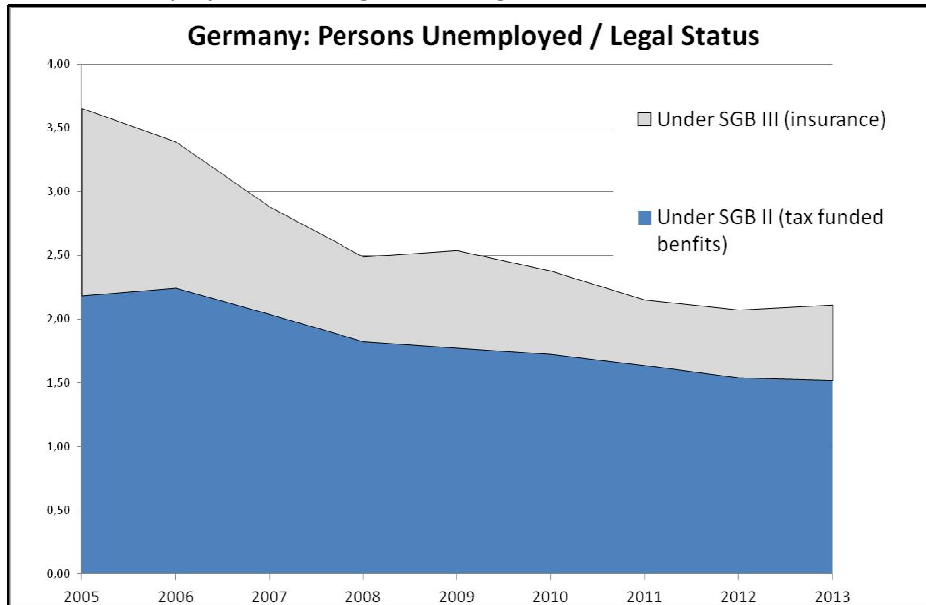
The development of the new system of basic allowance – data

The new system of basic allowance for job seekers under the SGB II caused an inclusion of social layers in the institutionally established labor market policy, which had previously been subsumed under either the category of the "hidden reserve" external to the potential covered by the labor market statistics or as recipients of social assistance of the municipalities under the Federal Social Assistance Act (BSHG) just as uncovered by labor market statistics. The SGB II caused an inclusion of a large number of people in institutionalized labor market policy. Paradoxical at first glance, but by no means surprising for anyone who took this inclusion-effect into regard a short term effect of the reform was a sudden rise in registered unemployment in the years 2005 and 2006. This is seen in the graph below well.

For a closer look at the development since then, the analyses of unemployment according to the different jurisdictions under which persons unemployed are administered is revealing. A distinction is made in Germany to the unemployed "under SGB III", ie the unemployment insurance system, which

will continue to be cared for by the employment agencies of the Federal Government and by the unemployed "under SGB II", which is implemented by the newly launched job-centers from 2005 onwards.

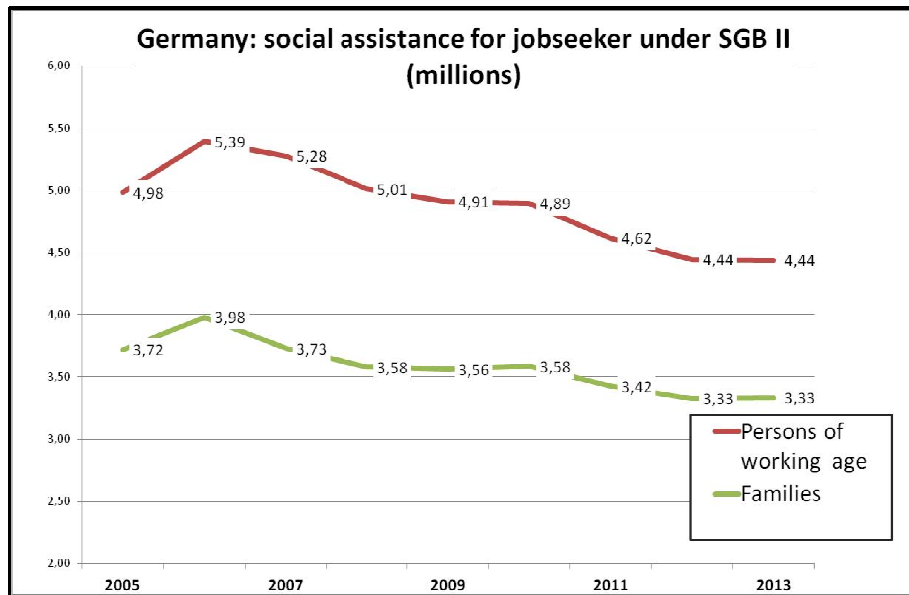
Persons unemployed according to their legal status



