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Reinventing the Public Employment Service: The changing role of employment assistance in Britain and Germany

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REINVENTING THE PUBLIC EMPLOYMENT SERVICE

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Glossary

In this report we use translations and abbreviations for German institutions and benefits that may vary from those used elsewhere. We use the German word when first introducing the abbreviation. We decided also to use Local Authorities (LAs) instead of the often-translated 'municipalities' to commonly describe the institutions of local government in both countries. Terms referring to a specific institution in only one of the two countries are marked (B) for Britain and (G) for Germany.

BA	Benefits Agency (B)
DfES	Department for Education and Skills (B)
DWP	Department for Work and Pensions (B)
ES	Employment Service (B)
EZ	Employment Zone (B)
FES	Federal Employment Service (G)
GCA	German city 'A'
GCB	German city 'B'
IB	Incapacity Benefit (B)
ILO	International Labour Office
IS	Income Support (B)
IT	Information Technology
JPO	Job Placement Officer (G)
JSA	Jobseekers Allowance (B)
LA	Local Authority
LFS	Labour Force Survey
LMS	Labour Market System (B)
MSC	Manpower Services Commission (B)
NDPA	New Deal Personal Adviser (B)
NEP	National Employment Panel (B)
NI	National Insurance
OECD	Organisation for Economic Cooperation and Development
PA	Personal Adviser
PES	Public Employment Service
SA	Social Assistance (G)
UA	Unemployment Assistance (G)
UB	Unemployment Benefit (G)
UBII	Unemployment Benefit II (G)
UBO	Unemployment Benefit Office (B)
WFI	Work-Focused Interview (B)

Executive Summary

This report contains the findings of a twelve-month project exploring reform of the public employment assistance regimes for workless people under way in Britain and Germany. The research involved an extensive literature review, analyses of labour market data, interviews with senior national officials and experts, and case studies in four cities.

The report has four chapters:

Chapter 1 describes the key characteristics and development of the employment assistance and benefit systems in each country. It reveals that the British system has radically changed into an employment assistance regime geared to remind the unemployed of their jobseeking obligations and, through regular contact, to encourage them to seek and take up available unsubsidised jobs. Unemployed people in Germany have similar obligations to seek suitable work, but in practice there was, at the time of our study, far less emphasis on monitoring individual job search.

Chapter 2 compares and contrasts data on trends in employment, job search, and benefit populations. The public employment service (PES) in each country is significant in connecting unemployed jobseekers with vacancies, and appears still more important for the long-term unemployed. While unemployment has fallen rapidly in Britain, the difference in the overall population of working age people reliant on the benefit system in each country is less significant. Evidence suggests that Britain's 'stricter benefit regime' has been associated with an increase in the number of people claiming 'inactive' sickness and disability benefits.

Chapter 3 outlines the 'welfare to work' reform strategies under implementation in Britain and Germany. The British strategy has been underpinned by steady employment growth, extensive fiscal policies that 'make work pay', and New Deal employment programmes for the long-term unemployed. German unemployment and long-term unemployment has increased as the economy has absorbed the twin 'shocks' of reunification and European Monetary Union. Major reform is under way with the Federal Employment Service (FES) responsible for delivering a new integrated benefit for the uninsured unemployed, creating new working relationships with Local Authorities (LAs), and redesigning its front line services.

In both countries the scale, complexity, and pace of change is unparalleled. Our case studies in Chapter 4 reveal implementation pressures at both management levels and the 'front line' where advisers and job brokers are expected to translate policy design into effective daily practice. While many of the issues identified are acute, especially in Britain, precisely because this is a period of front line transition, some reveal longer term challenges. The following conclusions aim to inform the process of change:

1. A merger and organisational change on the scale of Jobcentre Plus or the German Jobcentres requires a clear and widely understood implementation plan and a timescale of several years. An expectation of immediate change raises a danger that reforms are not fully completed before the next wave of policy change. There is

concern especially in Germany that simultaneous change of an employment assistance regime in all its major respects may be self-defeating.

2. Effective employment assistance reform demands the commitment of middle managers and professional staff. An announcement of major staff reductions mid way through the change process, as has happened in the UK or as suggested at earlier stages of discussions on reform in Germany, damages staff morale, worsens industrial relations, and consequently may undermine implementation.
3. Organisational mergers carry the risk of being perceived as 'takeovers' by those working in the services now apparently less favoured. In Britain tensions have been exacerbated by priority being given to the 'front office' in contrast with the treatment of the 'back office' of benefit processing. In Germany, little consideration was given to the role of LAs or to how local consortia were to deliver an integrated employment assistance and benefit administration service. There seems to have been little attempt to systematically learn lessons and share best practice from experimental joint FES and Local Authority (LA) Jobcentres.
4. The purpose of 'activating' employment assistance is to make workless people engage in employment-focused activities in a new way. This is likely to be effective only if the 'customers' perceive increased opportunities in so doing. Financial incentives are an important component but work effectively only when sufficient time is taken to fully explore employment barriers and individual circumstances, and to improve financial literacy with client groups who may be sceptical, in debt, or perceive only marginal advantage in making the transition to work.
5. Sanctions are a necessary element of 'activation', but care must be taken in their application. Evidence from Britain suggests that vulnerable claimants, such as those whose first language is not English, experience sanctions disproportionately to those who can 'work the system'. There is evidence too that the quasi-legal administrative process of imposing sanctions, especially on non-attendees, has a disproportionate impact on the workloads of advisers, distracting them from the task of employment assistance. It also may lead to passive rather than active engagement with individuals simply being recycled through employment programmes.
6. 'Activating' employment assistance means changing the orientation and behaviour of jobseekers through interaction with Personal Advisers (PAs) and case managers. Externally, the customer management system should facilitate settings for undisturbed interaction of adequate duration, depending on the target and complexity of that interaction. The crucial internal factor concerns the skills, abilities, and motivation of the PA to use the setting effectively. In Germany, staff will need to utilise stronger interpersonal skills as they more regularly meet with the longer term unemployed. In Britain it involves identifying and rewarding effective practice and better preparing those staff now expected to engage with clients on disability benefits and/or with caring responsibilities.
7. A key lesson from Britain is that the physical design of a 'Jobcentre' affects interactions and creates a social environment for jobseekers that can improve their self-esteem and encourage their focus on finding a job. Significant thought has been given to the physical and virtual design and accessibility of the service and to

the implicit messages sent to both jobseekers and staff. In Germany little thought appears to have been given to such matters, other than the creation of a new 'front end' reception desk to better manage customer flow. As it stands, the new system will be locked into a delivery model dictated by the large centralised office blocks that the FES acquired in the era of contribution surpluses.

8. In both Britain and Germany, the Information Technology (IT) systems currently used appear to fall far short of the requirements of integration, with the merger of systems, organisations, and processes multiplying their interfaces and incompatibilities and requiring many 'work arounds' by front line staff who often have to resort to 'paperwork'. There is a critical challenge in both systems to obviate these IT inadequacies as they may well undermine an otherwise sound and well-implemented organisational reform.

Introduction

In Britain and Germany the welfare state for unemployed working age people is undergoing radical change. It involves a redefinition of individual rights and responsibilities, and a transformation of the bureaucracies that deliver front line employment assistance, administer benefit payments, and organise labour market programmes. In Britain all working age adults, claiming state benefits, are expected to attend work-focused interviews (WFIs) delivered by Jobcentre Plus, a new agency that integrates the work of the Employment Service (ES) and Benefits Agency (BA). Germany is about to merge the delivery of employment assistance to unemployed people without contribution-based benefit claims via a restructuring of the relationship between the FES and LAs¹ that traditionally have delivered either unemployment assistance or social assistance.

In each country the government is 'reinventing' public sector bureaucracies as they 'steer' their respective systems to deliver new objectives. The relationships between government departments and agencies are being redefined, new management and target systems introduced, organisational change promoted, and competitive pressure applied by contracting out to the private sector. Front line officials are expected to implement new activation and job search obligations on benefit recipients and to act as the 'gateway' to cash benefits, services, and programmes.

Such change partly reflects greater policy interest in Germany and the UK concerning job search effort and motivation among the unemployed, and a deeper appreciation of how these factors impact on durations of unemployment (White et al, 1994). The importance of labour demand and macro economic management is unquestioned, but this report focuses on the efficacy of employment assistance and Public Employment Service (PES) organisation in assisting unemployed people get the jobs most say they want and for which governments require them to search.

Policy transfer

The reform of the PES, in both countries, is underpinned by a strategy of policy transfer where policy makers have looked to learn lessons from best international practice. The British approach to 'welfare reform' has been influenced by over a decade of such policy exchange with, and learning from, the USA, Australia, Sweden, and Denmark (Dolowitz, 1998; Finn, 2003). It was shaped also by the 1994 Organisation for Economic Cooperation and Development (OECD) 'Jobs strategy' that reviewed evaluation evidence and recommended that member states take three steps to 'improve the functioning of the PES', including:

¹ This report uses Local Authorities (LAs), rather than the often-translated 'municipalities' for Germany, to commonly describe the institutions of local government in both countries.

- 'integrating the three functions of the PES (placement and counselling; payment of unemployment benefits; and management of labour market programmes);
- ensuring "that claimants remain in regular contact with the PES and that they maintain job search efforts"; and
- eliminating the job placement monopoly of the PES that existed in many countries.' (OECD, 2001:35)

Until the late 1990s it was outside the scope of German policy makers to look to a British approach popularly perceived as a threat to the German system of social protection. This changed with the election of social democratic governments in each country when both Tony Blair and Gerhard Schröder linked their 'Third Way' and 'New Middle' (*Die Neue Mitte*) reform programmes (Blair and Schröder, 1999). Both were committed to the creation of a more 'active' welfare state to 'transform the safety net of entitlements into a springboard to personal responsibility', and outlined a strategy 'to strengthen our policies by benchmarking our experiences in Britain and Germany'. Indeed, in the recent German debate, Britain has been identified as a 'world leader' in PES reform, and German Ministers and officials have actively promoted the British system as a significant 'benchmark'.²

The report

This report constitutes the findings from a year long project exploring the welfare to work regimes being introduced in Britain and Germany. Its aim was not merely to compare the design of welfare to work policies but to examine the implementation of front line employment assistance in each country.

The research involved an extensive literature review and analysis of labour market data from the German *Mikrocensus* and the British Labour Force Survey (LFS). It included interviews with senior national officials and experts, and case studies of the reform process in four cities. Each case study involved a minimum of 20 interviews with key local officials, the social partners, and independent organisations, as well as with those involved in the delivery of new services. Anonymity was guaranteed to encourage frank disclosure by respondents.

² This contrasts with earlier periods where Germany has been an exemplar for British welfare reforms. At the start of the 20th century, key British policy makers sought to emulate the German system of compulsory social insurance as they created the British National Insurance system. British policy makers again turned to German experience in the 1970s when the British Manpower Services Commission was modelled on and sought to emulate 'tripartite' workforce development (Price, 2000).

1 The PES and employment assistance in Britain and Germany

This chapter outlines the background and characteristics of the (PES) and benefit systems in Britain and Germany. It describes the role of the PES and its reforms as governments in both countries faced the challenges of the post-full employment era.

In Britain during the 1980s, successive Conservative governments radically redesigned the employment assistance and benefit system. These governments deregulated much of the British labour market, reduced trade union power, privatised nationalised industries, and enabled the contracting out of services across much of the public sector. Simultaneously, manufacturing employment declined, the service sector grew, and the labour market was characterised by more part-time and temporary employment contracts. Wage inequality and dispersion increased. Benefit system reform aimed to increase work incentives and PES reform involved new administrative requirements to maintain the attachment of the unemployed to the changing labour market (Wells, 2001). This 'stricter benefit regime' culminated in the introduction of a new Jobseekers Allowance (JSA) in 1996.

In Germany, by contrast, increased unemployment in the 1980s was tackled through traditional Keynesian policies with extensive training and job creation programmes, culminating in their extensive use as the Federal Government faced the economic consequences of reunification. Vocational training was given particular emphasis in the context of a German labour market where qualifications are officially classified and protected and are a prerequisite for many jobs (Schluter, 1995). By the late 1990s, however, 'the German recipe for success – relying on technological innovation with a well trained labour force – (was) no longer working as well as it did in the past (Blien et al, 2002: 4). High industrial productivity and high shares in the world market for 'medium-tech' manufacturing goods delayed Germany's transition from an industrial to a service economy, and the collapse of the eastern economy after 1990 was soon followed by further structural changes that intensified unemployment problems in western Germany. These processes put intense pressures on the contribution-based social insurance system, the FES and LAs that had to provide for a growing number of unemployed people.

National Insurance (NI) and Unemployment Benefit Offices (UBOs)

The introduction of unemployment insurance in Britain in 1911 created a dual administrative system, analogous to that of contemporary Germany. Unemployment Benefit (UB) was distributed through a national network of local labour exchanges, which provided a vacancy service and implemented availability for work and job search requirements. A locally administered and financed 'Poor Law' system provided relief, subject to a 'household means test', for the large groups of unemployed people who were ineligible for UB. The Poor Law system was harsh and unpopular.

After 1945, and the publication of a Government strategy for 'Full Employment', a unified system was created to administer an expanded NI system. It was envisaged that most employees in times of need would qualify for flat-rate benefits for unemployment, sickness, and old age. The system was funded by contributions from employees and employers, and administered by a central Government Ministry. Unemployed people who failed to qualify for UB relied on means tested National Assistance. LAs retained responsibility for a broad range of social services but, subsequently, had no direct role in implementing a 'work' test.

