

Implications of the Activation Paradigm on Poverty and Social Exclusion in Germany: Facts, Hypotheses, Uncertainties

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Abstract

This article is an overview of how poverty experiences have developed during the last decade in Germany. It reviews how the related discourse has changed from the focus on monetary poverty to the issue of social integration and recapitulates the related changes in social policy design. The question to answer is how the underlying activation paradigm of the social policy reforms has influenced the poverty risk throughout society. Was it successful in bringing people back to work and diminishing poverty exposure? Who is at risk of becoming poor? Empirical findings on the extent and the distribution of the poverty risk are presented, and consequences of becoming poor in participation chances are shown. This is combined with a review of recent studies that deal with this subject with regard to the impact of the Hartz reforms. Poverty increased for children, long-term poverty expanded, and the percentage of working poor rose. The middle classes did not face a substantially higher risk of decline over the years. Although the majority of the poor came from poverty near positions, already disadvantaged in terms of participation, their overall quality of life diminished even more after falling below the poverty threshold. All in all, social and labor market policy reforms up until now did not prove to be as successful as intended with regard to diminishing poverty exposure. However, uncertainties remain, because of the difficulty of disentangling the impact of economic activities, demographical changes and social policy frameworks on the development of poverty experiences in general.

1 The discourse about poverty in Germany

For a long time, poverty was a matter of material resources. Of course, living in poverty means struggling to meet basic needs and is closely related to lack of money and an inability into guarantee basic subsistence. This remains unchanged. However, since the late 1990s the discourse about poverty in Germany, inspired

by EU social policy thinking, goes beyond this monetary focus. Today, being poor represents more than having little money, because poor people are likely to withdraw from social, cultural and political participation. They face a high risk of social exclusion in non-monetary terms as well, which in turn is likely to diminish a society's capacity to ensure social cohesion in general (Silver 1994, Barnes et al 2002).

Two main axes shape the German poverty debate. One emphasizes the risk that society might suffer from polarization as the gap between rich and poor people is widening. This is related to the debate of a rising underclass: About eight percent of the total population belongs to this group according to a study conducted by the Friedrich-Ebert-Stiftung. Their main characteristics are long-term unemployment and lack of prospects, political inactivity or extremist orientation concentrating to a large extent in the Eastern part of Germany (Neugebauer 2007). The other position is dominated by the opinion that downward mobility is no longer a class related risk. Poverty is supposed to gradually increase, eventually becoming an every-day risk, and is supposed to become especially widespread among the middle class (Bude 2008, Castel and Dörre 2009).

Policy debates throughout Europe make frequent reference to the term "social exclusion" even though there is little consensus on how to define its substance. Poverty, unemployment and the multidimensionality of social disadvantages are commonly understood as bases or even synonyms for social exclusion, taking it for granted that they impede social integration and that a decent standard of living decides who is "in" or "out" in society. The consequences of social disadvantages for individual participation chances as well as for overall social cohesion move to the forefront. This is reflected in theoretical developments which emphasize the capacity of individuals to live a decent life and draw attention to the political circumstances, institutional structures and welfare state arrangements that enable people to live respectable, affluent and secure lives (Sen 1993, 1999).

Due to this change in perspective, EU social policy thinking focused more and more combating unemployment to diminish poverty risks. Access to the labor market is regarded as most im-

portant for enabling participation chances, because employment not only significantly increases a household's income but also its social integration. Germany, like other European countries, experienced growing unemployment rates and demographical changes during the recession period, which resulted in a need to diminish social security expenditures and to raise employment rates. Therefore, the activation policy which has been launched during the last decade is surely inspired by the European social policy discourse to ensure social cohesion, but primarily reflects governmental needs to decrease unemployment and social security expenditures.

Moreover, the change in perspective on poverty as such (from distribution to integration) was accompanied by a change in attitude with regard to the question of individual responsibility for the experience of and escape from poverty. The key phrase "Fordern und Fördern" (rights and duties) paraphrases the general approach that institutional as well as individual efforts have to be strengthened in order to improve the labor market situation and diminish poverty rates. On the one hand, labor market agencies have been reformed and supportive measures have been extended. On the other hand, access to unemployment benefits and the level of social assistance have been restricted with regard to the period of entitlement and its eligibility in order to increase effort to return to the labor market as soon as possible and accept work for lower pay. Basically, the social security system changed its underlying paradigm: status maintenance is no longer the dominant principle, but basic allowances. Dependent on the political attitude, this change has been differently interpreted. However, from the poverty perspective, the level of basic allowance is crucial, as are the programs which have been invented to reintegrate the unemployed. The next section will review the changes in policy design in more detail and then describe how they are related to the development of the poverty risk.