It will be seen that the majority of unemployed in Germany is covered by the Social Code II and is cared for by the job centers. It also highlights a significant decline in unemployment since 2005, more in the aggregate "under SGB III", a little weaker, but still clearly visible in the aggregate "under SGB II".

In Germany as in most countries the official statistics of unemployment cover only a part of the people who are out of work and in principle capable of taking up a job. Jobseekers in marginal employment or people in training measures are not counted as unemployed. Further on the Social Code Book II (SGB II) also provides assistance and services to persons who have a low income below the means-threshold. As a consequence persons unemployed are a segment of the clientele of the job-centers. In 2013, there are a little more than 1.5 million unemployed under SGB II, but about 4.4 million persons receiving its benefits and being cared for by the job-centers ("erwerbsfähige Leistungsberechtigte", entitled persons of working age). Among these about a quarter is employed, but without sufficient earned income to cover all needs of the family. Others are in support and training measures or are temporarily unable to work or are not in the labor market for other reasons.

Looking at the development of the beneficiaries irrespective of the question of unemployment you can see the downward trend also in this perspective.



These two strands of development are the consequence of a comparatively positive development of the German labor market, which has reduced unemployment obviously not only in its core segments. There seem to be lasting effects also among the harder to place groups which are addressed by the scheme of SGB II.

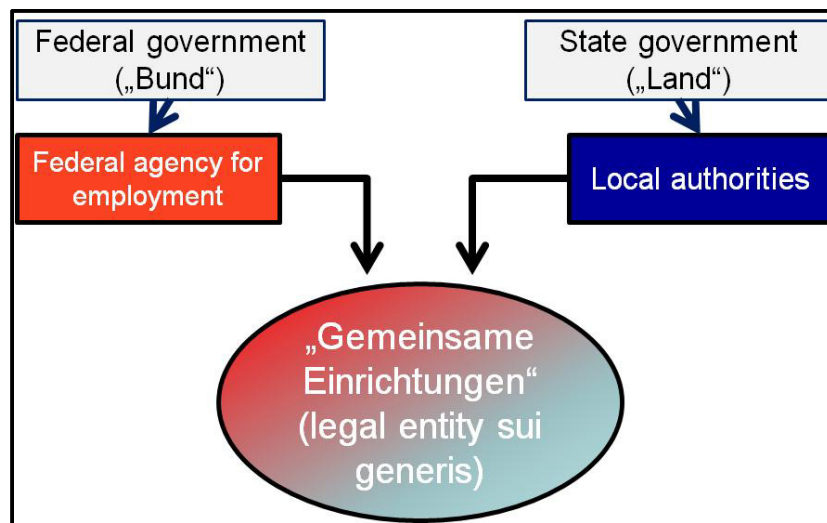
It is debatable whether this trend is due only to the favorable overall economic development, or whether the particular policy approach of the Social Code II has made its own contribution to the effect of reducing unemployment and how this was done. The German labor market has become more efficient, because disincentives with regard to quick taking up a job have been reduced. That, in combination with the approach of activation and holistic employment services brought greater flexibility to the workforce. In addition, companies have gotten more scope for flexible employment, temporary work, or part-time work. Further in there is some evidence, that the intensive support of job seekers in the job centers has made a contribution to this little German "job miracle".