At the front line, labour exchanges became UBOs. All unemployed people had to register with the UBO and personally 'sign on' regularly to show availability for work and to declare any change in circumstances. From 1961, unemployed people had to 'sign on' once rather than twice weekly.

The NI fund was supplemented by general taxation, and the benefit system became ever more complex. Subsequently, the 'means tested' safety net was reformed into Supplementary Benefit and administered through a separate network of Department of Social Security offices. However, unemployed people still had to register their availability for work at UBOs.

Jobcentres: The first modernisation of the British PES

In 1974, active employment assistance was transferred to a modernised performance-driven Employment Service (ES) agency that reported to a newly created tripartite Manpower Services Commission (MSC). Employers and trade unions had equal representation. LAs had minor representation to reflect their strategic role in economic development and in further education and careers advice.

The key development in the PES was to separate employment assistance and benefit administration. Under the oversight of the MSC, the ES agency was to create a national network of about 1,100 Jobcentres, increase their share of vacancies, and restructure employment advisory work through the introduction of trained employment advisers and more 'self service' facilities. Located in 'high streets' and available to both the employed and unemployed, Jobcentres had services targeted also at the most disadvantaged groups. The MSC provided a range of employment and training programmes 'in house', but escalating unemployment required it to develop and deliver large-scale job creation and training programmes. In doing so, it pioneered the 'contracted out' model of public service delivery and, by the 1980s, was contracting with a diverse range of public, private, and voluntary agencies. Providers were paid for the delivery of training courses or programmes, rather than on the basis of job outcomes.

The unemployed still had to claim benefit at a separate UBO. The requirement to 'sign on' was relaxed to every fortnight for most, to each quarter for special groups, such as those with health problems. Active employment assistance was, however, located in the Jobcentre. Unemployed claimants had to register at a Jobcentre but their use of its services was rarely monitored.

Remaking the link between job search and benefits: the role of the ES

The setting up of Jobcentres apart from UBOs diluted the direct administrative link between job search activity and benefit receipt. It was further weakened between 1982 and 1986 when unemployed people were no longer required to register at a Jobcentre and staff reductions reduced administrative capacity. The management of the system became 'passive with no responsibilities to counterbalance the right to benefit' (Wells, 2001: 248). This set-up was linked to a marked increase in unemployment durations. In the late 1960s, the proportion of those unemployed for over a year averaged 17%; by the mid 1980s, it had increased to 40%. The 'risk' of unemployment had increased only slightly but it had become 'a much more serious event because it takes so much longer, on average, to get back into work' (Nickell, 1999: 22). LFS data revealed that a significant number of those claiming unemployment benefits had stopped looking for work.

The turning point came in 1986 with the introduction of 'Restart' interviews at Jobcentres, involving compulsory job search reviews after each six months of unemployment. Unemployed people were required to sign a 'Back to Work Agreement' and availability for work was tested more regularly. In 1989, legislation was introduced requiring the unemployed to actively seek work, and restricting the grounds on which they could refuse vacancies. Penalties for leaving work voluntarily were increased to a maximum of six months. There were parallel reforms in the social security 'safety net' system, and a simplified system of Income Support (IS) was fully implemented in 1998.

In 1996 UB and IS were replaced by JSA and unemployed people could receive payment only on signing a Jobseekers Agreement. JSA has a residual 'contribution-based' element that pays a flat-rate benefit, without any dependent payments, for up to six months, but most unemployed people rely on a means tested JSA, assessed and paid on the same basis as IS.

This 'stricter benefit regime' was linked to radical institutional change. In 1987/88, the MSC was dismantled and the delivery of training programmes for the unemployed transferred to local private sector-led Training and Enterprise Councils. A separate 'modernised' ES was created as a 'Next Steps' Executive Agency. Responsibility for delivering benefits was transferred to a separate BA, with its own network of local offices. The BA was responsible for the assessment and administration of all state benefits, but continued to subcontract the authorisation of the actual payment of unemployment related benefits to the ES. Another important feature of the British system is that support with rent payments and local taxes – Housing Benefit and Council Tax Benefit – for all who satisfy a means test is paid for nationally but delivered through LAs.

The British ES and the impact of the 'stricter benefit regime'

The first task of the new ES agency was to integrate the work of UBOs and Jobcentres, combining 35,000 staff in a front line national network of over 1,100 Jobcentres. This integration of job broking, active labour market policies, mandatory remotivation

courses, and tighter benefit administration effectively merged previously separate employment assistance and benefit policing roles (Price, 2000).

During the 1990s, the role, aims, and activities of the ES changed significantly (Price, 2000). The first trend was the emphasis on reinforcing work incentives, and maximising and monitoring the jobseeking of unemployed people. The second trend was the shift towards a 'work first' system marked by a move from large-scale, longer term, active labour market programmes towards low cost measures aimed at immediate job search and job entry. The third trend was a performance targets regime that increasingly was geared to immediate job entry, benefits policing, and the imposition of sanctions. Finally, the ES was under constant pressure to obtain better value for money.

By 1996, the British ES was promoting itself as a high performance agency, with a reputation for implementing national initiatives to short timescales. Senior managers argued that they also had made a significant contribution to reducing unemployment, especially long-term, by engineering the link between job broking and benefit administration (Education and Skills Committee, 1999, Vol. I: xi).

Evidence showed an immediate and longer term impact of the new job search requirements. The introduction of Restart interviews in 1986 reduced the unemployment count by 8.5%, and the introduction of JSA was estimated to have reduced the claimant count by between 100,000 and 200,000, partly due to tighter eligibility rules but also because it had flushed out 'significant numbers of employed and inactive claimants from the count' (Sweeney and McMahon, 1998: 201). Rigorous evaluation evidence, using matched control groups, revealed that, over a longer time frame, the new benefit regime stimulated active job search and was more effective at linking some unemployed people with job opportunities (White and Lakey, 1992; Rayner et al, 2000).

There has, however, been controversy concerning some of the regime's consequences. Many of the older long-term unemployed were transferred to disability benefits or encouraged to take early retirement and, in 1995, it was found that some ES staff were 'massaging' the recording of job entries to meet targets. Subsequently stricter rules were introduced so that the ES could claim credit only for verifiable job entries.

New Labour articulated such criticisms as it developed a different approach to unemployment and social exclusion. The then Opposition leadership welcomed the fall in unemployment but stressed that it masked the emergence of deep-seated problems. Intergenerational unemployment, in particular, continued to blight many disadvantaged areas, and one in five UK households had no one of working age in a job. By 1996, nearly one million lone parents, mainly women, were dependent on state benefits, and the number of men receiving incapacity or long-term sickness benefits had doubled in a decade to over 1.7 million (Gregg and Wadsworth, 1999). Unlike the unemployed, most individuals of working age receiving other benefits had little contact with services and were likely to remain long-term dependent.

German governance and the FES

The German system of governance and employment assistance is more complex than that of contemporary Britain. Its distinctive features include a federal government with a 'restricted capacity for active economic management...autonomous social partners, and a welfare state primarily contribution-based and committed to status maintenance' (Manow and Seils, 2000: 265). Responsibility for labour market programmes, benefit payments, and employment assistance has been subject to multi-level governance.

At federal, *Land* (state) and local government levels, institutions are either wholly or partially responsible for the development, implementation, and application of labour market policy instruments and measures. Their activities are guided by federal legislation that specifies general employment policy and the labour market policy instruments to be applied nationally by the FES (*Bundesanstalt* [now *Bundesagentur*] *für Arbeit*). The 16 *Länder* have no direct influence on these policies with the exception of their participation through the *Bundesrat*. Until 2003, the *Länder* were also represented, together with social partners, in tripartite committees controlling the middle tier of the FES. The *Länder* supervised LAs which delivered SA, the lowest level of 'income support'.

The FES is the central body responsible for the unemployment insurance system, labour market monitoring, occupational research, and labour market statistics. It is expected to work towards a balance between jobseekers and vacancies with the aim of avoiding or reducing unemployment. FES activities were regulated through a much-amended Employment Promotion Act, first implemented in 1969. Traditionally legislation governing FES activity has been highly prescriptive, but the FES has had significant autonomy in policy implementation, especially concerning active measures financed through the insurance fund.

The organisational structure of the FES reflects Germany's federal system of government. The FES was (and remains) a corporation under public law and self-governing, with a Council and Management Board including strong representation from the social partners and the different levels of government. This corporatist governance structure was replicated in the other two administrative levels that consisted of a network of 10 regional employment offices at *Land* level and 181 local or regional FES offices, with 660 branch offices. The main responsibility for placement work, as well as advice for the unemployed and contact with firms, rests with the local FES offices. These offices cover districts of varying sizes and usually connect with several LA districts.

The benefit system for employable working age Germans

At the time of our study, the FES was responsible for two main benefit payments: Unemployment Benefit (UB) (*Arbeitslosengeld*) and Unemployment Assistance (UA) (*Arbeitslosenhilfe*). While the latter was financed through the federal treasury, the former was funded by payroll contributions to the FES, paid in equal parts by insured employees and their employers. Labour market programmes were funded from payroll contributions regardless of whether participants were UB or UA claimants. As unemployment rose, the

system faced growing deficits requiring increased contributions and Federal Government funding.

UB was introduced in 1927 and UA in the 1920s to release the unemployed workforce from harsh 'poor law' regulations. Originally those ineligible for UB could claim UA if they could prove their attachment to the labour market. After 1976, eligibility criteria for UA were gradually restricted. UA claimants became exclusively long-term unemployed people who had exhausted their entitlement to UB.

UB eligibility rules too have become more restrictive, reflecting a desire to restrain costs and concerns about work incentives. In 1994, wage replacement rates were reduced from 68% and 63% respectively for recipients with or without at least one dependent child to 67% and 60%. By 2004, UB continued to be paid for up to a year, or for up to 32 months for older unemployed people, with a reduction to 18 months scheduled for 2006. After UB eligibility is exhausted, the recipient is eligible for UA, although at the lower rate of 53% of previous net earnings, or 57% for those with children. Eligibility for UA is subject to a means test for the family or domestic partnership. Individuals remain eligible for UA until they get a job or retire, but the basis on which the payment is calculated (the standardised former net wage) has diminished by 3% annually since 1996. UA claims must be renewed each year.

There is a separate 'safety net' system of Social Assistance (SA) (*Sozialhilfe*) for those in need but ineligible for UB or UA, or who need additional support because their UB or UA payment is too low (for example, unemployed low income earners with large families). SA is administered by LAs and is technically similar to the British IS system. There is a flat-rate payment for adults with additional payments for children and any adult dependants. Assistance is provided towards housing costs. SA is means tested and more household circumstances are taken into account than for UA. In Germany this applies not only to a domestic partner but also to an absent partner or the parents or children of the claimant. In practice, however, most LAs have not pursued these claims, as the bureaucratic costs tend to offset any increase in income.

The division of responsibilities created a complex relationship between the FES and LAs with an increasing group of unemployed people required to deal with two separate systems, neither of which was fully responsible for those receiving payments from two sources.³

The German employment assistance regime

In post-war West Germany, in contrast to Britain, the payment of benefits, labour market related counselling, and job placement, with its inherent work test, remained integrated

³ According to data for December 2003, this 'two-stop' situation affected some 280,000 households with 670,000 members so far as benefits from two sources were concerned. There were another 450,000 households with 800,000 members receiving SA but no benefits from the FES; however, each had at least one member registered at the FES as a jobseeker (Rudolph, 2004).

within the FES. The direct administrative links, which other countries had to (re-)establish in the course of 'activation' reforms, were traditionally present, and availability for suitable work has always been a legal requirement for unemployment benefits. As in Britain, unemployed people should not become 'voluntarily unemployed', and those who reject a suitable job offer can have their benefit suspended for three weeks on the first occasion, with the potential for permanent withdrawal if cumulative suspension periods add up to 21 weeks. The work test is also a feature of the SA system and employable recipients are expected to search for suitable work and participate in employment programmes.⁴

When unemployed people make their first claim for UB, they must be interviewed and have their claim assessed by an FES benefit officer. They are then referred to a Job Placement Officer (JPO) responsible for employment advice, vacancy matching, and job broking. After first contact, the JPO has discretion about the frequency of any subsequent contact with the unemployed person. There is no equivalent to the British requirement that unemployed people 'sign on' at Jobcentres at least fortnightly. Repeated attempts to introduce a quarterly regime were frustrated by administrative overload.

The FES has the powers to require the individual to attend an interview at any time, and failure to attend can lead to suspended benefit payments. In a context of increased JPO caseloads of between 700 and 800, contacts with customers for whom there is no labour demand are reduced. Attempts at matching candidates and vacancies are often made without seeing the customer but simply sending a written 'matching suggestion' to the jobseeker and potential employer.

JPOs assigned unemployed people to the extensive range of large-scale training and job creation programmes implemented as unemployment increased. Eligibility has changed over time and the emphases on recruiting the long-term unemployed or on early interventions has varied considerably. The major difference to the British system is that, before 2005, there was no administrative requirement that all unemployed people must participate in employment assistance after a particular duration of unemployment.⁵ Allocation to places was largely at the discretion of the JPO. It was significant also that, until 2002, providers of training or job creation measures played no direct role in job placement.