2 How policy changed

The European debate on social in- and exclusion is based on the general assumption that there is an urgent need for reforms of the social model and welfare state approach. Weak economic growth, high unemployment rates and a growing share of discontinuous employment histories change the prerequisites for welfare state action. This is reinforced by demographic changes and a rising proportion of elderly people: In short, contributors to the social benefit system have decreased in number while a growing number of people now need social support (Mayer 2001, Kaufmann 1997). Since the 1980s, the globalization of financial markets, rising national debts, supranational ties and, in the German case, high fiscal costs of unification have restricted the scope of governmental action. Altogether, social security benefits have been diminished; however, until 2005 they did not question the core of welfare state maintenance in general. With such structural changes and shortenings come insecurities. The fear of a rising underclass and the anticipated loss of durable security among the middle classes are closely related to these changes.

Social security in Germany is connected to a long and constant employment biography and also, at least for women, to marriage stability. At the core of the German social security system is the link between employment and benefit entitlements, which follows a system of equivalent compensation and the principle of status maintenance. Benefits were meant to maintain the worker's social status during unemployment, and payments were linked to previous earnings, employment duration and age. This implies that short employment contracts, several interruptions or low earnings result in low entitlements.

With regard to social assistance (Sozialhilfe), there were some minor changes during the 1990s: The benefit level was capped, the principle that benefits must be lower than wages was stipulated, and possibilities to combat misuse and to impose sanctions were extended. The levels of unemployment benefits (Arbeitslosengeld) and unemployment assistance (Arbeitslosenhilfe) were also been reduced. Since 1993, asylum seekers cannot claim social security benefits anymore. Instead, they receive benefit in

kind and pocket money, which results in drastic shortenings. Pregnant women and single parents profit from increased payments with regard to additional demands.

During the last years of the Kohl-government much effort was made to increase incentives for the unemployed to return to work. For example, financial restrictions were imposed when refusing a job offer, and additional pay was offered in case a new job was below the standard benefit rate.

After the government changes, SPD/DIE GRUENEN increased the standard rates in 1999. Since 2003, a means-tested basic security allowance for elderly people has been initiated. In the year 2000, eligibility criteria and benefit amounts for unemployment assistance were downgraded: Only those unemployed who had received unemployment benefits before (which itself depended on a certain former period of uninterrupted employment) remained entitled, and earnings as well as savings of related household and family members were considered. Even without reviewing the changes in detail, the overall trend during the 1990s was characterized by retrenchments of the amount of benefits and exacerbating sanctions, and by criteria of reasonability. At the same time, efforts have been made to promote and deregulate employment and to expand working opportunities for specific risk groups such as the long-term unemployed and young adults. Despite variations in the amount of benefits and changing eligibility criteria, the core of the social security system remains unchanged except for asylum seekers. However, the discourse about the accessibility of social security benefits has sharpened. It was discussed, for example, whether or not to oblige social benefit receivers to help in nurseries or elder care institutions, or to reinforce employment activities of single parents by taking over child care costs. The public did not hesitate to call the long-term unemployed and social assistance receivers *fainéants* and freeloaders.

During the period from 2003 to 2005, a comprehensive and far-reaching set of labor market and social policy reforms was implemented, which brought about a fundamental change in the

German social security system. The so-called Hartz reforms¹ aimed at improving conditions so that people could return to work more easily. They consisted of comprehensive modifications of the unemployment benefit and social assistance scheme. Moreover, the organizational structure of public employment services has been modernized. Active labor market policy instruments, deregulation strategies and sanctions for low engagement in job searches were reinforced. Wage subsidies were expanded and start-up subsidies as well as training programs were implemented or made more effective. Before the reform, benefit access was generally given with previous social security contributions being the key criterion. Now access to benefits and participation in active labor market policy programs is strictly based on a person's ability to work. The benefit level is related to previous earnings only for the first 6 to 18 month depending on age and employment history. Thereafter, a flat-rate means-tested benefit is paid and the person concerned is subject to the regulations of the activation policy. Only those not capable of working due to sickness or care responsibilities receive means-tested social assistance and are exempt from duties.

What do these changes in regulation imply for the poverty risk? From the poverty perspective, abolishing unemployment assistance (*Arbeitslosenhilfe*) is likely to have the strongest impact on downward mobility. It has been an extraordinary feature of the German social security system that unemployment assistance was related to previous earnings in its amount and thus potentially unlimited in its duration. Thus, incentives to take up a job were considered low, especially for low-skilled workers. Former recipients now receive the same amount of benefits as social assistance receivers capable of work. Eligibility and the amount of benefits depend on earnings and savings of the number of members of a household in need of benefits (*Bedarfsgemeinschaft*). The base amount for a single person is 359 Euros. Additionally, rent and heat, if appropriate, are also paid. The new

¹ Named Peter Hartz, the chairman of the independent expert commission that provided the blueprint for the reform package (Commission for Modern Labor Market Services).

calculation rules imply an improvement for children under the age of 7 and less of a benefit for older children.² All in all, for the long-term unemployed and for social benefit dependent families with older children it is expected that the poverty risk will increase. Sanctions, duties and lower benefit amounts might increase work incentives and diminish the unemployment rate. However, this will not necessarily lead to a noticeably lower poverty prevalence. Because of their lower qualification profiles, a substantial proportion of the unemployed poor might just change their status and become members of the working poor.

