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# Labour Market Reforms and Homelessness in Denmark and Germany : Dilemmas and Consequences

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- › **Abstract\_** *This paper discusses the consequences of labour market reforms on homelessness by comparing reforms in Denmark and Germany. It focuses on the dilemmas and consequences that reforms of social benefit systems and activation policies may have on homelessness and those at risk of homelessness. Recent reforms have involved changes and reductions in social benefits, which may negatively affect the ability of socially marginalised groups to find affordable housing and may thus increase the risk of homelessness. The coverage of housing costs is different in the two countries, but both systems are vulnerable to local variations in housing markets and administrative practices, with subsequent unintended consequences. This paper looks at how activation policies involve a potential for both social inclusion and social exclusion in the balance between enabling elements and social and economic sanctions. Finally it analyses how policies aimed at young people may unintentionally equate to a high-risk strategy for the socially vulnerable, as lower benefits may increase the risk of extreme marginalisation in terms of homelessness when social vulnerabilities are not taken into account.*
- › **Keywords\_** *Activation ; labour market reform ; social benefits ; homelessness ; Denmark ; Germany.*

## Introduction

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No European country has escaped the general trend of labour market reform of the 1990s and early 2000s, which aimed to reduce public spending on transfer benefits and increase labour market participation through individual incentives and activation policies (Lødemehl and Trickey, 2000; Hanesch, 2001; Konle-Seidl, 2008; Spross and Lang, 2008). These reforms involve the enforcement of labour market participation and the conditioning of rights and growing obligations of the individual on one side, and an increase in services for the promotion of employability and the restoration of social equity on the other. However, despite moving in a similar direction, the detailed arrangements in European countries show significant differences, and some experts argue that one cannot even assume a trend towards convergence (Dingeldey, 2007).<sup>1</sup>

This paper compares the (intended and unintended) effects of labour market reforms on homelessness in Denmark and Germany. From a relatively different starting point – a tight labour market in Denmark and mass unemployment in Germany<sup>2</sup> – both countries have reduced individual benefits and introduced targeted measures for the long-term unemployed, including homeless persons. The move towards greater activation efforts and enforcement of activation for those fit to work started earlier in Denmark, and Denmark was often promoted in Germany as an example of good policy alongside arrangements used in the Netherlands and the UK.

Before analysing the dilemmas and consequences of these reforms in greater detail, it is worth exploring the broad differences and similarities of the two countries under comparison. Obviously they are two countries of very different population

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<sup>1</sup> As this paper focuses on the consequences of the reforms for a specific group (persons who are homeless or threatened with homelessness), it will not go into any detail on the background and origins of the labour market reforms in general. Recent literature on the influence of the European Employment Strategy, inaugurated in 1997, and of the Open Method of Coordination on national employment policies and social welfare systems, shows the methodological challenges and the variety of possible perspectives for analysing the influence of the EU on these reforms (Heidenreich and Zeitlin, 2009). There is a consensus that the influence of the EU and the OECD on the direction of national reforms was considerable, but the debate about the degree and the varying mechanisms of this influence and about convergence and 'Europeanisation' versus divergence, path dependency and the limitations for institutional changes on the national level is still ongoing. This debate is not the focus of this paper.

<sup>2</sup> Since 2000 unemployment rates (annual average as a percentage of labour force) have never been higher than 6.3 in Denmark, with annual rates as low as 3.3 in 2007, and have never been lower than 7.8 in Germany, with a peak of 11.7 in 2005 (OECD data). However, the population share of persons on early retirement pension is far higher in Denmark than in Germany. Whereas in Denmark 6.6 per cent of the population aged fifteen to sixty-four was inactive because of illness or invalidity in 2007, this was only the case for 2 per cent of the German population (Konle-Seidl, 2009). This difference between the two countries is even more pronounced among the homeless.

size, Germany being the EU country with the largest population (82.3 million in 2007) and Denmark being among the EU member states with the lowest number of inhabitants (5.4 million in 2007). However, the countries are very relevant for strategic comparison. On one hand, they are geographical neighbours, with strong cultural similarities, export-oriented economies and relatively high wages. On the other, in terms of welfare-state regimes (Esping-Andersen, 1990), they are 'typical' representatives of two different regime-types: the social democratic regime (Denmark) and the corporatist/conservative regime (Germany),<sup>3</sup> although it has been argued that labour market reforms in Germany mark 'a critical moment in the departure from the conservative welfare model' (Fleckenstein, 2008, p.178; see also Busch-Geertsema, 2004).<sup>4</sup> In terms of labour market policies, a recent comparative analysis of labour reforms in Denmark, Germany and the UK on a more general level shows that by 2007 Denmark was scoring rather highly on enabling policies but showed a relatively low score on workfare policies; in the UK the opposite was true (strong on workfare policies and weak on enabling policies); while Germany held an intermediate position relative to the other two countries, with a slight tendency towards stronger workfare policies (Dingeldey, 2007). Furthermore, some specific changes in benefit systems and particularly the coverage of housing costs make Denmark and Germany suitable to illustrate possible unintended consequences of reforms and changes for marginal groups in terms of the risk of homelessness.

This paper discusses the consequences of the reforms in social benefit systems and activation policies for homeless persons. It examines the reforms in relation to income profiles and income sources among the homeless population, and considers how the coverage of housing costs is organised within the social benefit systems and how changes to this can alter the ability of people affected by, or at risk of, homelessness to cover housing costs. The paper then discusses changes and dilemmas in social activation policies, which encompass the potential for both social inclusion and social exclusion of marginal groups; and highlights particular policy changes aimed at young people – one of the main target groups of labour market reforms and workfare programmes across Europe (Trickey, 2000, p.260; Serrano Pascual, 2004; European Commission, 2006) – and how these policies may be described as a high-risk strategy when it comes to the risk of homelessness for socially marginalised young people.

