



SCHOOL of  
PUBLIC POLICY



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Testimony

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Chairman Reichert, Ranking Member Doggett, and members of the Subcommittee, thank you for inviting me to testify on this important topic.

My name is Douglas Besharov, and I am a professor at the University of Maryland School of Public Policy, where I teach courses on poverty alleviation and program evaluation. I also direct our Welfare Reform Academy (WRA) and our Center for International Policy Exchanges (CIPE). Of particular relevance to this hearing, at the university, I lead a project called "Learning from Abroad," which is designed to glean policy ideas from other nations. Our web site is [www.umdcipe.org](http://www.umdcipe.org). I also conduct some elements of this project through my position as a Senior Fellow at the Atlantic Council.

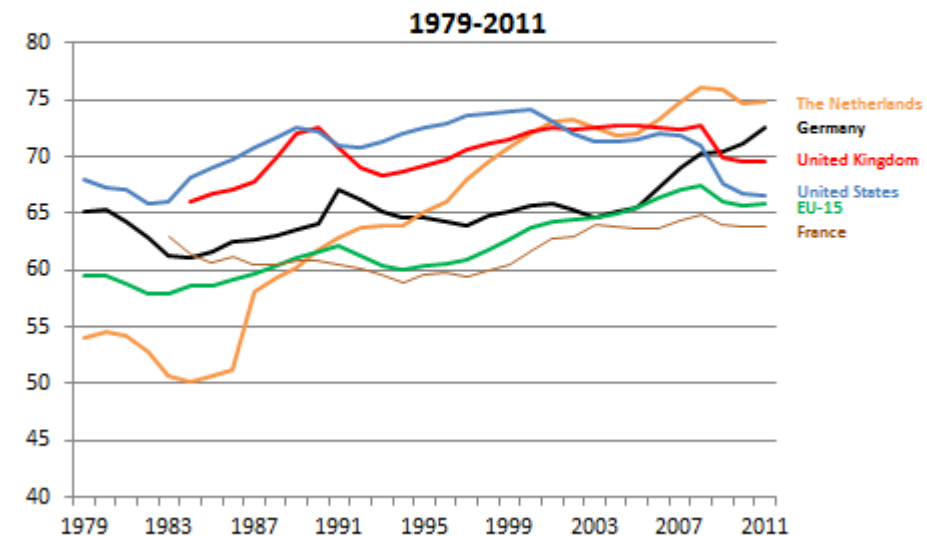
Today, I would like to discuss some of these policy ideas from other nations as they relate to work and work-related requirements (which include working, seeking work, or increasing

work-related skills) for recipients of the major American income-support and social welfare programs. My main point is that, while other developed countries are moving forward to add such requirements to their social welfare programs, we in the U.S.--the home of “welfare reform”---seem unable to even consider such program changes in a nonpartisan, open discussion, let alone adopt them. Instead, we are debating whether TANF’s limited participation mandates should be waived at state discretion.

In the 1980s and 1990s, many member countries of the Organisation of Economic Co-operation and Development (OECD) experienced extended periods of high and persistent unemployment—often coupled by low or declining rates of labor force participation and increases in the number of recipients of government benefits (essentially unemployment, disability and social assistance). In response, over the past two decades, a number of countries introduced policy reforms aimed at “activating” those recipients apparently able to work, by requiring them to actively seek employment or to engage in other specified work or work-related activities in order to remain eligible for support. With the possible exception of social assistance (welfare programs), other OECD countries made more fundamental reforms to their labor activation policies than did the U.S.

Perhaps as a result, even before the current economic difficulties, the rate of the employed working age population was declining in the U.S. For example, from 2000 to 2007, the employment rate declined from about 74 percent to about 72 percent (and fell to 67 percent in 2011). In contrast, rates of employment in the EU-15 increased from about 64 percent to about 67 percent in that same time period (but fell to about 66 percent in 2011). Some EU countries registered much more substantial increases such as Germany, from about 66 percent to about 69 percent (and up to about 72.5 percent in 2011) (see figure 1). Lagging behind has been France, which increased from about 62 percent in 2000 to about 64 percent in 2007 (and remained at about 64 percent in 2011).

**Figure 1**  
**Employment/Population Ratios**  
**in the US and EU-15**



Source: Douglas J. Sahasravan's calculations from Organisation of Economic Co-operation and Development, "OECD.Stat Extracts," <http://stats.oecd.org/indicators> (accessed September 1, 2011).