However, labor market policy is not all that has changed in recent years. With increasing divorce rates, separation has become a notable poverty risk. In 2008 a fairly substantial reform of the German subsistence law may have contributed to this trend. Alimony for the ex-spouse after divorce has been restricted to a shorter period and related to child care responsibilities. As long as this approach is not connected to an extension of child care facilities and a changing attitude towards maternal employment in Germany, divorce will remain a poverty risk for women who gave up or reduced their labor market attachment due to marriage and motherhood. In the legal practice, a transition period seems to have been established in order to buffer severe effects.

3 Facts and Figures: How poverty developed over time

The development of relative income poverty in Germany (having less than 60% of the median net equivalent income) is well documented (Bundesregierung 2008, Goebel et al. 2008), although actual data are not yet available. Between 1998 and 2005 it increased continuously, and despite lower unemployment rates during cyclical upturn in the year 2006 it recovered only slightly (figure 1, yearly equivalent net income, GSOEP). Actual data, which refer to the ongoing financial crisis, are not yet available; however, a constant trend of falling poverty rates may be doubted

² Jacobi and Kluge (2006) provide an overview of the Hartz reforms, more details can be found here: www.arbeitnehmerkammer.de/sozialpolitik/doku/02_politik/chronik/chronik_gesamt.pdf (Oct 14th 2009).

with good reason. Since unemployment rates went down from 2005 to 2008, we should also expect a moderate recovery of poverty rates during that time. Poverty rates calculated from monthly income data also taken from the GSOEP indeed show a decrease from 2005 onwards; however, it is only marginal (2004: 14%, 2005: 13.7%: 2006: 13.8%, 2007: 13.5%) (SOEPmonitor 2008). Even when diverse analyses come to different estimations of the extent of poverty because they rely on different data, they all confirm the general trend of increasing impoverishment in Germany, along with an increase in income inequality until 2005 and a slight cut-back or stability from then on. Moreover, figure 1 shows little variance with regard to the entry rates into poverty over time. The yearly number of people entering into poverty is quite constant. Additional calculations show that the average duration of poverty experiences has increased: In the year 2000 people had been poor for 2.2 years on average, whereas in 2006 the average duration extended to 3.2 years. Figure 2 shows how long-term poverty is continuously increasing. Thus, poverty profiles change: On the one hand, poverty rates are stable or even decreasing. On the other hand, however, among the poor long-term poverty is becoming more prevalent year by year.

Moreover, there is no evidence of a rising poverty risk among the middle class. Between four and six per cent of the total population enter into poverty each year, approximately one third of them former members the middle class, which is defined in monetary terms as an income position between 80 and 150 per cent of the median net equivalent income (Grabka and Frick 2008). This amounts to about two percent of the total population relatively consistently over the years.