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<sup>3</sup> For the use and limits of the welfare regime typology for comparative analyses of housing (exclusion) and homelessness see Edgar et al. (1999) and Stephens and Fitzpatrick (2007).

<sup>4</sup> But note that this move followed the British (liberal) example much more than the Scandinavian one (Fleckenstein, 2008). 'Germany seems to be moving towards the neo-liberal model' (Dingeldey, 2007, p.845). 'From Bismark to Beverdige' (Konle-Seidl et al., 2007).

## Reforms of Social Benefits

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Changes in social benefit schemes in Denmark and in Germany have been aimed at increasing labour market participation and reducing dependency on social benefits. In both countries the reforms have addressed various aspects such as eligibility, duration and benefit levels.

The share of homeless people who can rely on employment and a wage as their main income is only about 5 per cent in both countries. A large majority of homeless persons have no attachment to the labour market, though we cannot say whether individuals now relying on public benefits may have had a labour market attachment in the past. Only a small fraction of the homeless population receives benefits from insurance-based unemployment schemes dependent on prior labour market attachment. The category of unemployment benefit in the statistics available for Germany does not distinguish between those who receive insurance-based unemployment benefits and those who receive *Arbeitslosengeld II*, the basic benefit introduced by Hartz IV (see below). The former will only be a very tiny minority and the latter the vast majority of those classified under this category (unemployment benefit of both types), on which half of all homeless people rely.

Most importantly, the share of homeless persons receiving some sort of pension is considerably lower in Germany than in Denmark, which reflects the differences between the countries in defining people in and out of the basic income schemes for the unemployed. The fact that a relatively large proportion of unemployed homeless people in Denmark receive comparatively generous permanent retirement pensions without any additional demands of labour market activation measures may reflect an underlying difference in the welfare regimes. However, the fact that this group is still found among the homeless shows how the most vulnerable groups can fall through the social safety net, and points to the need for individualised tailor-made services for this group.

### *Denmark*

After a long period of economic recession and with an unemployment rate standing at 12 per cent, a reform of labour market policies in 1994 strengthened the focus on activation policies already present in the previous Danish employment legislation. Keynesian fiscal policies kick-started the economy and together with rising external demand marked the start of an economic boom which lasted until 2001, and which resumed in 2004. At the onset of the global financial crisis in autumn 2008 the official unemployment rate in Denmark had reached a minimum of 1.7 per cent (Statistics Denmark, 2008a). It has since increased to 3.7 per cent (Statistics Denmark, 2009) with the progression of the crisis. In the fourth quarter of 2008 approximately 55,000 people were officially unemployed. However, this figure

excluded people who were involved in a wide range of activation measures and supported employment. Thus, the real number of people outside the ordinary labour market was estimated at 261,000 people between the ages of sixteen and sixty-four, excluding students and those receiving early retirement benefits, on sickness benefits, on maternal or paternal leave and so on. This figure included 44,000 people in various kinds of instruction or screening courses, 82,000 people in supported employment and about 72,000 other receivers of social benefits classified as being outside the labour market (Statistics Denmark, 2008b).

The main pillars of the Danish support system for the unemployed consist of two types of benefits. The first is an insurance-based unemployment benefit where participation is optional for people in employment, and where a condition for receiving support is a period of one year of full-time employment in the three-year period prior to an unemployment spell. For the uninsured and people without any labour market attachment and who do not qualify for other social benefits, there is a means-tested cash benefit system. Apart from a gradual reduction in the relatively long period in which unemployment benefits can be received, from nine years to four years, recent reforms of social benefit systems have mainly been aimed at those in receipt of the so-called 'cash benefit' (*køstanthjælp*).

The cash benefit system for the uninsured unemployed has undergone some important changes. In 1994 a general reform of social laws introduced a change from net payments to gross payments so that cash benefits along with a number of other social benefits were made taxable. One aim of this reform was to make the transition from receiving benefits to working life easier and more economically transparent to the individual benefit recipient. The change also involved abolishing the distinction made in individual welfare benefits between expenditure earmarked for housing and residual cash benefits, which was replaced by a unitary payment from which the benefit recipient is supposed to pay for all expenditure including housing (although an additional, means-tested subsidiary housing benefit for low-income groups including recipients of cash benefit remained).

In 2003 a so-called ceiling for individual cash benefits was introduced. This ceiling sets in after a period of six months of receiving cash benefits, and it limits the total amount of cash benefits and additional cash subsidies the individual can receive per month. The ceiling includes the additional means-tested housing benefit given to low-income groups. One aim of this reform was to create a difference between benefit levels and working income, thus increasing the incentive to work. To date, there has been no documentation of the consequences of this benefit ceiling for increasing the risk of homelessness. However, a recent study showed that the number of evictions increased in the period between 2002 and 2006, but no direct

link between the benefit ceiling and the rise in evictions can be established as the number of evictions has also risen among waged employees in the same period (Christensen and Nielsen, 2008).

If we look at income sources among homeless persons in Denmark (see Table 1), most homeless people are recipients of cash benefits (60 per cent) or early retirement pensions (23 per cent). Five per cent are in waged employment and only 3 per cent receive the insurance-based unemployment benefit, which emphasises the fact that few homeless people have an attachment to the labour market. Within a two-year period from 2007 to 2009 the percentage with income from waged employment has fallen from 9 per cent to 5 per cent. This suggests that individuals in a marginal social position are the most vulnerable to the labour market contraction that has taken place with the onset of the economic crisis.