Governance and control of local job-centers

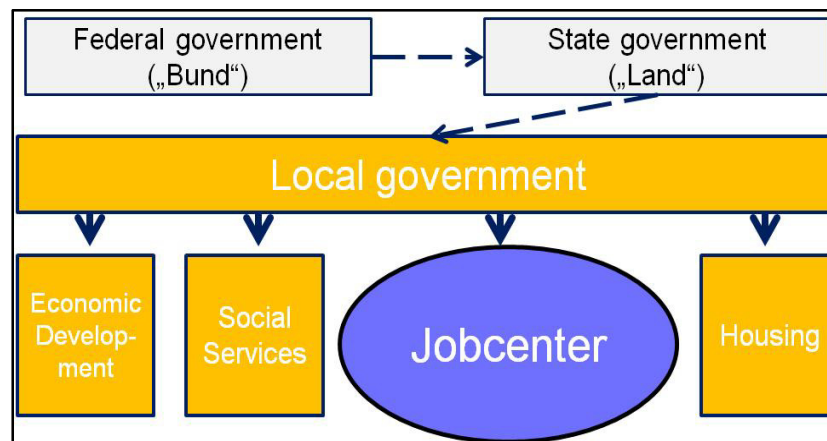
The new basic allowance for job seekers and the support by the job center should enable and support people in a new form, even those people who previously had no or only a precarious connection to gainful employment. The system was started with the ambitious goal of a significant reduction of unemployment and the dissolution of rigidities in the labor market, but also in the social structure of society. The system has started a new approach not only with regard "what" is done but also with regard to "how" it is done. With the models of job-centers it has created a new institutional arrangement with a strong component of decentralization and localization.

The control of these job centers is carried out by a complex governance-system in which federal government with the Federal Employment Agency, the states and municipalities are involved alike. Both organizational models (see above) have their respective system of governance and control. These are illustrated in the following two graphs.

Governance model 1 - common facilities of federal agency for employment and municipalities



Governance model 2 – job-centers of „opt-out“-municipalities



Between the national government and the individual local job centers a multi-stage process of goal setting and control for goal attainment and outcomes takes place. For the common facilities this applies for the employment agencies of the Federal Government on the one side and on the municipalities on the other. Both sides agree upon objectives for their respective areas of responsibility with the local job centers. There are negotiations on annual objectives and control of goal attainment, with an extensive system of reporting, research and controlling.

In the municipal job centers (model 2) objectives are negotiated between the federal government and the state governments („Länder“), which in this basis sets goals for municipal job centers in their respective territory. The state government conducts „dialogues on goal attainment“ with the management of the municipal job-centers.