Figure 1: Poverty risk and entry rates³

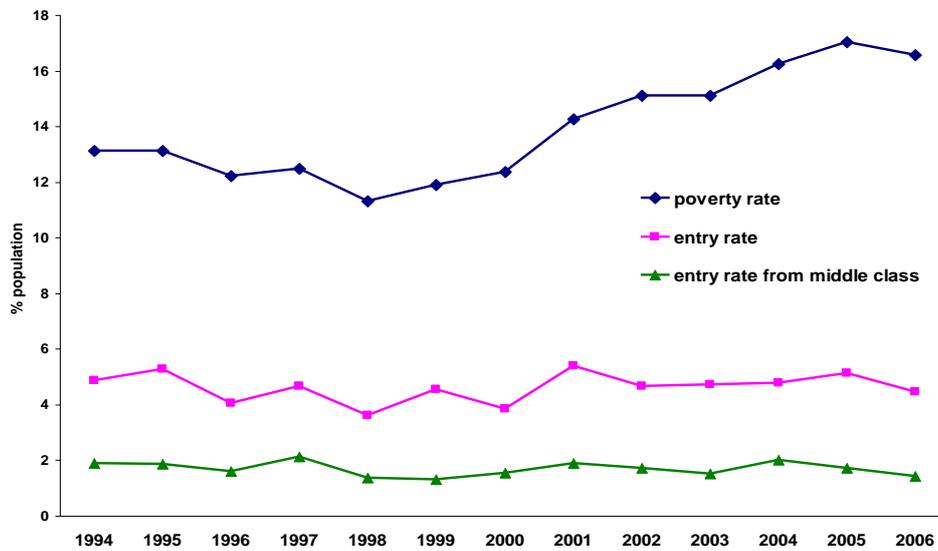


Figure 2: Long-term poor as a portion of the total poor 2003 to 2006⁴

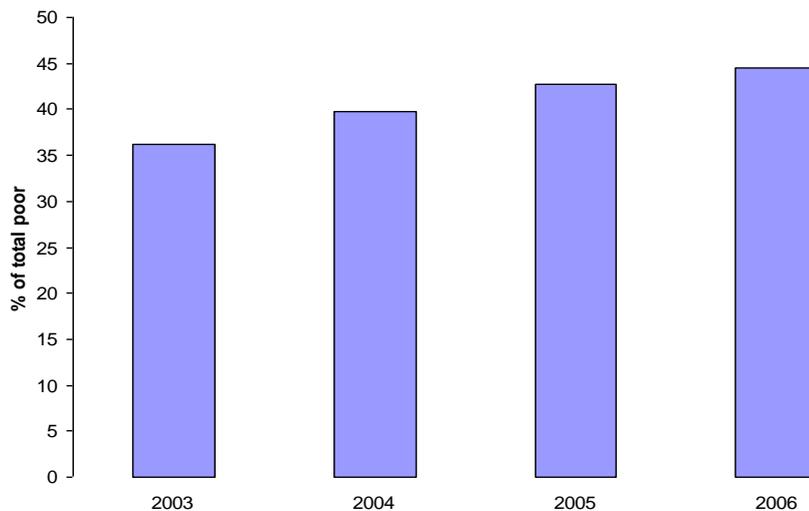
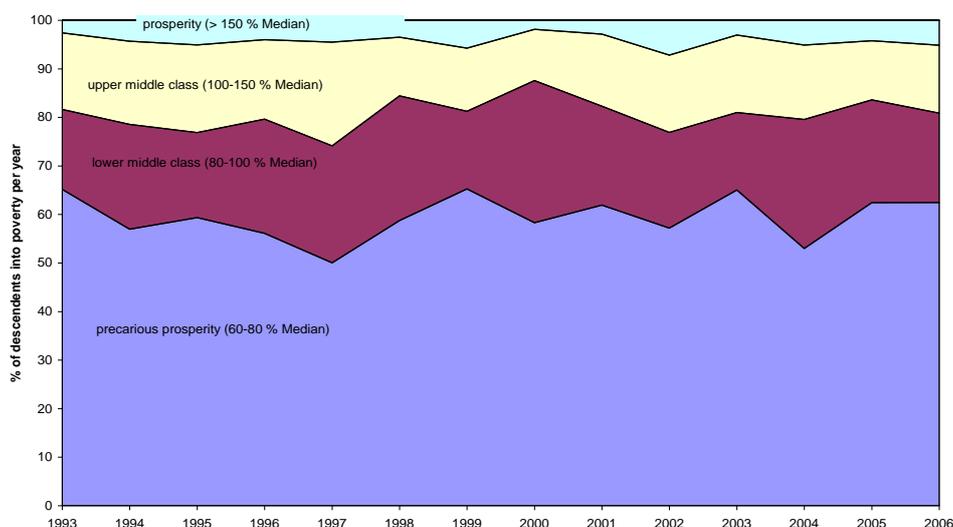


Figure 3 shows that the majority of those entering poverty year by year come from poverty-near positions. The vast number of

³ Own calculations with weighted GSOEP data. Poverty and entry rates are calculated on grounds of the previous yearly equivalent net income (OECD2-scale). At risk of poverty: less than 60% of the median income; entry rates: people becoming poor in one year, not being poor the year before; middle class: 80-150% of median income.

⁴ Own calculation with weighted GSOEP data. People are considered as long-term poor if they stay in poverty for three years or longer.

them enters from positions of “precarious prosperity”, a term borrowed from Hübinger (1996) that describes that part of the population living right above the poverty threshold (60-80 per cent of the median income). The portion of this part of the population facing downward mobility fluctuates between 50 and 65 per cent of the total descending population over the years, with two low marks in 1997 and 2004; however, a trend does not show up. Even in the group of people having an income between 80 per cent of the median and the median itself, the poverty risk is quite distinctive and is applicable to 15 to 25 per cent of the downwardly mobile population. In comparison to that, the risk of falling into poverty is quite unexpected for those coming from higher income positions. All in all, between 30 and 45 per cent of those passing the poverty threshold belonged to the middle class, with the majority having a prior-poverty income below the median. This is a considerably clear pattern throughout the years. The higher the income position (and related to that: the higher the qualification and network profiles), the less likely it is to move down into poverty. Additional calculations show that the duration of poverty spells increased independent of former social status and income position. However, short poverty periods are significantly more prevalent among poor people coming from the middle class. These results underline the constant high risk of becoming poor for people living right above the poverty threshold, and it emphasizes the stickiness of their poverty experiences. Other studies confirm this finding (Groh-Samberg 2009).