**Table 1: Income sources of homeless people in Denmark 2009 (%)**

Age	Income source							Total (N=4,384)
	Wages	Unemployment benefits	Cash benefits	Early retirement pension	Old age pension	Other income	No income	
18-24	5	2	80	2	0	8	6	100
25-29	5	3	75	9	0	6	4	100
30-39	6	2	68	17	0	4	4	100
40-49	5	3	56	29	0	5	3	100
50-59	4	3	40	45	0	6	4	100
60+	2	2	23	37	27	5	6	100
<b>Total</b>	<b>5</b>	<b>3</b>	<b>60</b>	<b>23</b>	<b>2</b>	<b>5</b>	<b>4</b>	<b>100</b>

Source: Benjaminsen (2009). Percentages may not total 100 % due to rounding.

Among homeless persons in Denmark, a relatively high proportion are recipients of early retirement benefit, which can be granted after the age of eighteen due to illness, disability or severe social problems. This high proportion mainly reflects the many homeless people who have been granted a pension due to mental illness, long-term substance abuse and other social vulnerabilities. While cash benefits have been exposed to the benefit ceiling described above, benefit levels for early retirement pensions were increased in 2003 and are generally higher than the level of cash benefits.

## Germany

In Germany the most fundamental reform of the benefit system was the Hartz reform, particularly part four of this series of reforms (Hartz IV), which was named after the chairman of a commission on modern labour market services, Peter Hartz.<sup>5</sup> The Hartz reforms have been judged to be the most substantial social reform in Germany since World War II. A number of new measures were introduced by four different national Acts, Hartz I to Hartz IV. Hartz IV, which comprised the new social legislation on minimum benefits, was enacted in December 2003 and came into force in January 2005. The new second part of the German Social Code (*Sozialgesetzbuch II* or *SGB II* for short) merged two types of benefits for the long-term unemployed (unemployment assistance, *Arbeitslosenhilfe*, and social assistance, *Sozialhilfe*).

Since 1 January 2005 all people who have been unemployed for more than twelve months (or less, but who have not paid sufficient contributions to unemployment insurance) and who are able to work for at least three hours a day are entitled to the new subsistence benefit *Arbeitslosengeld II*, in so far as they are not able to procure their subsistence by other means. The same applies to an increasing number of 'working poor', who earn less than the minimum benefit and are entitled to supplement their income with this benefit.<sup>6</sup> The new minimum benefit is strictly means-tested and the level is very similar to that of the former *Sozialhilfe*, so that a large proportion of those previously entitled to the income-related *Arbeitslosenhilfe* were faced with a substantial loss of income.<sup>7</sup>

The old system of *Sozialhilfe* remained as a sort of residuum provision (with almost exactly the same amount of money being provided) covering a relatively small number of people in need who are not able to work but who do not yet qualify for

<sup>5</sup> At the time Dr Hartz was the personnel director of Volkswagen and of very high prestige. In 2005, however, he resigned following a scandal involving prostitutes and bribery of leading members of the works council. In 2007 he was fined and sentenced to two years in prison. For governance analysis it is interesting to note that while the reforms were publicly announced to be the implementation of the Hartz commission's recommendations, the Bertelsmann foundation was even more influential in formulating the cornerstones of the reform, see Fleckenstein, 2008.

<sup>6</sup> In November 2008 the number of recipients in some type of employment was 1.3 million (26.7 per cent of all recipients capable of work) according to official statistics of the Federal Employment Office.

<sup>7</sup> A recent study of the Deutsches Institut für Wirtschaftsforschung (German Institute for Economic Research) showed that more than half of those in receipt of *Arbeitslosenhilfe* or *Sozialhilfe* before the reform had a lower income under the new regulations. The proportion of benefit recipients who are defined as poor according to international standards has grown from about one-half to two-thirds (DIW, 2007, pp.753ff.). Eleven per cent of those formerly in receipt of *Arbeitslosenhilfe* lost any entitlement to subsistence benefit through the reform (Wagner, 2007; Bruckmeier and Schnitzlein, 2007), mainly because they were considered to be living from their partner's income (it was predominantly women who lost their entitlement).

a pension, be it an early retirement or an old age pension. Some people in need who are capable of working are nevertheless excluded from receipt of SGB II payments, for example foreigners who are not allowed to work in Germany (mainly asylum seekers and other refugees who are entitled to another type of subsistence benefit with lower rates, but also tourists and seasonal workers who are not entitled for a longer term stay in Germany), students entitled to other types of financial support and persons in 'stationary institutions' including prisons and some institutions for homeless people (those involving full-time residence with full boarding and a high level of supervision).

As in Denmark there is still a system of unemployment insurance but the maximum period of entitlement for (wage-related) insurance benefits for those qualifying has been cut down to one year.<sup>8</sup>

After more than four years in practice it is clear that expectations that these reforms would result in the reduction of unemployment have not been met.<sup>9</sup> On the contrary, registered unemployment in Germany rose to more than five million persons in the first months after the new legislation came into force in 2005. It took until April 2007, and an economic boom mainly caused by external demand, for registered unemployment in Germany to sink to under four million (the level in 2002 when the Hartz commission had published its report).

Meanwhile the numbers of those unemployed have further decreased as a consequence of the economic boom, but a large proportion of the long-term unemployed and recipients of minimum benefits are excluded from the statistics, and increased levels of unemployment are expected in the months following the economic downturn. At the end of December 2008 the number of persons registered officially as unemployed in Germany was 3.1 million. About 1.6 million persons were in some kind of employment or training scheme and not registered as unemployed for this reason. At the same time 4.8 million persons were receiving *Arbeitslosengeld II* (most of them long-term unemployed, and all capable of work), and a further 1.8 million household members were getting subsistence benefit (*Sozialgeld*) under the same Act (SGB II) as dependants who are not fit to work.