LAs usually referred their employable SA recipients to their local FES for assistance with job search. As unemployment increased, LAs in high unemployment areas began to develop and implement their own job creation programmes. These provided 'socially useful' employment, but those that paid wages had the advantage of helping the participant to qualify for UB, thereby shifting responsibility for future benefit entitlement to the social insurance fund or the Federal Government. By the late 1990s, many LAs had

⁴ In theory the 'work test' was harsher than in Britain, particularly in relation to lone parents (who make up a quarter of SA recipients). German LAs can require work as an option for a lone parent once the youngest child reaches three years, whereas in the UK this applies only when the youngest child reaches 16 years of age. There are safeguards, however, and in Germany an individual does not have to accept a job that endangers the upbringing of children in a family (Voges et al, 2000: 78).

⁵ From 2005 all young people under 25 claiming 'UBII' will immediately be referred to waged work, apprenticeship or work experience.

also begun to implement 'work for benefit' programmes as a way of testing willingness to work.

FES offices themselves had little incentive to work with those who were the responsibility of the LAs. Indeed, the FES often restricted access to its labour market programmes. In an earlier period, the FES was criticised by the Federal Audit Office because too many 'non-contributors' were on its programmes. In reaction to this criticism, cooperation between FES and LAs was legislated as a declared objective. In the mid-1990s, there was, however, still little evidence of joint funding or cooperation between local FES offices and social assistance offices (Clasen, 1996: 13).

Mass unemployment, the benefit regime and 'first steps' to FES reform

The German system has a full range of legal and administrative requirements to underpin the 'work test' and an 'active' job search regime, but implementation is weak (Rudolph, 2000). An OECD comparison of 'activation' used the imposition of sanctions as one method of measuring implementation. It revealed that in 1997/98 there was a small difference in the rate of sanctions imposed in Germany and the UK for 'behaviour before benefit starts', but there was a major disparity after benefit payments had started (for refusing jobs, not actively seeking work, etc.).⁶

When unemployment first increased, there was a tacit understanding between employers and trade unions to use 'early retirement' as a safety valve for managing redundancies. The paradox of the Kohl Government was its wish both to contain social expenditures and simultaneously facilitate the use of early retirement through the employment assistance system. This approach was expanded after reunification in order to cushion the massive job losses in East Germany. Both sides of industry and the political parties were reluctant to debate the job search behaviour of unemployed people since a large proportion of the older long-term unemployed were actually on negotiated pathways to retirement (Gilberg et al, 1999; Knuth and Kalina, 2002).

The continuing process of reunification delayed changes in active provision too. While Britain and other European countries reshaped their employment assistance systems, Germany transplanted its system to the East where 40% of jobs in 1989 disappeared within only four years (Knuth and Bosch, 1994). In this situation, employment policies concentrated on 'cushioning' job losses through instruments such as 'short-time' compensation, early retirement, retraining, and direct job creation. In eastern Germany with three registered vacancies per 100 registered unemployed, job search and job placement did not seem issues to be appropriately discussed.

⁶ As a percentage of the proportion of the inflow into unemployment benefits, 3.62% of claims in Germany were sanctioned for voluntary unemployment as against 4.32% in the UK. By contrast, after benefit payments had started, there was a sanction imposition rate of 1.14% in Germany as against 10.3% in the UK (Grubb, 2001, Table 2).

The effectiveness of labour market programmes was subject to little scrutiny previously. Traditionally, efficiency was measured by places provided, output delivered, or qualifications gained. Training programmes appeared to have higher job placement rates than job creation programmes, but this was largely a consequence of the different characteristics of participants. After German reunification, new econometric evaluations using large data sets failed to reveal any 'net' individual programme impacts, but these results largely reflected the East German context of large-scale programmes in a depressed labour market (Hujer and Wellner, 2000; Krause et al, 2000; Lechner, 1999). In western Germany, by contrast, evaluations showed weak positive net effects for training immediately after completion, with lower long-term retention rates than those of a control group who had found jobs without the training programme (Klose and Bender, 2000).

It was not until 1997, still under the Christian Democrat/Liberal coalition, that the law encompassing the rules for the unemployment insurance system, the FES, and the instruments of active labour market policy was rewritten and integrated into the Social Code as its Third Book (SGB III). Within the FES, responsibility for the choice of 'active' instruments prescribed by law was devolved to the local level, accompanied by the obligatory monitoring of participation and outcomes. The 181 FES districts received 'integration budgets' which they have been able to use to create their own mix from the legally defined instruments. Directors and the representatives on the local tripartite board have made such decisions rather than, as previously, each local office receiving exact budgets for each of the numerous instruments. Short-term job training measures of between four and eight weeks' duration were introduced in addition to the traditional instruments of continued vocational training and direct job creation. Employment subsidies for private employers were expanded and their administration simplified. Regulations for private job placement and job counselling, and for 'temping' agencies, were relaxed. Significantly, the first 'Jobcentre' or 'One Desk' experiments emerged, combining the employment assistance services of the FES with similar services provided by LAs. Such innovations were limited, however, as joint working required considerable legal, financial, and administrative negotiation.

The legislative changes also signalled a marked change in perception that individual unemployed people should assume more responsibility for finding a job and engaging with their local FES office. Eligibility for benefits was linked to active job search (beyond 'passive' availability for job offers), and the definition of a 'suitable job' was considerably tightened. Despite these reforms, at the front line there seemed little change. In the subsequent 1998 election, the Social Democrats won power with a commitment to reduce unemployment and reform employment assistance.

2 Trends in employment, job search and benefit claimant populations

This chapter examines developments in employment, unemployment, labour market turnover, and job search behaviour in Germany and the UK. It assesses the role of the PES and compares data on the groups of working age people in countries reliant on 'inactive' as well as unemployment benefits.

The report draws on several data sources, including comparative tables for 1992 and 2002 produced by the European Commission. More detailed trends about job search and methods have been drawn from our own analysis of LFS data in the UK and *Mikrocensus* data in Germany for 1996 and 2003. The 'unemployed' are defined, according to the conventions of the International Labour Office (ILO), as those looking for work within the previous four weeks *and* available to start a job within two weeks.

Up-to-date quarterly LFS time-series data were available from the Office for National Statistics LFS Data Service but, as public access to contemporary German data is limited, some comparisons could be made only for the period between 1996 and 2000.⁷

Working age employment, unemployment and economic inactivity

In 2002, there were just under 54.9 million people in Germany, and just over 39 million in the UK, aged between 15 and 64 years. Definitions of working age differ in each country. In Germany it is 16–64 years, while in the UK it is currently 16–65 years for men and 16–60 years for women.

LFS data for 2003 show that the UK employment rates for people of working age were higher, and both economic inactivity and unemployment lower, than in Germany. Male employment levels were 79.3% compared to 69.5% in Germany. Female employment levels were 69.8% and 57.9% respectively.⁸ Unemployment rates demonstrated a similar pattern. In the UK they were 4.5% and 3.4% for men and women respectively, compared to 8.7% and 6.4% in Germany.⁹ Similarly, economic inactivity rates of 16.2% and 26.8% for men and women in the UK compared with 21.8% and 35.7% respectively for men and women in Germany.

⁷ German data for 1999 were still not available for scientific use at the time of our survey.

⁸ There may be anomalies in the comparison due to the female retirement age in the UK and the status of *Beamte* (public servants) in Germany, who are outside the categories recorded in this research.

⁹ These unemployment rates are lower than conventional rates because they were calculated as percentages of the whole working age population, whereas conventional denominators would exclude those who are economically inactive.

Table 1
Key employment indicators, 1992 and 2002: Germany and UK

	Germany		UK	
	1992	2002	1992	2002
Total population (000)	79464	81574	56919	59037
Population aged 15–64	54486	54875	37216	39009
Total employment (000)	37878	38687	26978	29535
Population in employment aged 15–64	36161	35851	25275	27961
Employment rate (% population aged 15–64)	66.4	65.3	67.9	71.7
FTE employment rate (% population aged 15–64)	62.0	58.1	59.3	62.1
Self employed (% total)	9.6	10.6	12.8	11.5
Part-time employment (% total employment)	14.5	21.4	22.9	24.9
Fixed term contracts (% total employment)	10.5	11.9	5.9	6.3
Employment in services (% total employment)	61.2	69.7	75.0	80.0
Employment in industry (% total employment)	35.3	27.9	23.7	19.0
Employment in agriculture (% total employment)	3.5	2.5	1.4	0.9
Activity rate (% population aged 15–64)	71.0	71.5	75.7	75.6
Total unemployment (000)	2510	3396	2787	1533
Unemployment rate (% labour force 15+)	6.4	8.6	9.8	5.1
Long term unemployment rate (% labour force)	2.2	4.0	3.6	1.1

Source: European Commission (2003: 214, 226)

Table 1 shows trends between 1992 and 2002. The employment rate in the UK rose by 3.8 percentage points, while falling in Germany by 1.1 percentage points. The British unemployment rate almost halved, falling by 4.7 percentage points, whereas the German unemployment rate increased by 2.2 percentage points. Long-term unemployment (as a percentage of the labour force) in Britain fell significantly, from 3.6% to 1.1%, while increasing from 2.2% to 4.0% in Germany. Over the same period, the overall activity rate in Britain actually fell fractionally by 0.1 percentage points, while in Germany it increased by 0.4 percentage points. It is important to note that those neither working nor meeting the criteria for ILO unemployment are classed as economically inactive, even if they say they want work. In Britain, for example, 28% of 'inactive' working age men and 25% of 'inactive' women said they wanted to work.

It is important to stress that unemployment in both countries is experienced unequally by different social groups, particularly by the unqualified, by younger less qualified new entrants to the labour market, by minority ethnic groups, and by people aged over 50. There are major regional and local variations in all the national trends reviewed in this chapter.

Labour markets and labour turnover

The UK and German labour markets differ significantly despite sharing similar trends. Table 1 shows a shift from industrial to service sector employment in both countries, and an increase in more diverse patterns of employment. In Germany, for example, service sector employment increased from 61.2% of all employment in 1992 to 69.7% in 2002. In the UK it increased from 75% to 80%. The industrial sector, however, still accounts for 27.9% of German employment compared with only 19% in the UK. There are differences too in employment contracts and working patterns, most noticeably in part-time employment. The marked increase in German part-time employment, from 14.5% to 21.4%, reduced the gap between that of the UK where 24.9% of employees worked part-time in 2002. Much of this growth is explained by increased female participation rates.

In this analysis the most important dimension of labour market 'flexibility' is trends in labour market turnover. To facilitate comparison, this was defined as the number of job starts as a percentage of employment. There are a number of methodological caveats. In both the LFS and *Mikrocensus* surveys, job starts are defined as the number of people who started work in the preceding three-month period. Second or third starts within such a period will be lost in both cases. However, in the UK, the LFS is done in four quarterly waves and seasonality of job starts will automatically be captured. In Germany, by contrast, the *Mikrocensus* is based on one annual wave conducted in the spring and, even though this period is likely to be seasonally atypical, annual data for comparison with Britain could only be derived by multiplying the spring count.¹⁰

Figure 1 shows that, in 2000, labour market turnover was higher in the UK although still significant in Germany, at 22.4% and 19.3% respectively. Turnover was higher for women than for men in the UK, but roughly comparable for both genders in Germany. In the UK, the turnover rate has remained relatively stable (in 1996, it totalled 21.8%, and the latest figures for 2003 show a slight reduction to 20.1%). The German findings show that turnover increased significantly from 13.1% in 1996 to 19.3% in 2000. There are indications, however, that by 2003 German labour turnover may have declined to 1996 levels in line with the business cycle.

Job search

This section draws on data from 2000 on the comparative job search patterns of employed and ILO unemployed jobseekers. The comparison revealed differences for both groups within and between the two countries.

Overall, 21.1% of German male jobseekers and 24.6% of female jobseekers made use of the PES to find work. There is evidence that this partly reflects more open access to PES Internet vacancies. In the UK, the PES (including Jobcentre, Job Club and Careers Offices)

¹⁰ More exact data capturing any multiplicity of job starts over the year are available from the German social insurance registers (cf. Erlinghagen and Knuth, 2004), but there is no publicly accessible equivalent in the UK.