Figure 3: Where do the poor come from?⁵

Has the poverty profile in terms of risk groups changed throughout the years? In the 60s and 70s of the last century, poverty in old age was the dominant topic in Germany. This has changed. Today unemployment is discussed as the major determinant for poverty exposure. Moreover, child poverty is of high concern, and related to that single parenthood or large families with limited possibilities to work either because of low qualifications or care responsibilities. Which population groups are at risk of becoming poor prior to and after the major reforms? According to Goebel et al. (2008) the highest poverty rates can be found among migrants, the unemployed, single parents, the divorced, the low qualified, and East Germans. This remains unchanged when one compares the years 2001 and 2006. However, there is a notable increase in poverty prevalence among the unemployed, who have been most affected by recent policy changes: in 2001, 39.9 per cent of the unemployed were below the 60 per cent threshold of the median income. This figure increased to 57 per cent in 2006 (Goebel et al. 2008: 168).

⁵ Own calculations with weighted GSOEP data. Reading example: In 1994 58% of the descendants into poverty come from “precarious prosperity”, less than one third from the middle class, and about three per cent from prosperous living conditions.

There has also been a considerable increase of working poor as well as an extension of the low-wage sector. This trend had already started in the late 1990s and reflects the intensified pressure for the unemployed to find jobs. At the same time, collective bargaining coverage was reduced and wage calculations were decentralized. Between 1999 and 2005, the poverty rate among the unemployed increased from 5 to 9 per cent, and among full time employees from 3 to 6 per cent. In the year 2006, there was a slight cutback with regard to the rebounding poverty rate for the total population, which is explained by the general labor market recovery during that period (Rhein 2009). Other studies confirm the trend of increased numbers of working poor, stating that activation policy accelerates this trend; however, they also emphasize other micro- and macroeconomic factors as being decisive for the increase of the working poor risk (Nollmann 2009, Andress and Lohmann 2008). Haisken-DeNews and Schmidt (2009), however, they state that the working poor phenomenon remains relatively small and statistically unchanged by the Hartz reforms. Recent publications from the Ifo-Institut, well-known for their neo-liberal orientation, relate the decrease of unemployment and poverty between 2005 and 2006 directly to the labor market reforms (Sinn et al. 2009). For them, the considerable growth of the low wage sector during that period is a success of the agenda 2010, because the working poor are allowed to claim for additional social security benefits which would lift them out of poverty.

Already in 2005, the United Nations Children's Fund (UNICEF) released a report about childhood poverty, pointing out that the number of children in German living in poverty was rising faster than in most other industrialized nations. Children of single parents and immigrant families were especially threatened (Corak et al. 2005). Immediately after the implementation of Hartz IV, the German charity organization "Paritätischer Wohlfahrtsverband" released a study on the increase in child poverty (Martens 2005). According to these calculations, Hartz IV laws increased the number of children living in social benefit dependent families by 1.7 million, which resulted in an estimate that 13 per cent of all children under the age of 15 should obtain social

support according to Hartz IV. This development was confirmed with reference to data from official social reporting statistics: Thereafter, approximately 16.2 per cent of children under 15 years old lived in families dependent on unemployment benefits II or social assistance in the year 2006, an increase of ten percentage points since to 2005 (Boehmer et al. 2008). A study commissioned by the Federal Ministry of Family Affairs also came to the conclusion that in the long run those at risk of falling below the poverty rate (below 60% of the median income) rose from 13 per cent in 1999 to 17 per cent in 2006 for children under 18. The extent of childhood poverty peaked in 2003 and went up to 19 per cent in 2005. According to this study, poverty rates for children went down between 2005 and 2006. Also, Meister (2009) described actual income improvements, especially for families, as a result of the upgrading of selected social benefit instruments during 2008.

4 Social exclusion: The vicious circle of accumulating disadvantages⁶

The German poverty discourse is closely related to the European social exclusion debate, and is to a large extent driven by its most important theoretical suppositions. The basis for rethinking poverty issues is a change in perspective. Social disadvantages are no longer primarily regarded as an issue of distribution, but are discussed with regard to social integration. This implies an understanding of the kind of resources that are needed to ensure social integration. Employment is regarded as the unifying basic requirement across Europe, which serves as the background justification for strengthening activation policy features and cutting back generous social benefits. It also implies an expansion of the monetary focus of poverty, and requires that more attention be given to dynamic and relational aspects of poverty experiences.