Accordingly the total number of persons relying on the strictly means-tested minimum benefit of Hartz IV in December 2008 was more than 6.6 million. In addition there were almost one million short-term unemployed persons (usually

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<sup>8</sup> However, time restrictions were changed again in 2008 for the unemployed aged over fifty: now the period of entitlement is 15 months for those aged fifty to fifty-four, 18 months for those aged fifty-five to fifty-seven and 24 months for those fifty-eight and older who have paid contributions for a prolonged period of time.

<sup>9</sup> In 2002 it was announced that the reforms would reduce unemployment by half (from four million to under two million) within three years.



unemployed for less than twelve months) in receipt of income-related unemployment benefit as insurance payments. While the number of short-term unemployed persons entitled to insurance payments has been decreasing substantially, especially since 2004 (the number reduced by more than half from 2.07 million in January 2005 to a little under one million in December 2008), the number of people relying on the minimum benefit under SGB II does not seem to have been affected by the economic upswing in Germany. Their number increased from 6.12 million in January 2005 to more than 7 million in October 2005, and did not fall under this figure again until September 2007, peaking at more than 7.4 million in some months (Federal Employment Agency data).

While it is true that point-in-time data do hide a considerable dynamic of people entering and leaving the benefit system, it is also true that a large percentage of those persons who were not registered as unemployed under SGB II temporarily (due, for example, to getting a place in an employment scheme) were back after one year at the most (according to the Federal Employment Agency this is the case for more than half of those taking up a job). And at the end of 2006 more than half of all recipients had been receiving SGB II payments since January 2005 without any interruption (IAB, 2007; Koch et al., 2009).

Data on the main income sources of homeless people in Germany are only available for clients of NGO service providers that work with (primarily single) homeless persons. The most recent available data are from 2006 and are annual prevalence data showing the main income of clients at the point of entry into support services.

**Table 2: Income sources of homeless people in Germany, 2006 (%)**

Wage	Unemployment benefit	Social assistance	Pension (old age and early retirement)	Support by relatives	Assets, interests, lettings etc.	Other public support	Other income	No income	Total (N= 14,300)
4.7	49.9	12.2	7.6	1.3	0.4	1.4	3.4	19.1	100

\* Clients of NGO services for single homeless people.

Source: Schröder (2008).

It should be noted that some of the recipients of social assistance might be capable of work (and in principle also entitled to unemployment benefit II) but are excluded from SGB II payments because of their stay in a 'stationary institution' (hostel with highly regulated day structure, supervision and full boarding).

## Housing Benefits and Benefits for Other Living Expenses

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An important factor that may contribute to the risk of homelessness is the way in which payment of housing costs is organised within the benefit system. In Germany the Hartz reforms of 2005 meant that the separation of benefits covering housing costs and those covering all other living costs, a separation which had also existed in the old system of *Sozialhilfe* (social assistance), was now extended to affect a much larger number of long-term unemployed people, including those who had been entitled to the wage-related *Arbeitslosenhilfe* until the end of 2004. In Denmark, in contrast, a similar separation of housing benefits and benefits for other living costs was abolished as part of social reforms.

As described in the previous section, reforms and reductions in social benefit levels have been introduced in both Denmark and Germany in recent years. It is difficult to document any direct effects on the risk of homelessness but reductions of benefit levels may increase the risk of homelessness by reducing people's ability to find affordable housing.

Both the system of unitary benefits in Denmark and the system of divided housing and cash benefits in Germany can be shown to have possible unintended consequences for increasing the risk of homelessness. Neither system (sufficiently) incorporates local variations in either housing prices or administrative practices. The German system seems to be susceptible to local variations in the administration of what is deemed to be appropriate housing costs, whereas the Danish system is vulnerable to variation in rent levels between urban and rural areas and to a possible disincentive for rough sleepers to use homeless hostels.

### *Denmark*

The separation in individual welfare benefits between expenditure earmarked for housing and residual cash benefits was replaced in 1994 by a unitary payment from which the benefit receiver is obliged to pay for all expenditure including housing. This change aimed to increase the economic transparency of social benefits (and the comparability with labour income) for the individual and to strengthen the position of benefit recipients. However, unintended consequences of the system of unitary benefits (with no separate allowance for housing costs) can be identified.

First of all the unitary system creates a vulnerability in terms of the possibility of finding affordable housing as housing costs must be met directly out of benefits. In particular the system of unitary payments is vulnerable to geographical variations in rent levels, as the possibility for additional support to meet housing costs is limited and does not vary among municipalities with varying rent levels. However, it is difficult to assess the actual impact on the risk of homelessness as structural conditions in the housing market have changed more or less in parallel with the

reform of the benefit system. Most especially, housing prices have increased rapidly since the mid-1990s and, particularly in Copenhagen, socially vulnerable groups are to a large extent dependent on the allocation of public housing; the municipality has a right to refer a percentage of housing units that become vacant to vulnerable groups. A study, albeit slightly dated, has shown that stricter criteria for referral to public housing through the prioritised municipal lists apply in the capital than in provincial municipalities (Anker et al., 2003).

Besides the interplay between the benefit system and structural changes in the availability of affordable housing there are also effects which are mainly felt on an individual level. It can be especially difficult for those with severe addiction problems to manage their finances and pay rent out of unitary monthly benefits. However, it is possible for benefit recipients to have their rent payment administered by municipalities on a voluntary basis.

Unintended consequences of the unitary payment system also appear in the use of emergency services. The number of rough sleepers remains relatively high, with 174 rough sleepers in the Danish capital and 506 rough sleepers nationwide in the homelessness count week of 2009 (Benjaminsen, 2009). Parallel to the introduction of the system of unitary payments, user fees were introduced at public homeless hostels. One reason for user fees is to ensure that staying in a homeless hostel competes favourably with paying rent in a private dwelling, and user fees are generally set in relation to the level of individual cash benefits. However, an unintended consequence of this system may be that the inclination to sleep rough instead of using a hostel is reinforced if the individual has high cash needs due to substance addiction.