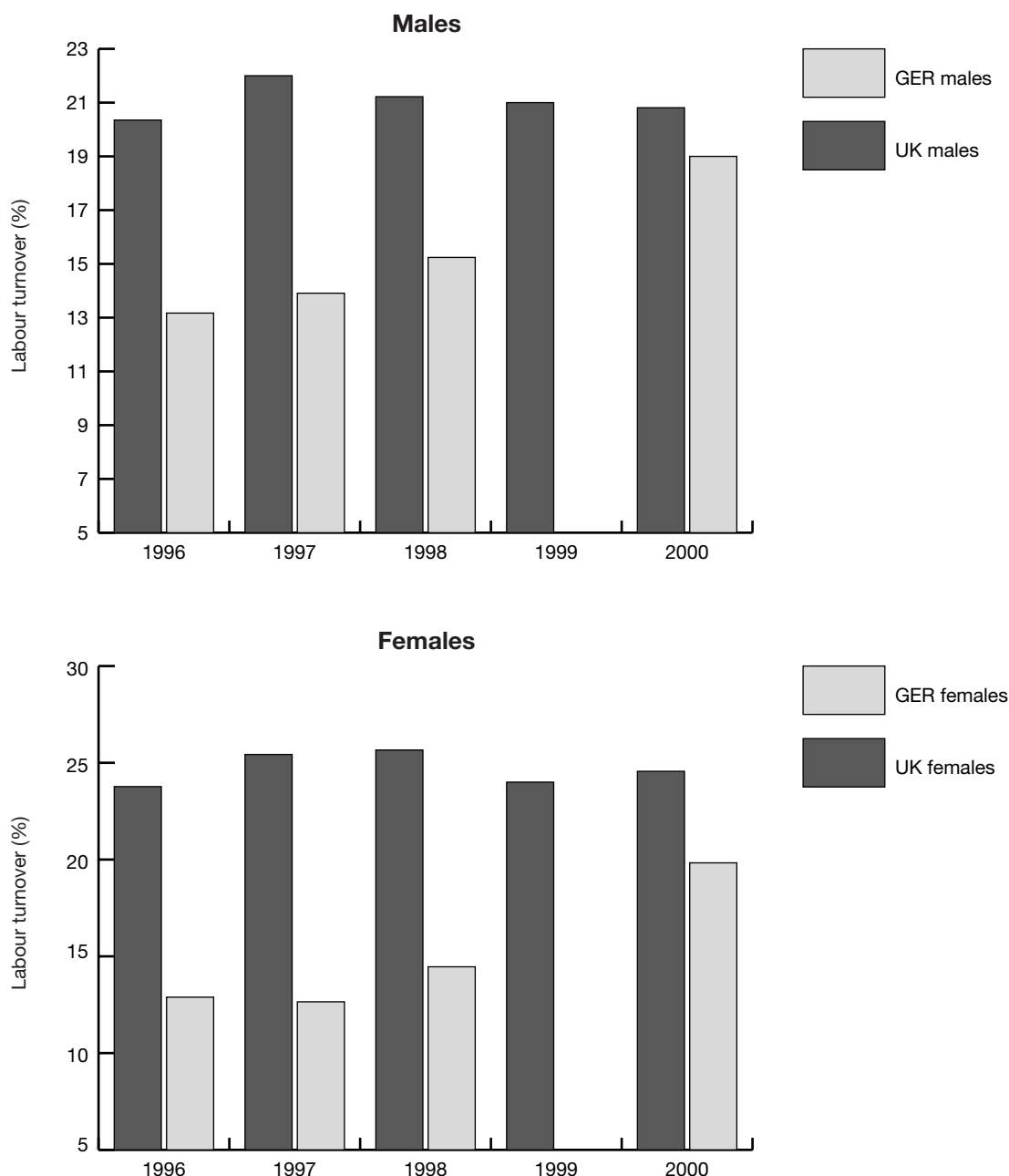


Figure 1
Labour turnover, Germany and UK, 1996–2000

Source: LFS and *Mikrocensus*, own calculations

was identified as the source of job search in only 8.7% of male responses and 8.6% of female responses. In both surveys, respondents could give more than one answer, so the percentages given are of responses rather than individuals.¹¹ The leading method of looking for jobs among employed people in the UK – primarily looking at advertisements

¹¹ Note that there may be difficulties in the German survey, in relation to what constitutes a private employment agency, that may overestimate this as a route used by German jobseekers. The question in the *Mikrocensus* might also be understood as looking for work through personal contacts.

REINVENTING THE PUBLIC EMPLOYMENT SERVICE

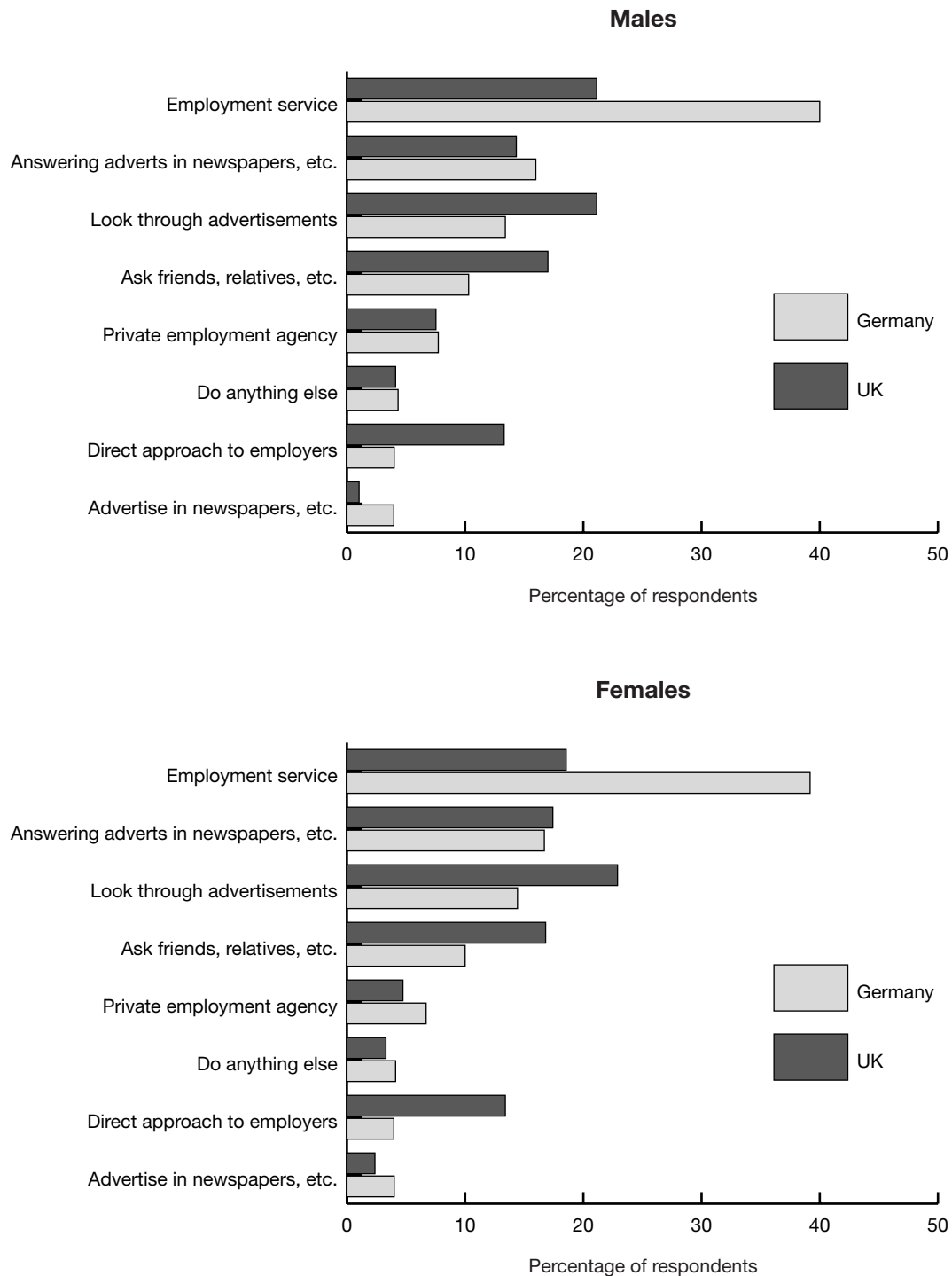


Figure 2
Job search methods, ILO unemployed, UK and Germany 2000

Source: LFS and *Mikrocensus*, own calculations

– accounted for 27.8% and 30.8% of male and female responses respectively. In Germany just over 18% of men and just under 20% of women cited using media advertisements, although they were far more likely to ‘answer adverts’ than their UK counterparts, and to

place their own advertisements. The British were more likely to approach employers directly and to use personal networks.

There were differences with the ILO unemployed where those looking for work in both countries made more use of the PES. This was especially true in Germany where, in 2000, Figure 2 shows that 40% of unemployed men and 39.3% of unemployed women used the PES, as against 21.3% and 18.5% of British men and women respectively.

The UK ILO unemployed were more likely to contact employers direct (13.1% of men; 13.6% of women) and to use personal networks (17.1% of men; 16.9% of women). In Germany, this was less prevalent with 4.1% of men and 4% of women directly approaching employers, and 10.3% of men and 10% of women using personal networks. The British ILO unemployed were more likely to use advertisements, while the German unemployed were more likely to 'answer' them. Significant minorities in both countries used private employment agencies.

The review of literature found that those unemployed people who claimed benefits in both countries were more likely to use the PES, especially in Britain. A large-scale survey of unemployed JSA claimants showed that, in the context of 'fortnightly signing', over 70% made use of the PES and about 20% of those who found jobs did so through this channel. This research also revealed that the number of unemployed claimants informed of job vacancies by Jobcentre staff increased from 24% to 47% after the introduction of JSA, with a 7% increase also in those who approached employers direct (Smith et al, 2000). After controlling for changes in the labour market, it was found that job search intensity and the range of methods used rose as a result of JSA. There was also, after controlling for the fall in unemployment, an increase of 11% in the rate at which unemployed respondents were likely to leave benefit compared with that of people under the pre-JSA regime. Nearly 70% of those leaving JSA entered employment (Smith et al, 2000).

In Germany, by contrast, only more recently has research attention focused on unemployed jobseekers and the results have been influential in triggering recent reforms. One survey of Germans registered as unemployed found only 35% of respondents actively seeking work. Five per cent were waiting to start a job already found and the status of 11% was uncertain, while 49% were not considered to be available for the labour market (Brixey et al, 2002). The authors estimated that one fifth could be placed only with 'intensive care', and another fifth probably not at all. The Federal Audit Office analysed 13,000 records in a sample of 20 FES offices, concluding that 21% of the registered unemployed were not searching for a job (*Bundesrechnungshof*, 2002).

PES market share

The share of vacancies placed with Jobcentre Plus in Britain has been calculated at different points and is estimated to account for around a third of vacancies in the economy. Surveys of employers find that between 56% and 60% report using the PES, although the number of successful placements is far lower (cited in Hasluck and Purcell, 1997). The LFS data in this study showed that 7% of people starting new jobs found their

job through the PES. The main JSA evaluation found that some 20% of unemployed benefit claimants found their jobs through the PES (Smith et al, 2000).

In Germany, the job search literature typically relied on claimed FES market shares. The data were questioned in 2002 when the Federal Audit Office concluded that the FES was responsible for only 18% of job placings, not the 51% claimed. More rigorous data now published by the FES indicate that in 2003 the FES placed about 21% of those exiting from unemployment into unsubsidised jobs. In a recent survey of people who had, in one way or another, separated from a job and found another, it was reported that the FES was essential for only one in eight matches though the ratio of involvement in job search was higher. The survey showed that the probability of getting any job offer from the PES decreased with age and was lower for women than for men (Bielenski et al, 2002: 448).

Working age benefit claimants in the UK and Germany

The number of JSA claimants in the UK has fallen rapidly compared to the number of people claiming unemployment benefits in Germany. Comparative data from the OECD in Figure 3 reveal that, while the share of UB claimants in the UK nearly halved between 1980 and 1999, it more than trebled in Germany. There was, however, a smaller difference between the overall proportion of working age people in each country reliant on the benefit system. Both countries saw an increase in the numbers claiming SA (or IS in the UK), but the more significant difference was the growth in Britain in the numbers who rely on sickness or disability benefits compared with a decline in Germany.

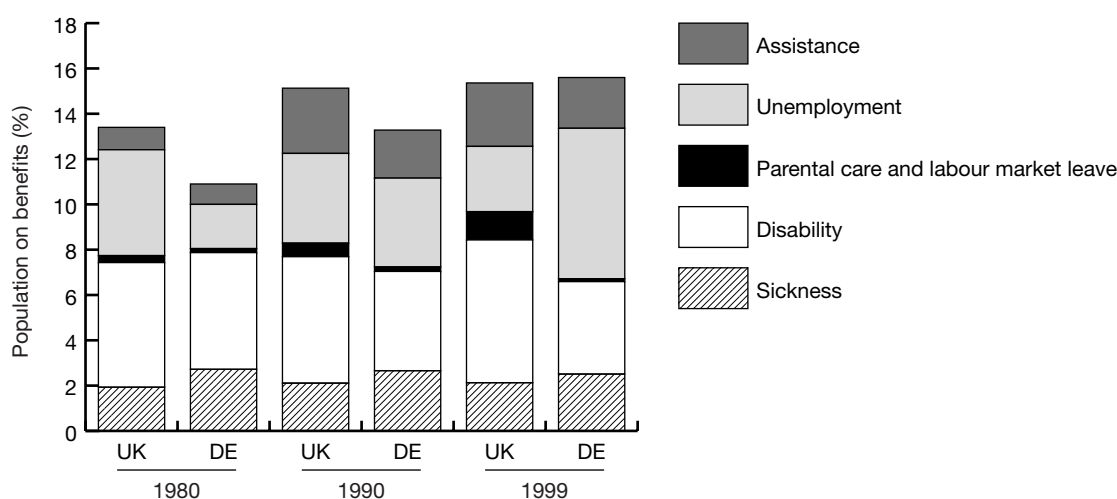


Figure 3
Working age benefits,¹² UK and Germany, 1980-1999

Source: OECD (2003: 224)

¹² Widows' and widowers' pensions excluded.