Respective social policy thinking and related studies follow an underlying hypothesis of accumulating disadvantages, which is

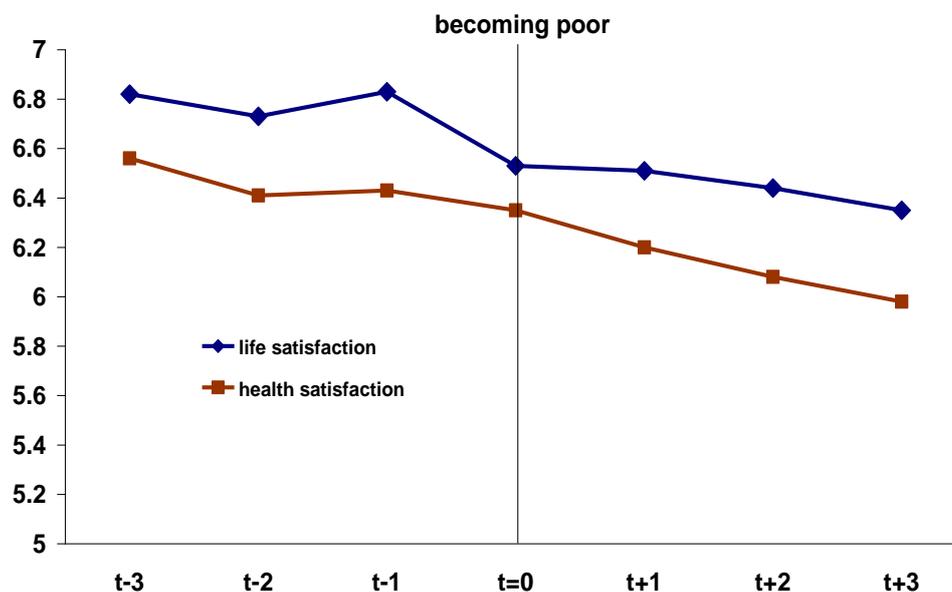
⁶ This section is closely related to a recently published paper about consequences of poverty (Böhnke 2009).

inspired by a kind of vicious circle argument. For example, unemployment does not only mean no job and less money, but also the risk of losing self-confidence and friends, probably result in illness or at least a feeling of depression and marginalization. All in all, such a series of disadvantages might prevent people from finding new jobs. Such arguments go back to the Durkheimian tradition of sociological thinking, and are also inspired by the ideas of Robert Merton. However, in practice there is a decisive lack of information about dynamics, causes and consequences of monetary poverty.

We already know a lot about poverty and its relationship to other disadvantages from cross-sectional empirical research: Poor people are less healthy than the average total population, their mortality rates are higher and chronic illness is more widespread among these individuals (Siegrist and Marmot 2006). Poor people exhibit lower scores on self-perceived life satisfaction or happiness scales (Böhnke 2005). Their interest in politics is lower and they are more likely to vote for extremist parties (Neugebauer 2007). Moreover, their civic engagement rates are lower compared to upper social strata (Rose 2006). We also know that poor people are more likely to be exposed to feelings of marginalization and isolation, their social contacts are much more family focused, and their supporting social networks are smaller and less heterogeneous (Andreß 1999, Böhnke 2008). In short, there is obviously a connection between limited economic resources and a lower quality of life in general, but can we be sure which way they are related to each other? Is, for example, social isolation a consequence of poverty, as most European scholars assume, or is it the other way around? Is poverty a consequence of social isolation, which could well be if you agree with the work of Granovetter (1973) and Burt (1992), who emphasized the importance of social networks for access to helpful information on finding a job. Or with respect to life satisfaction: Is life satisfaction a result of secured and prosperous living conditions, or is it a stable personality trait, as social psychologists presuppose, and a result of indecision and despondency? Even now, little is known about the related processes and developments, though for political action such knowledge would be im-

portant for setting up measures to combat poverty at the right moment of an individual's life course.

Against this background, what are the consequences of becoming poor with regard to well-being and participation chances? Figure 3 shows a display of the data. A specific sample has been drawn from the GSOEP in order to trace the dynamics of subjective well-being when poverty occurs. People are observed for seven years in series - the first three years without poverty, then the decline moving downwards and the four-year stay in poverty. First, it is notable that the level of subjective well-being these respondents start with is quite low compared to people who have never experienced any spells of poverty, although poverty for them has not yet happened. Three years before falling into poverty, these people have an average life satisfaction score of 6.8 (measured on a 0-10 scale, see figure 4 for explanation) and a health satisfaction score of around 6.5 (compared to 7.1 for both as the average of people who never become poor during the observation period). This underlines the fact that we are dealing with a specific risk group: People exposed to the risk of becoming poor in the near future already face precarious living conditions even when they are not officially counted as poor. Nonetheless, we can see a decline in well-being when people descend into poverty. The graph is much sharper for life satisfaction than for health satisfaction. Furthermore, satisfaction decrease farther when poverty experiences last; this trend, however, is greater for health satisfaction than for life satisfaction.