As we saw in Table 1, quite a high proportion of the homeless in Denmark are recipients of early retirement benefits. Here it should be recognised that the unintended consequences of the unitary benefits (with no separate housing allowance) apply to those in receipt of early retirement benefits too. Of the rough sleepers in the national count, 24 per cent were recipients of early retirement benefits, indicating not only that a large proportion of this group is affected by complex mental or substance-related conditions but also that unintended effects of the use of services may be at play. In this way the separation of benefits to exclude a specific housing allowance may unintentionally contribute to a higher level of rough sleeping.

A comparison can here be made with the British system, where cash benefits earmarked for housing can also be used to pay hostel fees etc., and where considerable success has been achieved in reducing the number of rough sleepers as services have been strengthened (Office of the Deputy Prime Minister, 2005).

## Germany

In contrast to the Danish system, the separation of housing benefits and cash benefits has been upheld in Germany, and has even been extended considerably to include those who were entitled to *Arbeitslosenhilfe* before 2005. The legislation stipulates that housing costs will be paid for recipients of the minimum benefit under SGB II, but only to the extent that is considered 'appropriate'. If the rent (or the costs of owner-occupied housing) is above the ceiling for appropriate housing costs, recipients can be asked to reduce these costs either by moving to 'appropriate' housing within six months or by other measures (letting to a lodger, bargaining with the landlord for a lower rent). If they cannot reduce the costs they must pay their excess housing costs from their minimum income after six months at the latest. The upper limits for 'appropriate' rents are fixed by municipalities, which has led to considerable regional and local variations (Busch-Geertsema and Evers, 2007).

While there are substantial and increasing disparities in rent levels across Germany, a recent nationwide study shows that the large variance in municipal regulation of criteria for 'appropriate' housing costs for benefit recipients seems not to follow this pattern (BBR, forthcoming). Differences in local political priorities have a considerable influence on the generosity of existing ceilings. There is also some evidence that regulations in rural counties are on the whole more restrictive than those in large cities (Holm, 2006; Busch-Geertsema, 2008).

For some of those entitled to Hartz IV benefits, it is now easier for local authorities to transfer their housing benefits directly to landlords than it was before 2005, and this has counteracted some of the negative effects of the reform that led to an increased risk of eviction. The risk of eviction is increased by virtue of the fact that most recipients living in housing that exceeds the appropriate cost ceiling bear part of their housing costs themselves. Very little data are available so far, but a special analysis of the Federal Employment Agency for April 2006 showed that 12.7 per cent of recipients (accounting for almost one million persons in more than half a million households) did not have their actual housing costs fully covered (Bundesagentur für Arbeit, 2006; Busch-Geertsema, 2008).

If those living in housing deemed 'too expensive' by local authorities accumulate rent arrears, the threat of homelessness is even higher for them because those rent arrears cannot be paid by prevention offices (as the rents are not appropriate, intervention is therefore not mandated by the existing legislation).<sup>10</sup> However, until recently there has been no empirical evidence of a nationwide increase in evictions. On the contrary, the figures available from several municipal prevention services

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<sup>10</sup> For more details on prevention in Germany, see Busch-Geertsema and Fitzpatrick, 2008.

show a decrease in cases of eviction, which might be explained by the improved provisions for direct payments to landlords mentioned earlier (Busch-Geertsema and Evers, 2007; Busch-Geertsema, 2008).

## Activation Policies

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In both Denmark and Germany there has been increased emphasis on active labour market policies. The Danish system has generally been more oriented towards enabling elements and the German system has been more oriented towards workfare elements. However, in both countries the move has been towards increased demands for the unemployed to be at the disposal of the labour market. Thus, reforms of activation policies in both Denmark and Germany encompass strong workfare elements aimed at increasing incentives for labour participation. The increased emphasis on labour market activation has been particularly evident in Denmark.

The use of sanctions has come to play a stronger role in both countries, though the Danish system places more emphasis on the enabling elements. Labour market activation programmes generally create potential for social inclusion, as access to the labour market also means access to new social networks, income etc., but at the same time activation programmes, and particularly the classificatory and punitive elements, involve the risk of reinforcing social exclusion. The examples from both Denmark and Germany suggest that most homeless people are in a marginal position with regard to the labour market. For these groups the challenge is not only to improve labour market accessibility but also to avoid situations in which the punitive elements may actually reinforce social marginalisation. Establishing alternatives for social activities in everyday life for those who do not have the personal resources to participate in activation programmes is an important element of inclusionary social policies for the most marginal groups.

### *Denmark*

The reforms carried out by the social-democratic government from the mid-1990s onwards were generally characterised by strong enabling elements with a focus on training, activation courses and re-qualification of low-skilled workers. The general course of active labour market policies remained unchanged following a change in government in 2001 when a liberal-conservative coalition came into power, but an increased focus on workfare elements can also be identified.

The unemployed were categorised into five 'match groups' in 2004. Match Groups I to III consist of individuals who are labour market ready, whereas Match Groups IV and V consist of individuals who are found not to be labour market ready. One aim of the classification system is to match people to activation interventions

according to both individual resources and limitations. However, tighter measures of duties and sanctions have also gradually been imposed. For individuals who refuse to undergo obligatory activation schemes, cash benefits can generally be withdrawn. More specific measures have also been taken, including the so-called 300-hour rule, which states that couples in which both persons are cash benefit recipients must have completed at least 300 hours of ordinary work within a period of two years in order to benefit. Failing this, one person will lose the cash benefit and only the person who is considered 'closest' to the labour market will receive the remaining benefit (Law of Active Social Policy).<sup>11</sup>

Though policies contain strong workfare elements it has also been recognised in official government documents that the road to employment can be long, and that for the most vulnerable groups social activation will often start outside the labour market. This was expressed in the programme Social Responsibility II, where one of the aims was to strengthen alternatives for social activities in everyday life for the most marginal groups, for instance by strengthening social activities in drop-in cafés on the local level.

