“The return to work policies in a time of crisis: a comparison between Germany and France”

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Abstract:

The policies for making jobseekers return to work have resulted, in Germany and France, in the implementation of financial incentives which have taken the form of permanent incentives with the payment of grants to return to work and of financial aids to business creation. They also have taken the form of transitory incentives through the tax credit mechanism and through the diminution of the marginal tax rate applied to the measure of “labour income plus social allowances”. The effects of the financial incentives on reintegration into the labour market remain ambiguous. Despite their rather positive impact on employment, they do not significantly increase the rate of return to work of the unemployed. In addition, they contribute to the development of low-wage jobs and do not always allow the recipients to go out of poverty.

Key words: financial incentives, return to work, economic crisis, Germany, France

JEL classification : J08, J65, J68

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Introduction

European welfare states have developed instruments to ensure the reintegration of the excluded from the labour market (and the job retention of the employees). These instruments developed for the recipients receiving unemployment insurance benefits and for the welfare recipients (only for those who are able to work) have concerned two levels. In terms of financing of social policies, resources come from increasing taxation (social public expenditures are more financed by the tax and less by the social contributions). In terms of targeted people, these instruments have mainly consisted of financial incentives to return to work. Incentives to work can be positive incentives (opportunities and orientation of individuals’ behaviours) or negative incentives (obligations and sanctions); but only the first ones, based on the logic of monetary motivation to work, can be seen as financial incentives.

Positive incentives are based on the principle of "making work pay", that is to say to stimulate job search and acceptation of a job or to encourage to remain in the labour market thanks to programmes that allow the targeted individual or household to get an additional income. To make attractive the employment, the idea is to play on the financial gap between the amount of benefits received and the amount of earned incomes. The cases of France and Germany are illustrative of “back-to-work” policies which are based on the implementation of such financial incentives to work since the 2000s. These programmes combine permanent measures and transitory devices that have ambiguous effects on the return to work.

Conclusion

The financial measures for the jobseekers have more and more resulted, in Germany and France, in the implementation of financial incentive schemes to return to work. These two countries have tightened the access conditions to unemployment benefits and have reduced the replacement rate as well as they have increased the flexibility of the labour market. But both also have used incentive instruments in order to promote the reintegration of the unemployed into the labour market. If financial incentives can have positive effects on employment, they are not sufficient to significantly increase the rate of return to work. Oriented on the individuals the most distant from the labour market, they contribute to the development of low-wage jobs and cannot always get people out of poverty.