Figure 4: Poverty and Well-Being in a longitudinal perspective⁷

Other calculations based on multivariate statistical modeling confirm this impression and back up the accumulation thesis: Becoming poor is accompanied by lower life and health satisfaction. Moreover, people retreat from civic engagement and withdraw from cultural participation after entering into poverty. Detailed analysis shows, however, how different the reactions to poverty can be depending on life domain, poverty duration and pre-poverty social position:

- Life satisfaction decreases with the event of becoming poor as well as with the ongoing time lived in poverty. For the poor coming from the middle class, these effects are even more pronounced. They suffer from a greater loss of income and compare themselves to other middle class people, whose majority is poverty resistant. Their better prospects of moving upward again, because they are on average better qualified, lead to superior coping strategies as well as powerful social contacts, but does not prevent their subjective well-being to

⁷ Own weighted calculations, GSOEP. The sample consists of respondents, who lived three years above the poverty threshold (60% of the median net equivalent income), then moved downward into poverty and stayed there for four years in series. Between 1984 and 2006, 806 respondents met these criteria. Life and health satisfaction are measured on a 0-10 scale with 0 = not at all satisfied and 10 = very satisfied.

decline heavily. Adaption processes and a return to the pre-poverty level of well-being do not appear. Moving downward into poverty is a life risk that precludes a recovery of subjective well-being, contrary to the main suggestions of the set point theory (Lykken and Tellegen 1996, Headey 2007). If anything, long-lasting poverty leads to a stabilization of subjective well-being on a considerably lower level.

- Individual assessments of health status are lowest among long-term-poor. Persistent existential fear affects physical as well as psychological health negatively. Again these effects are stronger for middle-class descendents.
- Cultural participation reacts with a delay on limited financial resources. Only when poverty lasts do people stop going to the theater or to the movies. Poor people withdraw from the public sphere and spend their leisure time in their private surroundings in the long run.
- With regard to civic engagement, it is the other way around. Poverty leads to retrenchment from civic engagement quite quickly. Membership fees might be among the first things given up in order to save expenses. Psychological instabilities which come with poverty, like shame or the feeling of marginalization, might also increase this effect. This, however, does not account for the poor coming from the middle class. They are not at risk of giving up membership to associations or engagement in social services.

All in all, the thesis of accumulation is confirmed for different groups of poor and across different life domains. This is noteworthy, because the majority of people descending into poverty is a selective population group already disadvantaged in terms of quality of life, even before the move downward. Nevertheless, passing the poverty threshold brings about losses of well-being and participation chances, and there is no sign of compensation or adaptation: People do not adjust to poor living conditions. However, there are some factors that can help protect the poor from negative consequences. An accumulation of disadvantages depends heavily on the phase of life and on related perspectives, demands and requirements. Young people, in educational train-

ing, for example, are sheltered from losses of participation chances, because they perceive these living conditions as temporary and life-phase appropriate. Moreover, a satisfying network and close social relationships shield them from declining well-being. The usual case is that people lose social contacts when they become poor, but if they manage to keep their networks these become helpful and protective.

For understanding today's poverty profiles in Germany, these results offer some important insight. Poverty contributes to declining participation and well-being, which in the long run endangers social integration. It brings about dissatisfaction, illness and a general retreat, which is not likely to sustain motivation, self-confidence and agency, and especially long-term poor are. On these grounds, restricting financial help in order to push people into becoming more active in finding a job might be counterproductive. Moreover, unemployment is a major reason for poverty; however, it is not the only one. People being poor because of small retirement pensions, illness or low qualifications do not profit from activation policy, but suffer from the consequences of poverty. On the other hand, the reforms include efforts to avoid long-term poverty, and thus seem exceedingly deserving of support. The longer people are poor, the lower their participation chances are, and their levels of well-being go down. Additionally, the results point out that the official poverty threshold is somewhat artificial. Participation chances clearly vary with social strata. There is a considerable part of the population living right next to the poverty line, not being officially counted as poor, and yet with similarly low participation chances.

5 Conclusions and open questions

The discourse about poverty has changed during the last decade. Influenced by European social policy thinking and also driven by financial constraints due to high unemployment rates, demographic transformation and global economic developments, its attention has been directed to the question of how to ensure social integration and social cohesion most effectively. Labor mar-

ket attachment is seen as the most important prerequisite for fostering integration. As a consequence, the fight against poverty now concentrates predominantly on diminishing unemployment rates. According to experts, the German social security system, with its high level of social benefits related to previous earnings, did not offer enough incentives to reenter the labor market. Thus, activation policy was strengthened, social benefits restricted and job agencies enhanced.