In Britain the number of people of working age claiming sickness and disability benefits increased from about 570,000 in 1981 to over 2.5 million in 2001, after which it stabilised (Clasen et al, 2004: 22). There has been intense debate on this trend with some arguing that the process has been fuelled by the intensity of the JSA regime (see, for example, Alcock et al, 2003). A recent analysis commissioned by the Anglo-German Foundation (Clasen et al, 2004) found that, while in the early 1990s there was a significant direct movement from unemployment to disability benefits, subsequently there was more movement directly from employment to sickness and disability benefits. The report concluded that both 'push' and 'pull' factors were at work. Push factors are the collapse in demand for unskilled labour, the role of the ES, and the medical gatekeepers, complemented by the pull factors of the relative generosity of invalidity relative to unemployment benefits. It is significant that, while most of the 700,000 people a year moving into Incapacity Benefit (IB) say they want and expect to return to work, only a small proportion do so and, when a person has been claiming IB for over a year, they are likely to claim it on average for eight years (HMT and DWP, 2003: 25).

German benefit provision for those incapable of work is different. Unemployed jobseekers continue to draw their benefits in case of sickness up to six weeks, just as employees continue to receive their wages for such a period. Should incapacity for work extend beyond the statutory period of six weeks, both groups, employed and unemployed people, receive sickness pay from the health insurance fund. It is only if their rehabilitation is considered unlikely that they may be transferred to a disability pension.

Another important difference between the two countries concerns the impact of the treatment of sickness on unemployment durations. In both countries, sickness resulting in the inability to look for work interrupts unemployment status. As long as the German job search regime remained permissive, however, there was little reason for the unemployed even to obtain a certificate in case of sickness if this was their only reason to see a doctor. When they saw a doctor and obtained a certificate, it was found that some 60% did not send the copy provided to the FES. Hollederer (2003) suggests, therefore, that the recent increase of 'exits' from German unemployment into 'other inactivity', including those 'unfit for work', may have reflected a tightening of the job search regime wherein medical certificates increasingly were produced to explain inactivity.

The objectives of employment assistance reform in Germany and the UK

This analysis of labour market and claimant trends helps explain the direction of the reforms in Germany and the UK. Germany has high unemployment rates and lower economic activity rates. The UK has significantly lower unemployment rates, and higher economic activity rates, but has experienced an increase in working age benefit dependency, especially among those sick and/or disabled. Consequently, current reforms aim to activate claimants not officially unemployed but wanting to work.

In both countries the PES is significant in job broking and benefit administration, and British evidence suggests that the PES can help stimulate individual job search as well as matching people directly to jobs and training places. It seems reasonable to conclude that

more effective employment assistance to unemployed people and other benefit claimants wishing to work could open access to at least some of the millions of vacancies filled annually in German and UK labour markets. If there is any 'advantage' in Germany's hitherto less strict job search regime, it is that groups with poor employability and health have not been 'crowded out' of unemployment benefits to the degree apparent in Britain. The challenge then would be to effectively help them find opportunities for themselves in the job market, rather than subjecting them to formally stricter routines that may lead nowhere.

3 The new systems of employment assistance in Britain and Germany

The British Labour Government and the German Social Democratic Government have PES reform at the centre of their programmes for modernising the welfare state. This chapter describes the strategies and systems under implementation in both countries.

New Labour has embarked on what one respondent described as its 'second wave of welfare reform'. The aim is to create an 'employment first' welfare state and, by 2006, a new Jobcentre Plus Agency will provide employment assistance and benefit payments to all 'workless' adults. Germany too is embarking on radical change aiming to reduce durations of unemployment and integrate benefit payments for unemployed people without UB entitlement.

The New Deals and the role of the Employment Service

The incoming New Labour Government of 1997 committed itself, as one of its five central manifesto 'pledges', to the introduction of a New Deal for young unemployed people. Other groups were to follow. Between 1997 and 2001, the Labour Government relied on the ES to introduce and administer a succession of New Deal employment programmes for the long-term unemployed, lone parents, people with disabilities, those over 50, and the partners of unemployed people. Each of the New Deals targeted the problems of a specific client group, but all were based on 'more help, more choices, and the support of a Personal Adviser...matched by a greater responsibility on the part of individuals to help themselves' (DfEE, 2001: para 1.33). This focus was the 'key feature' that distinguished the New Deal 'from previous initiatives' (Hasluck, 2001: 230).

The core principle of Labour's 'New Deal' for the unemployed is 'guaranteed' intensive employment assistance after a particular duration of unemployment. Young people aged under 25 must enter the New Deal after six months' unemployment and, since April 2001, those aged between 25 and 50 must enter after 18 months. At this point, a JSA claimant is allocated a New Deal Personal Adviser (NDPA) who helps place them in a job or a programme. By 2002, long-term *claimant* unemployment had virtually disappeared for those aged under 25, and the number of long-term unemployed JSA claimants aged over 25 had fallen from a peak of over a million in the mid 1980s to 135,000 (HMT and DWP, 2003: p 12). Long-term youth unemployment had decreased dramatically and econometric evaluations reveal that each New Deal programme enabled more people to move into jobs than otherwise would have been the case (DWP, 2004; Evans, 2003; Hasluck, 2002; White and Riley, 2002).

The ES invested substantial time and resources in redefining its approach to modernising and rebuilding its credibility with the unemployed, employers and other agencies. This strategy involved the introduction of a new generation of front line NDPAs; contracting

with a broad range of public, voluntary, and private sector organisations for the delivery of new services and employment and training options; and changes to ES performance targets which encouraged it to work with other agencies. Another dimension to the strategy was a major political effort to engage employers and other organisations in New Deal delivery.

The Government's strategy involved policies to 'make work pay', including the introduction of a National Minimum Wage and a Working Families Tax Credit for low-waged households in 1999. There was gradual introduction of a complex package of 'transition' initiatives designed to minimise the 'risk' of leaving benefit and to meet the immediate costs involved in starting work.

While the Government gave the public sector responsibility for delivering the New Deals, it expanded the role of the private sector. The most significant variation on the New Deal model is in 15 areas where the Government introduced Employment Zones (EZs). Originally aimed at long-term unemployed people over 25, these have been extended to the younger unemployed and lone parents. The EZs represent an alternative private sector-led approach to the more prescriptive New Deal model.¹³ In about one in ten ES districts, private sector contractors deliver the New Deals for the unemployed. Together, these 'private public partnerships' represent a significant injection of competition into the employment assistance system.

'One': a 'single gateway' to the benefit system

With unemployment falling, and evidence that the new programmes were delivering job outcomes, policy attention turned to the large numbers of working age people depending on IS or IB. As early as 1998, Prime Minister Blair announced the Government's intention to introduce a 'single work-focused gateway' to the benefit system. In 12 areas, partnerships led either by the public or private sector were to bring together the ES, the BA (then responsible for all income-replacing benefits), and LAs (responsible for Housing and Council Tax Benefit) to deliver a more proactive employment assistance service for all new working age benefit claimants. By the end of 1999, there were 12 of these 'One' pilots established to test ways of delivering the new service.

Evaluation evidence from the 'One' pilots illustrated the challenges facing this reorganisation. There was incompatibility between the different organisations' information systems, pressure from high caseloads, and intercultural differences between staff. The 'most striking finding', according to a Parliamentary Inquiry, was 'how little effect the ONE pilots...had on labour market outcomes' in comparison with control areas. The economically inactive did 'not appear to be being reached by the new work-focused agenda' (Work and Pensions Committee, 2002: para 5).

¹³ The EZs are delivered by private sector contractors with flexibility to decide the content of employment assistance, and they are paid through an output related funding system. In effect, the Zones test something similar to the incentive structure of the Australian Job Network but within the context of a 'public private partnership' rather than a fully privatised delivery system (Finn, 2002).

In March 2000, Prime Minister Blair announced the most radical step yet, proposing a unified Working Age Agency merging the ES and BA. An initial ambitious aim to include the delivery of Housing and Council Tax Benefit was dropped. This meant that LAs would be left outside the merger, thereby considerably reducing organisational and cultural complexity.

The Department for Work and Pensions (DWP) and Jobcentre Plus

Following the 2001 election victory, the Government set a range of targets to increase employment rates for certain groups, reduce child poverty, and tackle social exclusion. Key policy developments included the extension of tax credits to more of the low paid, and the introduction of mandatory WFIs for all working age benefit claimants. There was major institutional change. The DWP was created and 'Jobcentre Plus' replaced the ES and BA in April 2002. This move 'joined up' the administration of the benefit system but separated Jobcentre Plus from a new Department for Education and Skills (DfES), thereby breaking previous links with skill development programmes.

As an Executive Agency of the DWP, Jobcentre Plus has significant operational autonomy. Its Chief Executive is appointed on a three-year contract renewable by mutual consent. There is an executive Board with seven full-time Directors on indefinite Senior Civil Service contracts, supported by three non-executive Directors. The Agency has a variety of 'Performance and Resource Agreement' targets agreed annually with the Secretary of State for Work and Pensions. The job entry targets are weighted to signal clearly the priority attached to different groups with, for example, greater value given for getting a lone parent into a job and least value for helping someone already employed to move into a new job. Other targets specify anticipated performance in paying benefits promptly and accurately, reducing fraud and error, helping employers fill vacancies, and improving business efficiency and customer satisfaction.

The new organisation is divided into nine English Regions plus offices for Wales and Scotland, which in turn are subdivided into 90 Districts. In 2003/04, Jobcentre Plus held 9 million interviews, took about 3 million vacancies and placed about 1.2 million people in jobs. It administered over 5 million claims for benefits and was responsible for some £30 billion in benefit expenditure, with running costs of £3.5 billion (Fletcher, 2004).

In 2002, Jobcentre Plus inherited a network of 1,500 offices and 90,000 ES and BA staff, primarily civil servants but with separate collective agreements and appraisal systems. By 2006, the new agency will have integrated employment assistance and benefit payments for over five million working age claimants and, by 2008, it is anticipated that Jobcentre Plus will comprise 1,000 integrated front line offices and 25 'contact call centres'. Benefits will be handled in 100 'benefit centres of excellence' that will process 1.5 million 'complex benefit claims' (about 30% of the total). Other claims will be handled by the local offices and call centres. Staff numbers are planned to fall to 70,000 by 2006, a reduction of over 20%.¹⁴

¹⁴ The reform process has been associated with worsening relations with the main civil service trade union, the Public and Commercial Services Union. Initially concern centred on the health and safety of staff in new Jobcentre Plus offices and, although that issue was resolved, industrial relations have deteriorated with disputes now centred on pay levels and job losses within the agency and DWP.

Jobcentre Plus works with a complex array of 'partnerships', both nationally and locally. In addition to working with the private sector-led New Deal areas and EZs, Jobcentre Plus continues to deliver most of its programmes through a mixed economy of some 2,000 'for profit' and 'not for profit' providers.

There is no formal role for the 'social partners', but there is a National Employment Panel (NEP) comprising 25 Chief Executives, 60% of whom are from large employers in the private sector. The Trades Union Congress proposes only three representatives. The NEP, according to one respondent, is 'an external group within the heart of Government'. It is independent, albeit based in the Department, with a remit to 'challenge, scrutinise and help develop welfare to work policies'. The NEP reports independently to senior Government Ministers.

Employment assistance and building on New Deal

Since its creation, Jobcentre Plus has faced 'significant challenges' and the pace of change continues. The new front line employment assistance regime being implemented by Jobcentre Plus, and detailed in Chapter 4, is to be intensified and, from 2005, the unemployed will be expected to make more effort to look for work and to travel further to take jobs. Lone parents with older children must attend a more intense sequence of WFIs, and a new more personalised and intensive work-focused regime is being piloted in seven Jobcentre Plus Districts and initially will cover about 10% of all new IB claimants (HMT and DWP, 2003).

New Deal employment programmes are to be 'localised'. Within a 'national framework of rights and responsibilities', District Managers will be given control of local budgets. This will enable them to choose from a 'flexible menu' of programme provision, and PAs will be expected to 'tailor provision to individual needs', enabling more workless people 'to get and retain employment' (DWP, 2004: 20). Prototype Jobcentre Plus Districts will start testing the new system in 2005 prior to its national extension.

The German reforms: 'JobAQTIV' and the job placement controversy

The Social Democrat/Green coalition led by Gerhard Schröder succeeded the Kohl Administration in autumn 1998 with an explicit commitment to reduce unemployment. For several years, however, the new Government was embroiled in debates on tax and pension reform. Unemployment actually fell between 1998 and 2000 but long-term unemployment was little affected. The period of recovery was shorter than expected, and in 2001 unemployment began to rise again. It was only then that a more proactive approach was adopted, underpinned by Chancellor Schröder's statement in 2001 that there was 'no right to idleness' (cited in Ludwig-Mayerhofer, 2002: 89).

One matter of concern was the institutional split between the FES and LAs. From 2001 to 2003, the Federal Government spent 15 million Euros annually testing different models of cooperation in 30 pilots (one of which was the subject of a case study visit). Under the acronym of 'JobAQTIV', legislation was drafted to overhaul the Third Book of the Social Code, coming into effect on 1 January 2002 (Blien et al, 2002). The legislation added some new 'active' instruments, introduced individual profiling, and required the unemployed to enter into an 'insertion agreement' negotiated with an officer in the local FES office.

In practice, few extra staff were appointed and, as front line officials grappled with the new system, the overburdened bureaucracy was made responsible for organising subsidies to the social security contributions of unemployed people taking low-paid jobs (the 'Kombi jobs'). This was swiftly followed by controversy in February 2002 when the Federal Audit Office found that FES recording practices appeared to exaggerate job placement statistics. With Federal elections pending in September, the Government saw itself at high risk in the field of employment policies.