In July 2012, when I testified before this subcommittee, I described some of the broad trends in “labor activation” in Europe. Here is a brief summary of what is happening:

- *Tightened eligibility rules to improve program targeting.* In an effort to improve the targeting of programs on the most deserving or needful, some countries have modified how they define and measure eligibility. The UK, for example, tightened its rules for determining eligibility for disability benefits. Of 1.2 million new disability claimants evaluated under the tighter eligibility rules, 75 percent either were found to be fit for work or dropped their disability claim before finishing the assessment.
- *Mandated job search and other work-first activities.* In an effort to encourage recipients to look for work and to raise the “opportunity cost” of being on assistance, some countries have mandated various “activation” activities. In recent years, countries as different as Australia, Denmark, Germany, the Netherlands, and UK have tightened their rules and procedures for encouraging work rather than benefit receipt—almost always including a benefit reduction or termination for noncompliance.
- *Time-limited benefits (or step-downs in benefit amounts).* In an effort to prod current recipients to look for or accept work, some countries reduce or terminate benefits after a set period of time (sometimes transformed into lower, means-tested cash welfare payments). In countries such as Denmark (unemployment insurance), Germany (unemployment insurance), and the Netherlands (disability), after a period of time, benefits have been restructured to be lower or modified as an incentive for recipients to take a less-preferred job.
- *Consolidated programs.* In an effort to increase program efficiency (and thereby save money) but also to focus and maximize the impact of program rules, some countries have combined the operations and activation rules of their unemployment and cash welfare and/or disability programs. Australia consolidated the administration of unemployment, cash welfare, disability, pension, and other social benefits under one agency. Germany consolidated its unemployment and cash welfare programs, with one-stop centers for both. (Later held unconstitutional by the German courts for unrelated reasons.) Norway also consolidated its unemployment insurance, cash welfare, disability payments, and old-age pensions programs into one agency. And the UK created the “Universal Credit” that combines tax credits, cash welfare, disability benefits, and housing credits into a single benefit stream (which I will discuss in greater detail below).
- *Incentivized financing and reimbursement systems.* In an effort to encourage employers to internalize the costs of unemployment and disability payments (and thus take actions to prevent both) and to encourage government agencies to target benefit payments to the truly needful (and thus reduce the number of recipients), some countries are deliberately embedding financial incentives in the way they tax employers to pay for benefits and in the way they reimburse local programs for benefits distributed. For example, the Netherlands

has made employers responsible for the first two years of disability payments. In addition, the Netherlands uses cash welfare block grants to the municipalities based on the national government's estimate of how many cash welfare recipients there should be in each municipality (taking into account economic and demographic factors). The municipality is allowed to keep any excess funds it does not spend on cash welfare, but must use municipality funds to cover any excess spending on cash welfare.

- *Decentralized responsibility and authority.* In an effort to encourage local accountability and innovation, some countries have devolved to the regional or local level the operations of their unemployment and cash welfare and/or disability programs. Germany gave municipalities joint responsibility with the national government in administering unemployment benefits to the long-term unemployed, and the Netherlands devolved the provision of cash welfare and related active labor market policies to the municipalities.
- *Outsourced/Privatized “activation” services.* In an effort to increase programmatic flexibility and accountability by escaping the strictures of government employment agencies, some countries are outsourcing various activation services, either in whole or in part. Australia contracts out labor activation services for recipients of cash welfare and unemployment benefits to for-profit and non-profit vendors. Germany provides vouchers for activation services to recipients of unemployment benefits and municipalities are able to contract out activation services instead of providing them. The Netherlands does the same, and the government department that was responsible for providing such services was privatized and allowed to compete against other for-profit providers. (It subsequently failed.) The UK, in a reform effort with its origins in the Labour Government, contracts out the provision of activation services for the recipients of unemployment, cash welfare, and disability benefits to for-profit and non-profits firms.

When reviewing what is happening in a continent as diverse as Europe, it is easy to highlight changes in one or two small countries and claim that they are more widespread than they are—or that they are directly applicable to the U.S. despite very different economic, social, cultural, and political situations.

With this caveat in mind, in my short time allotted, I would like to discuss two recent and related shifts in policy that seem generally applicable to the U.S.

(1) the introduction of work-related requirements for those receiving unemployment assistance, cash welfare, and disability benefits and, often, a reduction in the time before the requirements are imposed; and

(2) a consolidation of benefit streams, agencies, and local offices in an effort to increase the focus on labor activation as well as reduce recipients' marginal tax rates and bureaucratic overlap.

To a greater or lesser degree, they both have occurred in major European countries,

including France, Germany, and the UK. (More detailed discussions of these and other countries along with general recommendations for the United States can be found in our longer report, which is available on request.)

**France.** In 2009, France instituted a new cash welfare scheme that incentivizes work and adds work-related requirements, and also consolidated the provision of unemployment insurance and cash welfare into one agency.

France replaced its previous cash welfare scheme that had no incentives to work with the work-focused *Revenu de Solidarité Active* (RSA). The RSA emphasizes work and work-related activities through incentives and requirements. Under the previous cash welfare scheme, earnings above a certain threshold led to a complete loss of cash welfare benefits. Under the RSA, benefits are only reduced by 38 cents for each additional dollar earned up to a maximum monthly income of about 1,300 Euros for single parents with one child, and about 2,200 Euros for a couple with two children (a structure that is similar to the U.S. Earned Income Tax Credit).