The increased emphasis on activation involves certain dilemmas for marginal groups, as activation policies have potential for both social inclusion and social exclusion. Targeted intervention allows those with a long history of exclusion from the working sphere the chance to re-enter the labour market, however, there is a risk of putting increased pressure for activation on people with relatively weak personal resources, especially if classification procedures are not sufficiently efficient and misclassification occurs. There is also a risk of classifying people as unfit to work and thereby excluding them from more intensive interventions mainly aimed at people with higher job chances.

In a recent survey 51 per cent of the interviewed recipients of social cash benefits belonged to Match Groups IV and V (Bach and Petersen, 2007). Match Group V (to which 16 per cent of cash benefit recipients belonged) is defined as pertaining to people with such severe limitations in their competence and resources that they have no work capabilities that can be used in the labour market. In this group 28 per cent were found to have a mental illness and 34 per cent had problems with alcohol and/or substance abuse.

Another report concluded that the most intensive activation efforts were aimed at people in Match Groups I to III; those who are closer to the labour market in terms of their personal resources etc., and that only sparse efforts were made to improve the labour market skills of those classified into Match Groups IV and V (Hohnen et

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<sup>11</sup> <https://www.retsinformation.dk/Forms/R0710.aspx?id=113596>

al., 2007). In 2008 it also became mandatory to activate people classified as belonging to Match Groups IV and V, with interventions such as substance abuse treatment, physical rehabilitation and so on now counting as activation.

There are no specific studies that show the distribution of homeless persons within the match groups, but it is reasonable to assume that many people experiencing homelessness are categorised in Match Groups IV and V. The national count of homeless persons in Denmark in 2009 showed that 14 per cent of all homeless persons were in activation programmes, up from 10 per cent in 2007 (Benjaminsen, 2009). However, the rates are still low, suggesting that exclusion is a predominant factor. A study of substance abuse treatment found that 29 per cent of active substance users had undergone job-related activation during their current treatment course: 25 per cent said that they benefited from the activation while 41 per cent said that activation had harmed their situation (Benjaminsen et al. 2009). Of those substance users who were employed, 63 per cent found that activation had improved their social situation; whereas of those still receiving cash benefits, only 21 per cent said that activation had improved their situation.

The changes in activation laws have been accompanied by organisational changes, for instance in job centres, and in many cases the individual now has to face several social workers, job consultants etc., each of whom has partial discretion over aspects of the individual's life.

The dilemmas underline the challenge to ensure that activation measures do not interfere negatively with other kinds of social interventions and they illustrate how there may be underlying conflicts between the intentions of activation laws and other social laws. In this way activation policies involve potential for both social inclusion and social exclusion as seen from the level of the individual, and the result depends on how activation policies are administered and how well they are integrated into the provision of other social services and interventions.

### *Germany*

In Germany the implementation of the Hartz reforms was announced under the slogan '*Fördern und Fordern*' (Promoting and Demanding). Many experts agree that the demanding part has been taken much more seriously, and is more dominant in legislation and practice, than the promoting element (Völker, 2005; Dingeldey, 2006 and 2007). Promoting activation and quick job placement is difficult in a country where the number of unemployed people fit for work amounts to several million while the number of regular job vacancies is less than a few hundred thousand at any point in time (in 2008, while still in the economic boom, there were never more than 400,000 job vacancies per month). Lessenich (2005) called this promotion of 'activation without work' the new dilemma of the conservative welfare state. While

'incentives to work' and active search efforts are promoted and demanded there are no complementary efforts to create an active and wide-ranging labour market policy offering regular jobs. The unemployed are kept 'in search of the lost employment', and unemployment as a structural problem is 'subjectivised' by the constant assumption that individual searching efforts have to be improved (Ludwig-Mayerhofer et al., 2009).

While Hartz IV was introduced with a promise to open up all instruments for the promotion of employment to the long-term unemployed, in reality qualification schemes were cut down to a large extent and the main type of employment schemes available to SGB II recipients are short-term training courses for job applications and the so-called 'one-euro-jobs'. The reason for this name is that participants in these employment schemes do not earn a wage; instead they continue to receive their minimum benefit but with a small supplement of about one euro per hour (increasingly nowadays €1.50 to €2.00) added as 'compensation'. By law these jobs, usually time restricted to six to twelve months and explicitly exempt from usual labour regulations, have to be of public utility and must not replace regular jobs, though the reality is that they do in at least some cases (Wiedemeyer and Diemer, 2007). Originally presented as a last resort for those not able to find regular employment by any other measure, this job offer has become the predominant type of provision offered to recipients of SGB II payments. At the end of 2008 almost 300,000 persons were working in 'one-euro-jobs'.

The success rate of these schemes in transferring participants into the regular job market is relatively low (between 5 and 15 per cent). Nevertheless many recipients are very eager to get one of these jobs, as they wish to work and supplement their existing benefit. This also demonstrates that the widespread assumption about most needy people being unwilling to work is not grounded in empirical evidence (Wiedemeyer and Diemer, 2007; Ludwig-Mayerhofer et al., 2009).

Administrative attempts to categorise the unemployed in Germany are similar to those already described for Denmark: since 2007 unemployed recipients of SGB II payments have been separated into four 'support categories' (*Betreuungsstufen*; see Bundesagentur für Arbeit, 2007; Ludwig-Mayerhofer et al., 2009, pp.45–46) and most homeless people will probably be categorised under the category called IF (*Integrationsfern*: not ready for regular employment – several severe restrictions, no orientation (yet) on the labour market).