The Hartz Commission

The Government responded with a strategy aimed at increasing competition, modernising the management of the FES, and making it focus on job placement.¹⁵ The 'Hartz Commission', named after its chairman, was charged with developing modern management structures and a framework for the future division of labour in the FES with the aim of improving efficiency and producing a more customer-oriented approach.

In August 2002, just one month before the Federal election, the Commission published its report. It exposed the extent to which the FES was bureaucratically driven. The organisation had complex administrative procedures and little flexibility with job broking and work with employers 'crowded out' by other demands. Less than a third of FES staff worked on front line services, and only about 10,000 of 90,000 employees were involved in job broking. The payment of benefits to unemployed people through two separate systems, the FES and LAs, exacerbated the problems.

The Commission argued that the key to lowering unemployment was earlier and more effective intervention to shorten individual unemployment duration, ideally to zero by helping redundant workers find new jobs during their notice periods (2002: 6). The Commission proposed a more extensive activation regime based on the principles of 'active supporting and demanding' (*Fördern und Fordern*, translated in this report as 'promoting and obliging'). There would be greater emphasis on the efforts of the unemployed people themselves to find work. It was proposed to amend the sanctions regime to specify clear penalties for particular infractions, thereby reducing the reluctance of front line officers to implement them.

¹⁵ Job placement vouchers were introduced enabling unemployed people to utilise the services of private placement agencies. After three months' unemployment an individual can take a voucher to a private placement agency for assistance with job placement. If the private agency places the person in a job, they receive a payment of between 1,500 and 2,000 Euros, depending on duration of unemployment. In 2003 about 450,000 vouchers were issued; only 7% of these resulted in a placement, of which only 2.4% were sustained for over six months (Bruttel, 2004: 2).

In order to merge employment assistance delivered by the FES and LAs, the respective benefits, UA and SA, should be unified into a 'basic income for jobseekers' (Unemployment Benefit II [UBII]), a single benefit for employable people of working age ineligible for insurance-based benefits. A separate 'social allowance' would be paid to the dependants of UBII claimants. SA would continue to be paid through LAs to those incapable of work and their dependants. At the centre of the Hartz Commission proposals was the reorganisation of local FES offices into Jobcentres to serve as 'one-stop shops' for all labour market services. In the Jobcentres, the FES, LAs, and commissioned providers would cooperate in a kind of 'employment assistance bazaar'.

A modern labour market service

The Hartz Commission's principal recommendations have been enacted, with some revisions and omissions, through three subsequent legislative phases.¹⁶ The final and most decisive phase will transform the German benefit and employment assistance by 2005.

In terms of governance, the FES has been renamed as '*Bundesagentur für Arbeit*' (literally, Federal Agency for Work), and local offices have become local 'Agencies for Work' (*Agentur für Arbeit*). The middle tier *Land* level of administration has been reconstituted as 'Regional Directorates'. At all three tiers, the former Director and Deputy posts have been replaced by three-person Executive Boards, with a Chair, initially on a renewable five-year contract. The aim is to secure greater efficiency and accountability for performance through 'binding achievement targets, a new transparency vis-à-vis achievement level and progress and personal leadership through clearly structured processes' (GNAP, 2003: 60). Significantly, the influence of the social partners has been reduced with the tripartite advisory committees abolished at the middle level, and those at central and local levels losing their power to propose budgets.

In terms of the benefit system, there are reductions in the durations of UB entitlement, with payments to those over 55 being restricted to 18 months (from 32 months) as of 2006. The most radical change is that UA and SA, for those able to work, will be merged into one means tested and flat-rate benefit from 1 January 2005, with additional supplements for children and other adult dependants. For an estimated 1.5 million of the former UA claimants, the changes will result in benefit reductions, particularly through the application of the family means test. These income supporting benefits will be paid by the FES, with any additional housing and heating allowances paid by LAs. It is envisaged¹⁷ that the continuing division of financial, organisational, and managerial responsibilities will be resolved by the formation of local consortia to deliver comprehensive services within the new Jobcentres. Alternatively, 69 LAs have been given the option of assuming full and sole responsibility for all benefits and services for all unemployed people lacking contribution-based benefits claims, and their families, for an experimental period of six years.

¹⁶ See the account of the two 'academic' members of the Commission for details: Jann and Schmid, 2004.

¹⁷ For constitutional reasons, LAs cannot be legally obliged to enter into such a cooperation.

Those claiming UBII will have to enter an Integration Agreement detailing agreed job search activities, verification of such activities, and the employment assistance to which they will be entitled. This agreement will be renewed every six months after 2006. Failure to enter an agreement will result in a 30% benefit reduction or, for under 25 year olds, complete withdrawal of benefit. This last provision is to reinforce the Government's aim to offer a job, vocational training or programme place to all young people.

Unlike UBI recipients, who may reject jobs paying less than their benefits or less than the rate established in collective agreements, UBII recipients will have to accept any job for which they are capable. Also, they may be required to work in job schemes for their benefit plus a flat-rate compensation for additional expenses of between 1 and 2 Euros per hour (a requirement that previously applied only to those receiving SA).

The emerging German jobcentre

Despite the uncertainties of the legislative process, senior officials in the FES anticipated the scale of the challenge they would face and, following the publication of the Hartz Report, initiated major reorganisation. The intention was to redesign front line processes and procedures, and reach what one respondent described as a 'master plan' for reorganisation and implementing a new model 'customer service centre'. The confusion of language reflects the tension between legalistic-prescriptive and management-driven principles of governance. While the legislature was legally defining 'Jobcentre' as nothing more than a common entrance point, the FES management, assisted by business consultants, designed a new system to manage customer flow very much in the spirit of the Hartz Report and the British example.

The new 'customer management system' is to introduce a reception area, a physical self service zone, and an advice and placing zone where job placement and case management occurs. A front desk receptionist provides the first referral point in the Jobcentre. If there is a '30 second problem' – for example, a change of circumstance that requires the completion of a form – then the receptionist issues it.¹⁸ An initial benefit claim under the model involves first use of a telephone to a call centre. Pre-profiling takes place on the basis of age, level of qualification, and so on, and a client is then allocated a 15/30/45-minute slot with a case manager/PA. Clients should be prepared for the interview and have all the necessary documentation. The PA receives all the relevant forms in advance, enabling them to reduce bureaucracy, customise the interview, and make it more work focused. The self service area has phones for contacting the call centre and access to job vacancies including via the Internet.

Each PA has a mixed clientele which, on the basis of profiling, is subdivided into three categories according to their distance from the labour market: 'market customers'; 'counselling customers'; and 'inclusion customers' (GNAP, 2003: 59). Following the initial

¹⁸ The results from an initial pilot, dealing with about 1,100 clients per day, indicated that 45% of clients were dealt with at reception and 25% handled through self service. Of the 30% who proceeded to what was called the 'entrance zone', only 40% needed to be interviewed by a PA.

interview, the PA has discretion to select those to re-interview. The PAs have goals but no specific job entry targets.

This new model 'customer service office' has been piloted, adjusted, and modified in the light of operational experience, and it was expected that half the FES network would be using the new system by the end of 2004. As of summer 2004, however, full rollout had been postponed until 2006 due to the priority given to paying the new benefit as of January 2005 and organising the new relationship with LAs. Senior FES officials anticipated that their model could be adjusted relatively easily to accommodate their new client groups when UBII is implemented.

From January 2005, the FES local offices (with or without the cooperation of LAs) must implement the new benefit. To explore the impact of merging both systems in our German case studies, we looked at two cities where local partnerships had introduced 'Jobcentre' initiatives at an earlier stage to combine the work of the local FES office and LA.

4 Implementing the new employment assistance regimes

The new employment assistance regimes in Britain and Germany restructure the relationship between the unemployed and front line employment assistance. In both countries the reforms put 'work first' by reorganising the assessment and payment of benefits, and the delivery of employment assistance. This chapter explores the implementation of these activation strategies in two German and two British cities with comparable socio-economic characteristics.

The case study research involved intensive visits of three days' duration to each city between October 2003 and April 2004. Senior managers and front line staff in Jobcentres were interviewed, and interviews between advisers and unemployed people were observed. There were interviews with other relevant agencies and organisations, with employment programme providers, and with employer and trade union representatives.

Our objective was to clarify the procedures that had been introduced and to elucidate the challenges posed to the reforms in their translation from policy objectives to front line delivery. The full legislative changes to the German system outlined in the previous chapter had not yet been introduced, but the two cities were in effect piloting a key element of the new employment assistance regime.

The case study cities

All four of the case study cities had experienced significant change, notably a decline in manufacturing jobs and increased service sector employment. Both German cities had high levels of unemployment. The British cities had previously experienced high levels of unemployment but, by 2003, the number of people receiving JSA had fallen significantly.

All four cities had significant minority ethnic communities with higher levels of unemployment. Unemployment and benefit dependency were concentrated in certain districts, and there was a variety of complex partnership programmes targeted at broader economic development, and the physical and economic regeneration of particular areas.

In the British cities the respective Jobcentre Plus Districts had 'gone live' and were implementing the new national 'employment first' service.

The German cities were selected because the municipal authorities and local FES had implemented experimental Jobcentres. In German city 'A' (GCA), the new Jobcentre had brought together municipal case managers and FES JPOs, and was described by policy makers as 'a model for the new federal system'. In German city 'B' (GCB), the Jobcentre was solely targeted at under 25 year olds. In effect, these German initiatives were experiments in co-location rather than full integration.

Jobcentre Plus reorganisation in Britain

The Jobcentre Plus reorganisation in both British cities had been characterised by the parallel introduction of new work processes, major staff reorganisation, and physical changes to the layout and location of offices. In both Districts the change process had involved a major logistical challenge, and full implementation of the new Jobcentre Plus model was constrained by delays in relocation and difficulties in obtaining suitable premises.

Nevertheless, the design of the new Jobcentre Plus 'front office' was clear. Typically, the premises consisted of two levels of office space with the ground floor devoted to first contacts and the second to ongoing relationships with clients. The ground floor had a reception area and free telephone services, where customers without appointments were directed. Both levels of the office were largely open plan with waiting areas and Jobpoints (self service vacancy terminals) in the centre surrounded by 'island' desks where customers interacted with staff. On the periphery, there were offices and private interview rooms. The design had some practical limitations for staff and significantly dictated the nature of interactions taking place.

This environment contrasted with the facilities and 'back office' of the benefit processing sites with no physical contact with customers. Given subsequent policy decisions to rationalise benefit processing, it was unsurprising that little effort had been made to modernise this working environment. About a third of the Jobcentre Plus staff were, however, employed in such offices and a 'them and us' attitude prevailed, where former BA employees especially felt undervalued. It was evident too that the process of claiming benefits, and the complexity of the benefit system, posed major challenges. There was much anecdotal evidence about difficulties in getting accurate information from clients over the phone, and in handling the many 'changes in circumstances' that clients must notify to the system.

In both Districts a senior manager led a coordinated 'change programme', and there was an extensive programme of staff workshops to explain the reforms and the new job roles. There were also newsletters, promotional videos, and visits from staff of other Districts experienced in the new service. The aim was to win the commitment of the workforce, overcome the different cultures of the two groups of staff, and defuse the perception that, in the words of one informant, 'the ES was taking over the BA'. One problem identified by those interviewed was that the reorganisation occurred before senior management were able to fully integrate the different ways in which the ES and BA had graded jobs, paid expenses, and carried out staff reviews and appraisals. Many front line staff interviewed criticised the limited amount of training they had received. There was particular concern about the need for more training among PAs who, in both Districts, were starting to deliver WFIs to lone parents and individuals making new claims for disability benefits.

There was considerable turbulence as individual employees had to apply for new jobs or adjust to changed job descriptions. In one District this exacerbated high levels of staff turnover, much of it due to internal transfers and promotion. While this facilitated organisational change and flexible responses, it also created quantitative and qualitative shortages. In one case it was reported that job roles had to be defined more narrowly

than initially intended because new staff were insufficiently qualified to fit the broader ones.

External agencies commented on the rapid changeover of Jobcentre staff and the added complexity this placed on effective liaison around individual cases. There was a critical period when the internal priorities of reform weakened partnership working, but this turbulence had lessened by the time of the fieldwork.

Jobcentre reorganisation in Germany

In the German case studies, there were far fewer organisational problems because of the relatively limited nature of the Jobcentre experiments that, in effect, co-located LA and FES staff. Contracts were unchanged, recruitment voluntary, and participating staff largely motivated by the innovative potential of the experiments. Caseloads were generally lower than in the environments from which these pioneers came.

In GCA a new approach to youth unemployment preceded the all working age Jobcentre experiment. In 1997, senior officials of the municipality and local FES created a unified 'Young Persons Job Exchange'. It implemented an 'employment first' approach to the young unemployed who, instead of being paid benefit, initially were either placed in a job, a training place or required to participate in a 'Springboard' employment assistance programme for up to six months as legal employees. The initial placement work is organised through a central office and young people can be referred to a network of seven providers in the city who organise work placements, training, and help with job search. The net wages participants receive are equal to SA plus a small supplement. The option is available *immediately*. The aim, according to one informant was 'to give young people an offer they couldn't refuse'. In effect, 'we stopped the practice of first getting young people used to social aid payments and then working hard trying to get them off'.¹⁹

Innovation lay in the combination of a centralised office, to create a 'critical mass' of customers, and a decentralised delivery of front line 'work-focused' services through the network of Springboard providers.