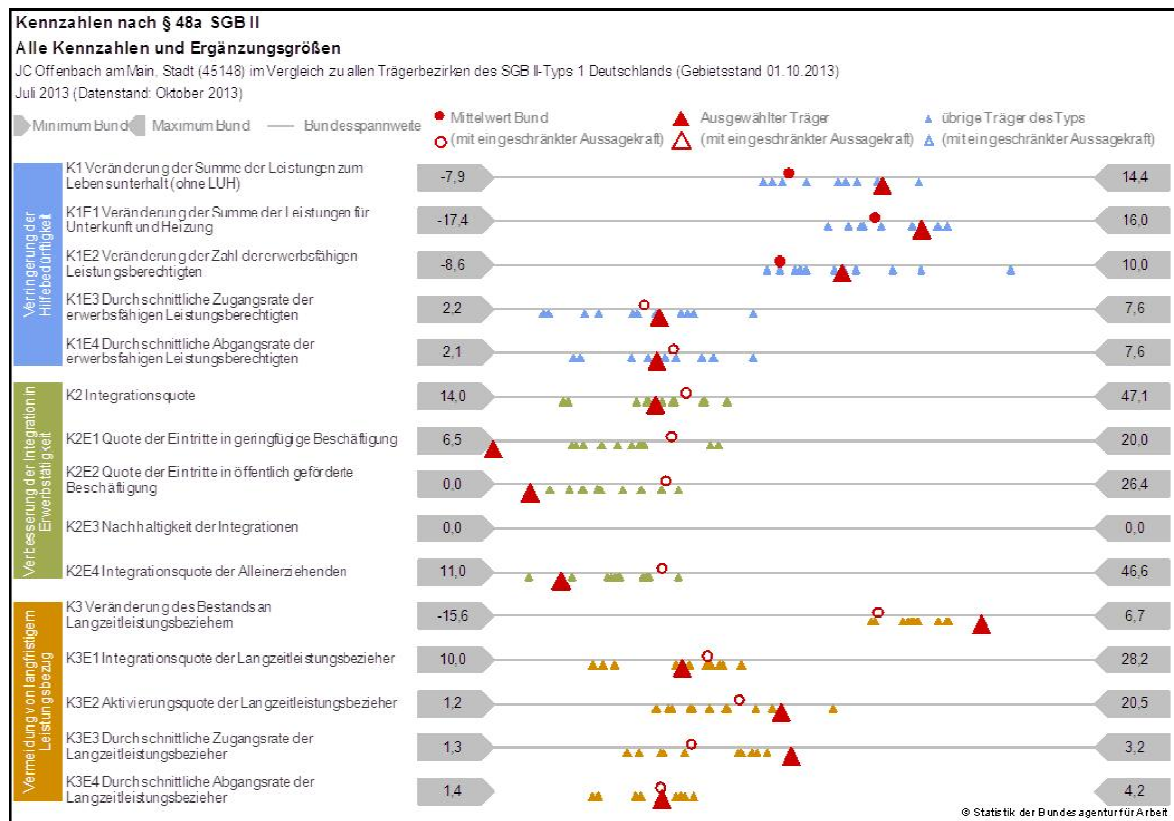
For a unitary performance-measurement in the system SGB II a set of common indicators has been approved. The procedures of data collection and the calculation of indicators on outcome (e. g. the rate of integration into employment, the evolution of the number of long-term-receivers, the change of benefits cashed out) is standardized throughout the country and for job-centers of both types.

The measured performance-ratios of job centers are made available along with a plethora of basic data in a public accessible web platform¹⁰. Thus, every citizen, no matter in what county or city he lives, can view the data of „his“ job-center, do benchmarking, represent data in map form and

¹⁰ Siehe: www.sgb2.info

start own evaluations. Thus the work of job-centers in Germany became as transparent as in only a very few fields of public administration in Germany. Localized practice with a unitary system of control and assessment could be regarded as the German response to the “twin challenges for labor market policy” of decentralization and coordination, cited above.

Screenshot: display of an interactive data-analysis on www.sgb2.info. The red triangles indicating the position of the selected job-center district with regard of each of the indicators, the small grey triangles indicating the position of the job-centers of a reference group of districts with similar socio-economic conditions.



The governance and control procedures in the system of the SGB II have evolved over several years. This evolution took place in a complex political process in which all stakeholders (federal, state, local authorities, job centers) had to find their respective role. The special situation of the federal governance structure in Germany with relatively independent states and municipalities, also with very extensive self-government rights on the side of cities and counties has made this process challenging. As a result, the system of the SGB II in Germany, however, can certainly be considered a very interesting example of cooperative provision of services in countries with a multi-level governance structure. The system may be seen as a, however temporary, solution to the problem of balancing decentralization and central co-ordination, which was discussed above.