Section 15 of the legislation (SGB II) stipulates that an inclusion agreement (*Eingliederungsvereinbarung*) should be made with all benefit recipients able to work. If they fail to comply with their agreed duties (e.g. of actively applying for jobs), fail to accept a job offer or fail to give a reason for dismissal from a job or training scheme, they face potentially harsh sanctions. Usually benefits are cut by 30 per



cent over a period of three months. In repeat cases (during a period of one year following the beginning of the first sanction) the cut is increased to 60 or even 100 per cent. Young people will have their benefit for living expenses other than housing completely cut by a first sanction. In repeat cases the sanction extends to housing costs. The sanction period may be reduced to six weeks instead of three months in cases where young people clearly demonstrate willingness to comply with regulations after being given the sanction (this is only possible for young people under the age of twenty-five).

According to a special statistical analysis of sanctions under SGB II in October 2006, more than 125,000 sanctions were 'activated' during this month. As some recipients had more than one sanction it was calculated that about 95,000 recipients who were fit for work had at least one sanction.<sup>12</sup> Of all unemployed persons receiving benefits under SGB II, 2.5 per cent had at least one sanction, while the share was 7.2 per cent among the unemployed recipients aged under twenty-five. Unemployed men had considerably more sanctions than women (3.2 per cent versus 1.5 per cent, see Bundesagentur für Arbeit, 2007). By September 2007 the share of recipients who had been given a sanction had increased considerably (overall by about 30 per cent since October 2006, see Deutscher Bundestag, 2008). It is clear that increased pressure to reduce the total amount of financial benefits is a driving force in the growing number of sanctions.

There has been no specific analysis of sanctions against homeless people, nor has there been any systematic evaluation of the impact of sanctions on rent arrears and evictions. As many homeless people have several severe disabilities and very low chances of integration into the regular job market, a 'one-euro-job' is often the only realistic option for them (Busch-Geertsema and Evers, 2007). Interviews with service providers for homeless persons regarding the effects of the new legislation on homeless people show diverging assessments: some state that efforts to provide adequate schemes for this target group have improved, and that homeless people are less excluded than before from approaches 'to providing something meaningful to do'. Others state that, among the huge numbers of job seekers in receipt of benefits under SGB II, homeless persons are still one of the groups with the lowest chances of getting an adequate offer. It is clear that homeless people are particularly vulnerable to sanctions, and the 'big hole' that is experienced after the completion of a time limited 'one-euro-job' is often reported as being very

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<sup>12</sup> Note that not all sanctions imply a cut of 30 per cent or more of the benefit. There are also sanctions for failing to keep appointments with the SGB II administration, medical services and so on. In these cases the first sanction reduces the benefit by 10 per cent, in repeat cases it is reduced by 20 per cent etc. About half of all sanctions are sanctions of this type.

frustrating. The predominant target of SGB II (placement in regular employment) is unrealistic for the majority of homeless people, many of whom need long-term job opportunities which need to be heavily subsidised by public money.

2007 saw a clear paradigm shift in German employment policy and the legislation was changed to provide long-term subsidised employment to a very restricted target group of unemployed people with extremely low chances of integration into the regular labour market. Many homeless persons would fit the definition of the target group for this type of provision, but there is widespread criticism among NGOs that the regulations for creating such jobs still require co-funding of at least 25 per cent of wage costs by employers, while the productivity of members of the target group is, in many cases, actually lower than that.

## **High-Risk Policies for the Young ?**

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The labour market reforms in Denmark and Germany involve specific measures aimed at young people to increase incentives for labour market participation and education. In both countries reduced benefits and the increased use of sanctions have been aimed at the young unemployed. It is probable that an unintended consequence of this for socially vulnerable young people is an increased risk of homelessness, as the likelihood of finding affordable housing will decrease in tandem with reduced benefits. From a preventive perspective, the harsher policies aimed at the young equate to a high-risk strategy, which for the most marginal groups may actually increase the risk of social exclusion.

### ***Denmark***

In Denmark reduced social benefits for people under the age of twenty-five were introduced in 1996. Both the unemployment benefit for the insured and cash benefits for the uninsured under twenty-five years were set at a lower rate than for recipients aged over twenty-five. The cash benefits for young people under twenty-five without dependent children have been set at the same rate as study benefits for students in order to motivate young people to participate in education. However, whereas most students have additional employment to supplement their study benefits, any additional income will only reduce the benefit to cash benefit receivers except for a small retention.

A criticism of this legislation was that the opportunities for education and employment are lower for socially vulnerable young people than for other young people, and that the law actually creates a poverty trap for them rather than increasing incentives (for education and employment). This led to a change being introduced into the law in 2007, providing a higher level of benefit for young people under the

age of twenty-five who have been diagnosed within the spectrum of schizophrenia. The benefit level for this group was raised to the same level as adults over twenty-five years.

The effects of reduced benefits on educational and employment opportunities among the young are generally difficult to identify. However, youth unemployment in Denmark is generally quite low with an official unemployment rate among the sixteen to twenty-four year olds of 3.1 per cent (Statistics Denmark, 2009). The Danish national count of homeless persons in 2009 showed that 23 per cent of the homeless population is between eighteen and twenty-nine years of age and that 13 per cent are aged between eighteen and twenty-four (Benjaminsen, 2009). It also showed that the highest number of 'couch surfers', those living temporarily and without a lease in the homes of friends or family, is found among young homeless people. In addition there is a lower prevalence of substance abuse among homeless young people, and a higher prevalence where a 'housing shortage in the local municipality' (rather than individual vulnerabilities) is cited as an important reason for an individual being homeless.

These results indicate that structural conditions, including the interplay of benefit levels and a shortage of affordable housing, particularly affect young people. Furthermore, in an evaluation of the so-called 'city programme', which aimed at improving social services for vulnerable groups in the six largest Danish cities, many local service providers and other local actors argued that it was particularly difficult for young homeless people to find affordable housing (Benjaminsen et al., 2006).