Following the success of the Youth Exchange, the municipality with the support of the local FES and additional Federal funding, created a centralised Jobcentre for adult jobseekers in 2001. The aim was to reduce claims for SA by introducing a 'work first' strategy. This involved co-locating 49 city case managers and 57 city PAs with 16 FES JPOs in a unified office. The Jobcentre was located slightly off the city centre and near the city headquarters of the FES. It had a bright open entrance area and reception area. This was the first step of the customer management system where appointments with the case

¹⁹ Between June 1999 and September 2000, just under 3,000 young people were referred to the Exchange. Just under 17% did not attend the interview; 21.7 % did not proceed with a claim; 38.6 % were placed in a job, training place or education; 10.3% went into 'Springboard'; and 12.7 % received benefit either because of ill health, a disability or a domestic responsibility

managers and JPOs were made and a consultation occurred. There were six Jobcentre staff in the reception area: two permanent receptionists, dealing with first contacts, were supported by four case managers or PAs dealing with common questions and initial problems. The latter posts were served through the rotation of all case managers and PAs.

The most important difference in the Jobcentre was its focus on employment and immediate employment assistance, and its close cooperation with a network of providers. LA case managers maintained the 'front line' and were responsible for taking the claim to benefit and making an initial assessment of employability. The case manager assessed 'employment readiness', identifying any barriers and, where necessary, making contact with a third party offering relevant support (for example, drug counselling). They would refer 'employment ready' clients to a JPO or to a network of 24 local job exchanges operated by contracted providers to deliver more intensive employment assistance.

The providers of 'job exchanges' were located throughout the city and mostly operating within a specific ward of the city. Some were specialised and worked with particular client groups, such as lone parents or those with mental health issues. The individuals referred to these exchanges retained their existing benefit payments and were not directly employed on 'benefit plus' contracts. They would be called in as job broking made it necessary.

Bringing the two cultures of case managers and JPOs together in the GCA Jobcentre in terms of staff attitude was not problematic as it had attracted proactive staff dissatisfied with the practice in their former workplaces. Apart from the informal contacts generated by co-location, there were regular staff meetings, joint training sessions and case conferences for particular individuals. For the senior SA administrator, 'the aim was not merger but a new culture'. More pragmatically, the senior FES official described it as 'two authorities operating a single office'. Both administrators thought that a wider merger following the implementation of the Hartz Commission reforms would pose greater organisational issues.

The Jobcentre experiment in GCB was more recent and limited. It was located in, and dominated by, the local FES office block. It provided a 'one stop' entrance point to both unemployment benefits and SA for all young people under the age of 25 and without vocational degrees. The significant development was to 'house' SA case managers within the same environment as their FES counterparts. The employment assistance innovation was the introduction of an 'employment first' approach. This Jobcentre initiative had been operating only for a short period and did not have the benefit of the development process underpinning the success of the Jobcentre pilot in GCA. Co-location apparently had reduced some handover problems and bureaucracy for clients, but many of those interviewed were critical. Unexpectedly, the introduction of the pilot coincided with an expansion of provision through the Federal 'Jump Plus' programme. Its implementation dominated the activities during the starting phase of the experiment and, since 'Jump Plus' was geared only towards SA claimants, it had the perverse effect of separating the two partners co-located in the Jobcentre for much of their daily work.

The JPOs indicated that few clients were submitted for jobs as most were not 'job ready' and few vacancies existed. Those aged between 18 and 20 were referred to 'Jump Plus' places provided by a network of 13 contracted providers. Those aged between 21 and 24 were referred to a 'work for benefit' programme run by the municipal employment agency. The rapid implementation of the programme and the reportedly poor selection

and preparation of participants produced high absenteeism and drop out rates. There was some variation in how providers organised their programme, but typically it would involve a short induction, unpaid work experience, then a final assessment. Providers were paid per client referred with no reduction in payment for non-attendance and payment was not related to outcomes. One provider reported that none of the initial 75 participants were placed in a job or apprenticeship training immediately after the programme. Unlike provision in one British District, there was no 'job coaching', nor were job broking activities integrated into the programmes. These remained the prerogative of the FES JPOs in the Jobcentre.

In the case study cities, interviewees stressed that the different legal responsibilities of the organisations limited integration. The issue of merging management, jobs, functions, and the very different provisions of the two legal codes used by staff had not been relevant. In GCA, where only a minority of JPOs from the FES were 'guests' in what was essentially a municipal Jobcentre, the persisting division was largely attributed to legal factors. In GCB, however, where the FES owned the physical environment and brought in the full range of its job roles, differences in organisational cultures were more apparent. The FES had steeper hierarchies, narrower job definitions, and more dispersed salary structures, whereas the municipality strongly encouraged teamwork, gave people broader roles, and had salary structures compressed at a relatively high level. Such institutional and financial issues are likely to become more relevant in the consortia to be established in 2005.

Employment assistance and the role of job broking in Jobcentre Plus (Britain)

In the British case studies Jobcentre Plus staff demonstrated their active regime. A working age person wishing to claim a benefit either contacts a call centre directly or, if they visit an office, does so using the free phone facilities provided there. In this 'first contact', the call centre operator obtains their personal details and, in the offices we visited, posts the claim documents for completion.²⁰ The individual is then allocated an interview time at the Jobcentre Plus office, and advised to bring the necessary documentation to validate their claim. The call centre can immediately book appropriate interview slots available in the electronic diary of the Jobcentre Plus staff concerned.

On attending the Jobcentre, the individual is seen first by a 'Financial Assessor'. Twenty minutes is allocated to process the benefit claim. The Assessor then takes the customer to the assigned PA. The PA has 40 minutes for this interview. PAs are trained to use a scripted approach, largely devised for JSA clients, to explore previous experience and barriers and to establish 'job goals'. The interview with an unemployed person culminates with a formal Jobseekers Agreement that the individual must sign. Interviews with clients claiming 'inactive' benefits could involve employment advice or referral to a New Deal, although take up has been limited. The PA accesses job vacancies via a computerised

²⁰ The fieldwork was undertaken prior to the introduction of a new national 'Customer Management System'. In the new system, when implemented, the call centre operator carries out a longer telephone interview and, instead of posting the claim document for self completion, takes and enters the relevant details into an electronic version of the document.

'Labour Market System' (LMS) whose categorisation enables the PA to match the individual to appropriate vacancies.

A key feature of the new regime is that most of those interviewed are given a 'Better Off In Work' calculation. This is usually calculated in relation to the wage rate attached to a particular job vacancy. This reflects the Government's 'make work pay' strategy where a combination of tax credits ensures that most people are financially better off in work. Several interviewees, especially those from independent advocacy organisations, observed that the calculation did not include work related expenses and that, in reality, the incentive could be marginal.

Throughout the claiming process JSA recipients must attend the Jobcentre fortnightly for a ten-minute 'job search review'. Their jobseeking activities are assessed and, where possible, the claimants are submitted to suitable vacancies. There is a longer more formal Restart interview after 26 weeks' unemployment. Then young people are allocated an NDPA and must participate in the New Deal. For others, the Restart interview explores progress with job search, identifies and addresses barriers, and may include a revised 'Better Off In Work' calculation. At a third Restart interview those aged between 26 and 50 must enter the New Deal.

PAs have no direct contact with employers. On this 'demand side', an increased amount of Jobcentre work has been centralised into an 'Employer Direct' telephone and call centre system that places notified vacancies on the LMS. There are also specialised 'Account Managers', though not in every Jobcentre, who work with larger employers. This invoked mixed responses from our interviewees. Some regretted the loss of direct contact with employers, while others thought it allowed Jobcentre Plus to focus on its core activity of working with benefit claimants. Nevertheless, each office had 'Vacancy Service Managers' to provide a service for local employers and interact directly with PAs, but not to scan registers for suitable clients. Their function was to service the vacancy, ensure that details and interview arrangements were acceptable, and then place it on the centralised vacancy system.

Employment assistance and job broking in the German Jobcentres

Both experimental Jobcentres were implementing a 'work first' system. PAs combined the traditional function of assessing benefit claims with a more proactive role in referring recipients either to external providers or, if considered 'job ready', to co-located FES JPOs. Typically PA caseloads in the Jobcentre were smaller than those of SA administrators working with non-employable groups. The PA saw about four customers daily. There was no equivalent to the British fortnightly 'signing process', and the frequency of follow up contact was at the discretion of the PA. One estimated that he saw clients on average once every eight weeks. This contrasted with the FES office where, according to one respondent, unemployment assistance claims were updated annually only, and then often by post. According to another respondent, the FES office did not 'schedule interviews: they are on a "first come, first served" basis.'

In the GCA Jobcentre, 16 JPOs dealt with around 5,000 unemployed people with an anticipated annual flow of around 8,000 customers. A significant group of customers were not 'employment ready', however, and were 'filtered out' by the front line case managers. An individual JPO would deal with a maximum of 100 customers, with between 4 and 5 pre-scheduled contacts per day. The vacancy information database was the main source of vacancies. In addition, job brokers used Internet job markets accessed via their desktop computers. A special team in the local FES office searched printed media, sending relevant information to the Jobcentre. There was no active outreach to employers as this was left to the decentralised providers in the city's wards.

When preparing a match, the Jobcentre JPOs differed from their counterparts in the traditional FES. Whereas JPOs conventionally relied on written notifications to jobseekers and employers about interview contacts, those in the Jobcentre screened and matched unemployed people more carefully. This improved the service for the employer and was important for those customers who could not read German or were unlikely to respond to written communications. JPOs would call customers to the Jobcentre, explain the vacancy and prepare them for interview.

The local 'job exchanges', where the less 'job ready' customers were allocated, delivered a more intensive job broking service. The case managers/advisers in the exchange worked with four to five selected candidates at a time. The candidates' employability was assessed and individual 'help plans' devised. The case manager canvassed the local labour market for suitable jobs and prepared candidates individually for interviews, even accompanying them if both sides so wished. If they could not fill a vacancy, they would notify job brokers in other exchanges. Before submitting a candidate, the case manager visited the employer to ascertain their requirements and then put forward only one suitable candidate. Another candidate would not be submitted unless the first had been rejected.

In the GCB Jobcentre for young people, the situation was less favourable than in GCA even though the actual caseloads for the six JPOs were significantly lower than the 700 to 800 typical of the FES services for adult jobseekers. Many customers were referred immediately to active measures. There seemed to be little direct work with employers, with the JPOs describing the process as 'a jobseeker oriented approach'.

The preparation of British and German front line advisers

Staff in Jobcentre Plus are recruited and promoted in accordance with competency-based assessments with formal qualifications unimportant to recruitment except for limited highly specialised roles. Most front line staff in Jobcentre Plus have no academic degrees and, after recruitment, receive several months' basic training. They are involved in front line services within weeks. Much staff development takes place informally through regular meetings, peer reviews and 'away days'. Jobcentre Plus employees interviewed had often been employed in more than one role and had developed much of their expertise 'on the job'. As a result, there was a high degree of flexibility with a number of employees understanding a variety of roles within the organisation. There was also, however, considerable turnover and loss of continuity. Managers acknowledged that relatively low and rigid pay levels, in the context of a buoyant labour market, resulted in a loss of expertise.

In the German system, by contrast, there is much greater emphasis on the acquisition of formal qualifications. Most advisers and JPOs in the FES will have undertaken a three-year degree course in Public Administration at the Federal Academy for Public Administration in Mannheim. During training at the Academy, students undertake placements in local FES offices. The strong emphasis on implementing the law reflects the highly regulated delivery of employment assistance.

Training for LA case managers is similar. Case managers' posts are secured by a degree from academies maintained by the *Länder* – and the degree typically is a variant of Public Administration. Several of the LA respondents had acquired their degrees mid-career, so enabling their promotion. Virtually all those interviewed within the FES, LAs and the Jobcentre pilots had 'classic', traditional careers that involved getting a degree. Interestingly, despite the similarity of employment conditions and training, there was little evidence of transitions between FES and LA employment.

In both countries advisers and managers were critical of the more obvious weaknesses in their own system. In the British case the focus of criticism was the limited training of many PAs in preparation for their new roles. Advisers too often had to learn 'on the job', and this undermined the service they were able to provide. As one said, 'I feel less professional because of a lack of training'. External partners also argued that 'Jobcentre Plus has not invested enough in its staff'. In Germany the inflexibility of the system was criticised, especially where the focus on a rigid application of the law stifled effective interventions and created a risk-averse staff culture.

There were other differences. The British emphasis on 'diversity' and the particular circumstances of different minority ethnic groups was not addressed in Germany. Indeed, whereas in the British Jobcentres visited there were staff from minority ethnic backgrounds, with supplementary access to translation facilities for those clients who needed them, native Germans exclusively staffed the German offices even though the clientele included significant minority ethnic communities. One reason for such exclusiveness is that admission to the German Civil Service traditionally was based on German citizenship. Although reluctantly opened to EU citizens, Turkish citizens are excluded unless they become naturalised. The British emphasis on training advisers in personal security and managing interpersonal conflict did not appear in the German case studies. This perhaps reflects the relative passivity of the German employment assistance regime.