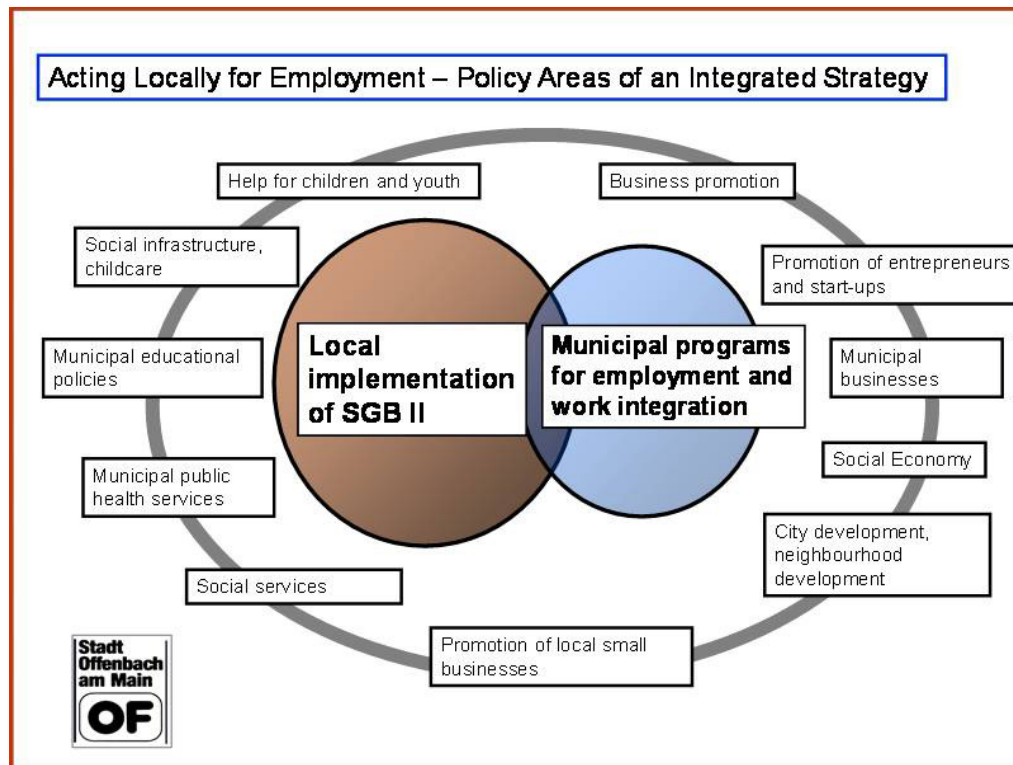
It would be unrealistic to expect that these new institutional arrangements and management models can work without any problems and without conflict. The system is built on two quite different models of services with different traditions, different cultures, different professional norms – care and relief for the poor on the one hand, employment-services on the other. The merging of these into one system inevitably leads to tensions and a continuous search for the right balance between these service models and their principles. This is a challenge for the management as well as for the governing bodies of the system. My impression is that this challenge has been mastered so far. Having been a "mission impossible" in the eyes of some critics in the beginning of the implementation of SGB II, the job-centers in Germany have proofed as a viable *social innovation*.

Job-centers in the landscape of local policies

In a final section, I would like to pick something closer to the actual work of job centers and their integration into complementary action and policies at the local level.

As already mentioned, the local authorities in Germany have a wide range of tasks. This is a big challenge to the public management, but also an opportunity to create synergies and productive interactions between these policies.

A job center can best develop the potentials of a local anchorage when it builds close relationships with neighboring and complementary policies and cares. A small overview of the key areas of work of the municipality which may be relevant to any job-center, shows the following graph.