### *Germany*

As we have seen, sanctions for young people aged under twenty-five are significantly harsher than for others under the SGB II legislation. On the other hand this is the only group whose members must, by law, be immediately offered a place either in a qualification or employment scheme on their application to the Federal Employment Agency. Generally the ratio of case workers per job seeker is also much better than for other SGB II recipients, the target being one case worker for seventy-five unemployed young persons.

Young people under twenty-five years can only have housing costs for a home of their own covered if they are found to have special needs that justify their inability to live with their parents. The majority are forced to live with their parents until the age of twenty-five. Previous periods of homelessness will generally qualify a person to get housing costs covered as long as local authorities do not suspect that homelessness was chosen as a route to independent living.

Many experts criticise the 'Bermuda Triangle' of provision for vulnerable young people in difficulties (being referred from one legal provision to the next between SGB II, VIII and XII; Claus, 2008; Steinbrenner, 2008): as clients of SGB II job or training schemes they often fail to comply with the regulations and face severe sanctions. The provision of youth welfare should be the priority (individual entitlement to 'support for young adults' according to Section 41 of SGB VIII), but provision is very often denied using the argument that young people reject education and are only interested in financial support. Provision of 'support for people in special social difficulties' (the 'homeless section' of SGB XII) is also denied because of the legal priority of youth welfare measures until at least the age of twenty-one and because many young homeless people are very clearly in need of education. So they are often referred back to the youth welfare agencies that reject(ed) them because of their alleged resistance to accept pedagogical intervention.

There are several indicators pointing to a small but growing number of young people who drop out of the system completely and try to secure their subsistence by other means (selling street papers, begging, prostitution, drug dealing and other illegal activities). According to service providers the share of young people among their homeless clients is still increasing despite general demographic developments in the opposite direction (an increase in the number of older people and a decrease in the number of young people; see Szyńska, 2008). In the city of Hamburg the number of young people aged under twenty-five using municipal emergency shelters was 340 at the beginning of 2008 compared with 200 in 2006.<sup>13</sup>

## Conclusion

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In both Denmark and Germany the homeless population is generally characterised by very weak ties with the labour market. This suggests that homelessness in these countries mainly arises as a consequence of extreme marginalisation and severe vulnerabilities and disabilities, rather than from a general housing problem, although barriers to accessing the housing market can impact heavily on the exclusion of marginalised groups from regular housing.

Statistics on sources of income among the homeless population in both countries show that very few are in receipt of any income from work-based activities or insurance-based unemployment benefits. Instead, most homeless people belong to groups receiving means-tested cash benefits (Hartz IV in Germany). However, in Denmark we see a relatively high proportion of homeless persons on early retirement benefits and who thereby receive a higher benefit level and are not exposed to the demands of active labour market policies. This may reflect the underlying

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<sup>13</sup> *Hinz und Kunzt* 193, March 2009, p.17.

divergence in welfare regimes between the two countries as a higher proportion among the most marginalised groups are covered by permanent economic support and are not required to be at the disposal of the labour market in Denmark. However, the fact that some of these individuals are still homeless suggests that there remains a challenge to provide sufficient social support for this group, many of whom are mentally ill substance users.

Though homeless persons are to a large extent excluded from the labour market, they are highly susceptible to changes in labour market policies due to their general dependence on public transfer benefits and the conditions placed on receiving them. Examples from policy developments in both Denmark and Germany illustrate the possible adverse effects of changes in labour market policies on socially marginal groups. Active labour market policies have the potential to foster social inclusion, as the enabling elements of such policies may bring new possibilities and resources to individuals with a weak attachment to the labour market. However, increased emphasis on workfare elements and reforms of social benefit systems run the risk of increasing social exclusion for those individuals with the weakest chances on the labour market.

The way in which housing costs are covered within the social benefit system is a crucial aspect when it comes to the risk of homelessness. The comparison of Denmark and Germany shows how both a unitary benefit system (in Denmark) and a system that separates payment of housing costs and other living expenditure (as in Germany) can lead to unintended consequences in terms of how housing costs are met by benefit recipients. Both systems are susceptible to local variations in housing costs. In Denmark the system does not take into account the considerable variations in rent levels between urban centres and provincial areas, and in Germany the system is vulnerable to local variations in administrative practices in setting what are deemed to be appropriate housing costs. The examples also show how adverse effects may work on different levels; from direct structural effects such as the difficulties of finding affordable housing on reduced benefits, to more subtle mechanisms and the interplay of individual vulnerabilities such as the example in the Danish case of a possible disincentive for rough sleepers to use hostels.

In both countries particular labour market policies have been aimed at the young and reduced benefits apply to the young unemployed. The aim is to provide increased incentives for young people to participate in the labour market or educational activities. This paper does not assess the broader success of these policies for the young, but shows that for young people in a socially marginal situation the question may be raised of whether these policies actually increase the risk of

extreme marginalisation and may therefore be characterised as high-risk policies for socially vulnerable young people. The introduction of reduced benefits for the young points to a convergence in policies.

There are also points of divergence. In Germany housing costs cannot generally be covered for young people living on their own if they are not found to have extenuating circumstances. In Denmark there are no specific conditions attached to the housing costs of young people but the costs must be paid out of reduced benefits, which poses a general challenge for the young to find affordable housing. At the same time the Danish case shows that it is possible to differentiate policies according to the conditions of the most vulnerable groups, as young people with the most severe psychiatric diagnosis are exempt from reduced benefits.

For the majority of homeless people in both countries the focus of activation policies on integration into the regular job market is not realistic. Long-term subsidised job schemes and alternative social activities in everyday life for those who do not have the personal resources to follow activation programmes are important elements in inclusionary social policies for the most marginal groups.

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