Implementing 'activation': the work of PAs and case managers

The interviews observed between PAs, case managers, and clients were conducted courteously with a clear effort to resolve issues for the client. In both countries the customers interviewed were concerned to establish their entitlement to benefit, and only when that was resolved could the interview move to employment assistance. This generally involved a discussion of experience and aspirations culminating in advice and encouragement. In Britain the new claimants observed agreed a Jobseekers Agreement, while the longer term unemployed New Deal clients were referred to external providers. The British interviews were allocated about 40 minutes, the German interviews about 30 minutes.

The overall character of both the British and German interviews was administrative and procedural. In the German interviews there was considerable emphasis on establishing benefit entitlement and ensuring that benefits would be paid correctly. In the British interviews the separate Financial Assessor had already undertaken detailed questions about benefits, or benefit was already being paid to the New Deal clients. There was, however, a need to explain a variety of procedures and the documentation detailing client responsibilities. Financial details had to be discussed in the calculation of in-work benefits, and more time was taken to acquire signatures on various forms, including the Jobseekers Agreement. These processes 'crowded out' the amount of time for direct employment advice. There was little time for job matching in the interviews observed.

British PAs expressed frustration at the time spent on paper-based administration and 'form filling', and estimated that at least one-fifth of their operational time was absorbed by these duties. Much of this activity was generated by the 'stricter benefit regime' and the complex paper-based financial claims process initiated when individuals were referred to external providers. The first pressure reflected the fact that British benefits and sanctions required much original documentation and accurate form filling, in part demanded by legal due process before sanction imposition. The second reflected the strict payment and auditing requirements that governed the contractual relationships between Jobcentre Plus and its providers. Administrative problems were exacerbated by having to work with IT systems 'that did not talk to each other', and which required manual replication of information. There was concern too at the amount of time taken by frequent changes in bureaucratic procedures.

In Germany there was less preoccupation with 'paper work', partly because of the permissive benefit regime and a more 'trust-based' approach to relationships with providers. Yet there was much administrative complexity. Co-location of LA and FES services in the two Jobcentre pilots meant that advisers had to work with two technically and legally separated computer networks for which they needed separate terminals on their desks because data protection legislation proscribed the combination of claimant records. Within each system, the use of several unintegrated applications requiring manual replication was just as common as in Britain. Implementation of the new single UBII in 2005 will do away with separated networks but add yet another application to the existing ones.

Each regime's 'target cultures' differed greatly. In both British case studies each office had its targets for getting people into jobs, and advisers were aware of the job entries they were expected to achieve and that performance would be relevant to their regular appraisal. PAs and managers expressed some concern that the focus on individual assistance was undermined by the emphasis placed on securing unsubsidised job entries.

At the time of our study, targets had less importance in the German system. The emphasis in the German system is on helping clients into jobs that are sustained for at least six months. This contrasts with Britain where all job entries of more than a few days' duration count towards the Jobcentre Plus target. In GCA the Youth Job Exchange and Jobcentre had formal job outcome targets, but these were not used for assessing individual staff performance. According to the manager interviewed, 'Although quantified targets do exist, failure to meet them has no hard consequences yet.' It was noticeable, however, that providers in the local job exchanges had incentives to place people in employment. The funding model was based on the assumption that the

independent provider would 'break even' if their case managers placed 25 clients in long-term employment annually.

In GCB the impact of any target and job search regime was even less apparent. There were no data available on actual job placements, but respondents' estimates suggested it was as low as 10%. There appeared to be little effort to intensify the regime even though staff estimated that up to half their clients were not meeting the expected requirements. The main emphasis was on referring clients to providers, and successful placements were regarded as positive outcomes in their own right. The lack of a direct employment focus may have been related to the attitude among those interviewed that most customers were neither employable nor trainable.

In both pilot Jobcentres and in the local FES offices interviewees indicated their reticence to use sanctions, partly because of the legal constraints and partly due to concern at the hardship it could cause. In the words of one PA, 'The principle is that everyone gets a second chance.'

In both German cities the staff and managers acknowledged increasing pressure to implement a stricter regime. Trade union representatives and advocacy organisations interviewed suggested that this had already started. Despite such concern, there was a consensus in the national and case study interviews on the need for a stricter, yet fair, regime. Employers and trade unions thought it important to protect the insurance fund and taxpayer from potential abuse, and most of those interviewed acknowledged that the system was failing to connect with those most disengaged from the labour market.

British PAs, by contrast, were more prepared to impose sanctions when required, especially where they thought they would test a client's 'willingness to work', or to convince long-term unemployed people to participate in programmes. The advisers were, however, uniformly critical of the processes involved. In their view the formal regime was administratively complex, hard to implement, and generated a disproportionate amount of paperwork.

The 'failure to attend' mandatory interviews or programmes generates most sanctions in the British system. This is also the point at which many unemployed people are 'prompted' into more active job search. The PAs interviewed emphasised that these 'no show' rates in themselves disrupted their interview schedules and generated additional paperwork necessary for stopping benefit payments.

Programmes and providers

The reform of employment assistance in both Britain and Germany involves more than the reorganisation of front line provision. Changes have been necessary in the complex 'mixed economy' of training and employment programme providers.

In all four cities there was an extensive range of active labour market programmes accessible to the unemployed. Both countries had combinations of direct employment subsidies, vocational training courses, and job creation programmes. There were, however, major differences in the scale of provision, the duration of programmes, and

eligibility rules. There were also differences in contracting arrangements and the character of the provider organisations.

In Germany the FES has traditionally contracted with vocational training providers with strong links with the social partners and with 'not for profit' and public sector organisations to deliver temporary employment programmes. Contracts for training have been for the duration of the training course, which traditionally last for up to two years. Temporary employment programmes are based on wage subsidy grants to public or 'not for profit' providers, so there is no competitive procedure and no outcome target tied to these programmes. Training programmes involve fixed fees and are expected to produce positive outcomes (recently increased to 70%), but funding is independent of job outcomes and employer representatives interviewed were critical of the job relevance of much of the training. Job creation providers are expected to organise and provide jobs, rather than place participants in work. Front line advisers in the FES and LAs traditionally have regarded programme placement itself as a positive outcome. At the end of the programme the participant generally returns to the FES for job placement assistance. Recent reforms have started to 'steer' the system in a new direction, and there has been a reduction in training and temporary job programmes in favour of provision more directly related to labour market outcomes.

In the case study cities there was a complex network of provision. In GCA there was the innovative creation of a dispersed network of local 'not for profit' exchanges which acted in a consortium with all members allocated a 'share of the market'. This encouraged partnership, cooperation, and mutual exchange of relevant job opportunities. Conversely, this arrangement may have excluded other potential providers and lacked built-in competitive mechanisms for boosting performance.

In Britain there is far less extensive programme provision and it is targeted at particular client groups depending on benefit status or duration of unemployment. There is more emphasis on short-term direct job search assistance with more intensive programmes restricted to the 'hard to place' and generally lasting no longer than six months. The inter-provider market is far more competitive and there is more extensive use of output related funding contracts, where failure to get participants into jobs has immediate financial consequences for providers. Contracts are generally of longer duration, up to three years, but risks are higher. There was concern at 'over regulation' by Jobcentre Plus and about unduly complex funding regimes. In contrast to Germany, many Jobcentre Plus providers are 'for profit' companies, although many voluntary and public sector organisations are involved in provision for the 'hardest to help'.

As unemployment has fallen, and in the context of 'guarantee' programmes, Jobcentre Plus providers have had to engage with long-term unemployed people significantly more disadvantaged than those in earlier programmes. The providers interviewed reported that many of the older participants have not worked for years and have numerous other issues to tackle in addition to their lack of work experience. More of the young people they deal with were described as 'challenging'. Front line staff now have to work with young people who lack motivation and social skills, have turbulent personal lives, and find working with others difficult. Staff expressed concern that their capacity to change such attitudes was undermined by financial and organisational pressures to boost employment outcomes. They were frustrated too that success in improving motivation and life skills was not valued in a funding system biased towards immediate job entry.

In both countries national and case study respondents acknowledged that their respective provider networks faced equally daunting challenges, as did front line advisers implementing the new regimes. A significant management challenge will be to re-engineer programmes and contracting procedures in ways that improve job outcomes, especially for the 'hardest to help', but do not create perverse incentives to either work most intensively with the 'job ready' or merely recycle unemployed people through programmes.

Conclusion

This report has assessed the background to and objectives of the respective reforms in Germany and Britain and identified many of the challenges involved. It has explored how front line staff in four cities are implementing new employment assistance regimes. It has drawn on the insights and experiences of respondents directly involved in managing these processes.

In both countries the scale, complexity, and pace of change is unparalleled. The findings reveal implementation pressures at both management levels and the front line, where advisers and job brokers are expected to translate policy design into effective daily practice. Many of these issues are acute, especially in Britain, precisely because this is a period of front line transition; however, some reveal longer term challenges. The following conclusions aim to inform the process of change now under way:

1. A merger and organisational change on the scale of Jobcentre Plus or the German Jobcentres requires a clear and widely understood implementation plan and a timescale of several years. While bureaucratic inertia should be challenged, time is needed for a clearly planned 'roll out' of the new delivery system. This applies particularly to German reform that aims simultaneously to implement a new benefit, job search regime and form of cooperation between the FES and LAs. An evidence-based approach requires a process of 'learning by doing', whereby 'pilots' and 'pathfinders' are used to test and modify new procedures, and practical experience can be accumulated, evaluated, and shared to shape and secure efficiencies as implementation accelerates. The endeavour to change an employment assistance regime in all its major respects may simultaneously demotivate actors (especially at the front line) with overload, cloud issues and objectives, and produce unanticipated consequences that undermine the purposes of change.
2. Organisational mergers carry the risk of being perceived as 'take overs' by those working in the services that have less influence on shaping the new organisation. In Britain the risks were reduced through a combination of 'inclusive' rhetoric and the use of 'mixed' and 'crossover' assignments of key staff positions. Yet concentration of resources on the 'front office' of employment assistance in contrast with the 'back office' of benefit processing may result in poor benefit administration and bring the new system into disrepute. In Germany, by contrast, Christian Democratic opposition prevented the FES 'take over', but the resulting compromise has ambiguities. Strong bureaucratic virtues will probably continue to ensure proper benefit processing while simultaneously, in the consortia between LAs and local FES branches, preventing a true organisational merger. The local consortia between the FES and LAs can be only a transient solution, and 69 municipalities have been given an undefined role to develop an alternative model of delivery that may have wider implications given a change of Federal Government. The contradictions and unresolved issues built into the reform will generate the need for further change in Germany.

3. The purpose of 'activating' employment assistance is to have workless people engage in employment-focused activities in a new way. Slogans such as 'New Deal' and individual 'Better Off In Work' calculations give an immediate individual resonance to the New Labour principle of 'rights and responsibilities', whereas in Germany the slogan of 'promoting and obliging' (*Fördern und Fordern*) frames individual jobseekers as objects of sterner treatment that is unlikely to engage their imagination. Unless change is framed as a new entitlement to positive individual employment assistance, the reforms may be thwarted by the controversy and conflict generated by the loss of insurance-derived entitlement and status, and by the benefit reductions that may be experienced by up to 1.5 million people.
4. Sanctions are a necessary element of 'activation', but care must be taken in their application. An undue stress on, and imposition of, sanctions may result in passive compliance rather than active engagement with employment assistance. A new challenge is to fashion more effective interventions for those who otherwise might simply be 'recycled' through the New Deal system or German employment programmes. Job placement targets and output related payment systems for external providers are important tools, but care must be taken with managing these incentives because 'passive engagement', especially by the hardest to place, might encourage providers to 'cherry-pick' and work only with those most motivated and employable.
5. 'Activating' employment assistance necessitates changing the orientation and behaviour of jobseekers through interaction with personal advisors. The customer management system should facilitate settings of undisturbed interaction of adequate duration, depending on the target of that interaction and the possible complexity involved. This requires shifting any necessary paperwork and administrative tasks towards prior or later processes in order to make time for a true work focus in the interaction. The British and German systems aim to secure this through a separation of benefit processing and employment assistance, but the evidence is that errors in assessment, routinised scripts, administrative complexity, and high caseloads can 'crowd out' the employment assistance interaction. Besides, customers' idiosyncrasies can overrun theoretically well-designed customer management systems.
6. Ministers and senior officials in both countries have greatly stressed the efficiencies to be secured through wider use of IT systems. Yet in both countries the IT systems currently used are insufficient for the requirements of integration, with the merger of systems, organisations, and processes multiplying their interfaces and incompatibilities, and requiring many 'work arounds' by front line staff who often have to resort to 'paperwork'. There is a critical challenge in both systems to obviate these IT inadequacies as they may well undermine an otherwise sound and well-implemented organisational reform.

Finally, the findings from this research show that, although an activation strategy may be easier to implement in the context of the sustained employment growth experienced by Britain, data from western Germany reveal between six and seven million new job *starts* each year. Among many of those we interviewed, however, there was a wide perception that 'there aren't sufficient jobs', and that organisational reform for more effective employment assistance is irrelevant because 'We feel unable to help people in either organisational set-up.' This pessimism is reinforced by the bleak situation in many parts of

eastern Germany. Yet effective front line employment assistance does make a difference when it is oriented to capture the potential of labour market flows rather than simply managing the stock of the unemployed. It may be unconvincing to assert that 'there are potential jobs for everyone everywhere' but there are job opportunities in many parts of Germany that could be accessed by the unemployed given more effective employment assistance. A significant challenge for those implementing the new system is to create a regime that does not simply 'do things to people', but works regularly *with* unemployed people and encourages them to find jobs for themselves.

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