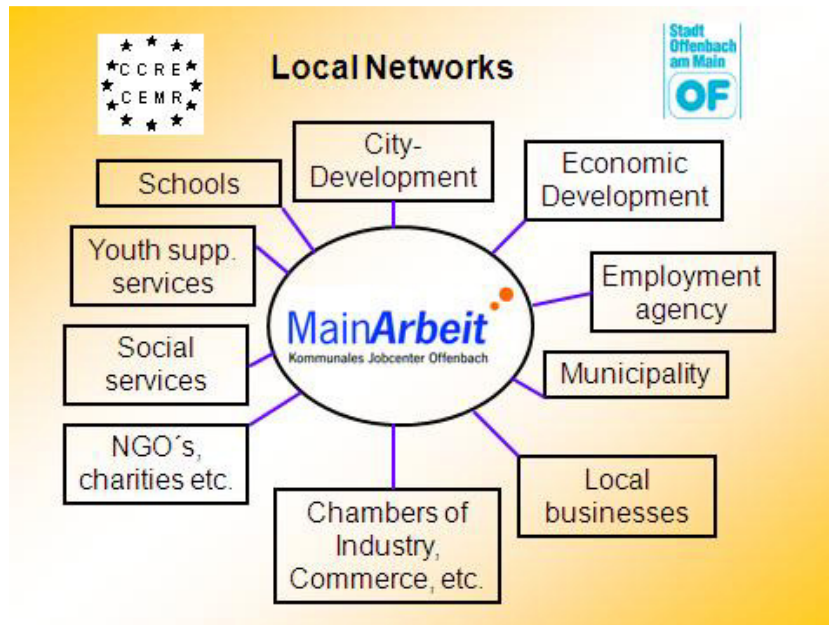
There are in the city of Offenbach am Main as in many cities in Germany a number of community based programs to promote employment, complementing the services of the job center, but also aiming at target groups and purposes beyond the scope of SGB II. In Offenbach, for example, a very extensive program to promote business start-ups, a private urban microfinance program and programs to promote the transition from school to work have been set into action. There is a consistent approach for the management of these programs and the job-center as well, even though the community based programs do not have to fit into the regulative framework of SGB II and by this give room to experimentation.

Further on, education, youth services and social services provided by the city or other stakeholders may be complementary areas of work that can make the practice of job center more effective and sustainable. When families can be supported with the education of their children effectively, school achievements of the children may become better and the risk of becoming unemployed after leaving school or failing to find a position as an apprentice can be reduced significantly. Another example is childcare. For many women who are cared for by the job-centre, it is only possible to take up a job and earn a decent income, if childcare is ensured. It is important that this care is provided in a way that even with a- typical working hours in the evening or on the weekend there is an opportunity to get childcare in line with the working-time-schedules. Therefore, good cooperation between the job-center and the youth authority is essential if a tailored solution to be found for virtually all parent jobseekers. Since both authorities belong to the municipality, it is much easier to find adequate solutions than with completely separate authorities. Many other examples could be given,

illustrating the importance of a good and trustful cooperation of different departments within and outside the municipality for tackling unemployment on the local level.

But an integrated and holistic local employment policy is not just about the problem-specific linkage of various services of the city government, but also about good networking with other actors at the local level, such as the chambers of industry and commerce, the chambers of craftsmen, with local businesses and civil society organizations.

Some of these network relationships of a job center are shown in the following diagram.



These few remarks on the importance of local area networks show that there must be a horizontal connection among different actors in addition to the vertical hierarchies of control among the different levels of the state and the local level of service provision. The embedding of job centers into the wreath of social and economic actors on the local level is an important task of management. It is then not just about vertical accountability within the hierarchical control relationships described above, but also about horizontal accountability towards local stakeholders and members of local networks. The city of Offenbach regularly publishes an annual comprehensive report on the social situation of the city and the results of the municipal social authorities and the job center¹¹.

The degree to which this type of horizontal networking is organized varies greatly between different localities. There are very well-networked cities and there are others in which the juxtaposition or even conflict of the proceedings of different authorities and local stakeholders is not over yet. This gives room for future efforts.

The Harz-reforms however also had some restrictive effects on the potentials for local action for employment:

- Along with federal funding of the SGB-II-scheme came stricter rules for the design of measures for work integration, tendering processes, a tight system of supervision and controlling and much more detailed legal regulations than in the previous model of local employment policies, described above. By this, the localization of services contrary to expectations didn't increase the variety of models of local action but has to some extent leveled the management models, the measures taken and the modes of service-delivery.