How did poverty develop during the last decade? Does it reflect these efforts? Did poverty rates go down? The figures shown above enlighten the period until 2006; unfortunately, actual data are not yet available for comparative application. However, striking is the fact that poverty rates went up from 1998 until 2005 and then diminished or (based on other income calculations) remained at least stable. This is true with regard to poverty throughout the total population, and it also appears when we look at childhood poverty or the working poor. Obviously, economic recovery and diminishing unemployment rates have left their marks on the poverty exposure of the German population in recent years. Because the actual economic crisis leads to increasing unemployment exposure, we can expect poverty rates to go up again in 2009.

However, with regard to poverty profiles we see that despite decreasing total poverty rates long-term poverty and the poverty risk of unemployed expanded. There obviously is a growing share of the poor population whose chances to escape from poverty are getting smaller. This brings about the risk of a general detachment from overall participation chances for this specific group.

There have been several expectations about the effects of the changing social policy design on unemployment and poverty rates. Schmitz and Steiner (2007), for example, estimated that the overall effect on the labor market will be small; however, they predicted significant effects in the reduction of long-term unemployment. Tobsch (2005) described probable financial consequences when unemployment assistance and social assistance are pooled together. Her estimations conclude that single parents will profit from the reforms, whereas couples without children will

have to face financial losses. In her view about 20 per cent of the population covered by unemployment and social assistance in the year 2004 would not have been able to claim social benefits in 2005 when the reform took place. Also, with the help of a simulation study Becker and Hauser (2006) predicted the income change that would come along with the Hartz reforms. They concluded that for about 60 per cent of unemployment assistance receivers the income situation would get worse. Effects were supposed to be most pronounced for women sharing the household with someone who is considered to earn sufficiently, and also for the long-term unemployed whose benefit level will no longer be related to previous earnings. All in all, however, the poverty rate will not increase significantly according to Hauser and Becker, because benefit levels of other population groups will rise.

Now, four years later, what role did the change in social policy design play in the development of poverty and social exclusion? Such a question is difficult to answer not only because of restricted availability of actual data, but also because the reason for increasing or decreasing poverty rates can be manifold. It remains unclear how to disentangle the effect of economic recovery on the one hand and of labor market reforms on the other. Macroeconomic developments, political decisions about the low-wage sector, collective negotiations as well as demographic developments are intertwined in a complex way.

Studies available up to now all suffer from the fact that the observation period is short-term only. Jacobi and Kluver (2007) summarized the results of several studies with regard to the effects of the active labor market reforms. Their cautious conclusion was that:

(...) the redesign of the customer service of public employment offices appears promising, (...) on balance, we therefore find that the Hartz reforms in their entirety seem to have contributed to a better functioning of the German labour market and the effectiveness of specific labour market policies. (Jacobi and Kluver 2007: 61)

Customer orientation improved, individual profiling was implemented and unemployment benefit levels and durations were reduced as one element of a more general activation strategy.

Moreover, jobs with reduced social security contributions were introduced and employment taken up in the low-wage sector increased. This is good news for the social security expenditure budget; however, it is bad news for those concerned with the general risk of poverty exposure.

A study by Goebel (2007) looked explicitly into the direct monetary consequences for the income level of social benefit receivers shortly after the Hartz reforms had been implemented. He came to the conclusion that there are more losers than winners: More than half of the persons receiving unemployment or social assistance had to cope with benefit restrictions from 2004 to 2005, whereas for a third of them benefit levels increased. Consequently, income poverty among social benefit receivers increased: Whereas in 2004 half of them fell below the poverty threshold, this figure increased up to almost two thirds in 2005. This again raises the assumption that although poverty rates have decreased, the poverty profile has sharpened. Such a hypothesis is reinforced by a study from Giesecke et al. (2009), who studied the chances that the unemployed would reenter the labor market during the period from 2002 to 2007. Their results showed that East Germans and elderly people raised their employment chances, but the long-term unemployed and those with low levels of education did not, although this was the explicit aim of the reforms. Moreover, successful reentry into the labor market goes hand in hand with an increasing share of part time and mini-jobs.

Altogether, these findings argue for the assumption that despite an overall cutback of the poverty rate, the poverty exposure of already disadvantaged population groups like long-term unemployed and low educated has increased. More recent data covering a longer time span will allow us to test this hypothesis and to disentangle the influence of economic development in relation to the impact of the changes in social and labor market policy thinking. Up until now, persistent social disadvantages like long-term unemployment and long-term poverty should stay in the centre of the political agenda.

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