New RSA recipients are now subject to work and work-related activities requirements. Recipients must meet with local government councils that are responsible for the training and support of RSA recipients for assessments on their ability to work. The local councils determine if the recipients are to be placed on the “employment path” or the “social path.” The “employment path” is for those recipients who are deemed capable of work. They are assigned either to the local *Pole Emploi* (Public Employment Service) or to another organization that will provide them with activation services (such as job training). The “social path” is for those recipients who are deemed not ready for employment, and they are provided services to assist them in becoming ready for work (such as family counseling and mental health services).

Those recipients who are assigned to the *Pole Emploi* are obligated to search for suitable employment, with an increasingly restrictive set of rules on the jobs they may consider unsuitable and therefore refuse. In the first three months of assistance, recipients may reject employment opportunities that pay less than their previous jobs. Between three and six months, they may reject employment opportunities that pay less than 95 percent of their previous jobs. Between six and twelve months, they may reject employment opportunities that pay less than 85 percent of their previous jobs. After twelve months, however, they may only reject employment opportunities that pay less than their current RSA benefit.

If recipients fail to appear at the *Pole Emploi*, fail to accept suitable employment, or fail to meet the work-related requirements set by another organization to which they may be assigned, the local councils may either reduce or suspend the recipients’ RSA benefits until they begin to comply.

In conjunction with the change to the RSA, France also consolidated the administration of activations services for unemployment insurance and cash welfare recipients which were previously administered in different agencies. Under the current system, both groups now receive services at the *Pole Emploi*. (There have been some reports that the *Pole Emploi* has had some difficulty in adjusting its services to accommodate RSA recipients as they may have different

needs than unemployment insurance recipients.)

According to reports from the French government, the process of implementation of the RSA's activation requirements and sanctions at the local level is still incomplete and program improvement efforts ongoing.

**Germany.** In the early-to-mid-2000s, Germany formally linked its unemployment insurance and cash welfare programs, added time limits, and created employment centers that jointly serve unemployment insurance and cash welfare recipients.

Prior to the “Hartz reforms” of the early-to-mid-2000s, Germany had two forms of unemployment benefits: unemployment insurance and unemployment assistance. Unemployment insurance was for workers who had paid into the unemployment insurance fund for a minimum of twelve months. Workers were eligible to receive benefits for up to thirty-two months at a replacement rate of 67 percent of their previous wages. Workers who reached the thirty-two month time limit were eligible to receive unemployment assistance which had no time limit but a replacement rate of 57 percent of their previous wages.

The Hartz reforms created a two-step and two-tiered program for unemployment and cash welfare benefits. Unemployed workers who have paid into the unemployment insurance fund may receive Unemployment Benefits I (UB I) for one year which replace about 67 percent of previous net income. After one year they are transferred to the Unemployment Benefits II (UB II) program where the benefits are means-tested and are about 40 percent lower than their UB I benefits. Able-bodied individuals who do not have an employment history and who were previously eligible for cash assistance also may receive UB II.

UB I and UB II recipients are required to enter into contracts with the local Job Centers that lay out the activation requirements that recipients must fulfill (such as searching for work, community service, or job training) to continue to receive benefits. Recipients are subject to partial benefit sanctions if they fail to accept suitable employment or to participate in the required work-related activity.

Prior to the Hartz reforms, the federal government provided services to unemployment assistance recipients and municipalities provided services to cash welfare recipients. Under the new framework, the federal government and municipalities have created joint Job Centers that provide activation services to both UB I and UB II recipients.

The Hartz reforms met opposition in many quarters and their implementation was slow and somewhat uneven. In some localities, implementation is an ongoing challenge.

**United Kingdom.** In 2010, the UK announced that in 2013, it would consolidate its myriad cash welfare streams into one benefit and that the activation requirements for that benefit would be administered through a single agency.

Hence, later this year, the UK will institute the Universal Credit, a combination of cash

welfare (including means-tested unemployment assistance, assistance for lone mothers, and assistance for the partially disabled), housing benefits, child tax credits, and working tax credits into one basic allowance stream. The purpose is to create a single phase-out rate for benefits, reduce the high marginal tax rate for workers, and radically reduce the duplication and complexity of previously existing benefit programs. The government estimates that combining these programs will result in a marginal tax rate of 65 percent, compared to marginal tax rates of between 75 and 96 percent under the previous set of programs.

Universal Credit recipients will be assessed to determine their work capabilities. Those who are considered capable of working will be assigned to the Work Programme which requires recipients to engage in work or in a work-related activity (such as job training or community service). Failure to participate may result in a full sanction of benefits for a defined period of time (in the most extreme case, up to three years).

The administration of the Universal Credit has been consolidated in the Jobcentre Plus agency. Staff at local Job Centers perform the assessments mentioned above, but the actual provision of the Work Programme services have been contracted out to private vendors (non-profit and for-profit).

The Universal Credit and the Work Programme have been met with public protests and criticism in the media, but the UK government has indicated that implementation will continue as planned.

## **Conclusion**

Many Americans feel that the European experience is not applicable to the United States, either because of the deep economic crisis they face or because the Europeans are “socialists.” I think that is wrong. There are many lessons to learn as long as we do not attempt to apply them blindly or with an ideological bias.

Thank you.