¹¹ R. J. Dorembos, F. Froy: Building Flexibility and Accountability into Local Employment Services. Paris 2010: OECD

So to say, this has been the price to be paid for the massive federal funding related with the new scheme.

- Another (unintended) consequence of the implementation of the jobcenter-model was the loss of links with economic development policies and the other areas of municipal action sketched in the picture at the beginning of this section at least in some cities and regions. The tighter regulation of active measures within the SGB-II-system left less room for flexible arrangements with various fields of policies. The strong focus on the reintegration of *individuals* into employment has weakened the emphasis on territorial approaches in a number of places. But, as empirical evidence shows, It is up to the local management of job-centers and not the least political leadership in cities and regions to keep these aspects in mind and (re-)establish a systemic, integrated strategy addressing work-integration, job creation, economic development and the sustainability of living conditions in territories as interrelated goals of even importance. The loss of systemic quality is in no way an automatic outcome of the Hartz-reforms as many examples of good practice among German cities and regions show, which have used the potentials of the new scheme for an even stronger integration of policy areas, e. g. the City of Offenbach, Osnabrueck-County and many others¹².

The regulation of the practices in job-centers through federal law and the governance of the federal ministry for work and social affairs and its federal agency for employment services are subject of ongoing debate. There is a certain consensus among the management of job-centers and local stakeholders, that a loosening of regulations could enhance the operational capacities of job-centers and improve the customization and quality of services. As the “Venice-Statement” of the LEED group with OECD cited above has pointed out, any step of further devolution and decentralization should be accompanied by capacity building among local management and actors to prevent an overall loss of systemic efficiency. As the local job-centers have established themselves quite well in Germany the next step for further evolution should imply the strengthening of local networks, a better compatibility of service-standards and service philosophies of diverse local policies and services and an enhancement of the capacities for consistent strategic management on the local level.

Conclusion

The labor market and social reforms in Germany have contributed to the localization of employment services, which have been an important element of success of labor market policy. Local initiatives for employment taken in response to the labor-market, social and financial crisis have been pioneering a localization of employment policies. These emergent practices have fed into the new framework for employment and social services under Social Code II (SGB II), which have given the local level a crucial role not only in the provision but also in the design of services and the decisions on the appropriate portfolio of activities and measures for each locality. With the system of SGB II a big system of entitlements, benefits, services and agencies of delivery came into being, covering roughly 4.5 million jobseekers and their families. An elementary feature of the system is a particular intertwining of the state and local authorities.

The job center have been established as integrated service centers for job seekers with a range of services, that allow for a holistic view on the client and for systemic practice for the promotion of employment and escaping unemployment and exclusion. The German basic security for job seekers (SGB II) can be considered a social innovation of considerable range, which has broken not only “path dependencies” of policy and practice, but has also opened paths of development for integrated employment and social services to meet the challenges in times of globalization and emerging post-industrial societies better than policy silos, “one-size-fits-all”-services and centralistic bureaucracies.

¹² See the documentation of the annual “days of the job-centers” conducted by the federal ministry for work and social affairs under www.sgb2.info

However the development is far from being completed. There is, as has been shown, a certain dialectics of decentralization at work in the German model, combining the devolution of the governance of operational services with stronger central regulation and a drift to uniformity as a consequence of a sophisticated system of controlling and accountability. But as always those dialectics indicate, that institutional evolution and social innovation should be regarded as an open, never-ending process in search of full and inclusive employment and the right balance of central coordination of employment policies on the one hand and the flexibility of decentralized decision making, the potentials of the local level as accountable for the future perspectives of territories, synergetic with regard to responses to unemployment and the issue of job-creation and last not least with the highest proximity to the needs of the citizens, the unemployed and the employers on the other.

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