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## Job entry and the ways out of benefit receipt of young adults in Germany

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# IAB-Discussion Paper

16/2009

Articles on labour market issues

## Job entry and the ways out of benefit receipt of young adults in Germany

Brigitte Schels

# Job entry and the ways out of benefit receipt of young adults in Germany

Brigitte Schels (IAB)

Mit der Reihe „IAB-Discussion Paper“ will das Forschungsinstitut der Bundesagentur für Arbeit den Dialog mit der externen Wissenschaft intensivieren. Durch die rasche Verbreitung von Forschungsergebnissen über das Internet soll noch vor Drucklegung Kritik angeregt und Qualität gesichert werden.

The “IAB-Discussion Paper” is published by the research institute of the German Federal Employment Agency in order to intensify the dialogue with the scientific community. The prompt publication of the latest research results via the internet intends to stimulate criticism and to ensure research quality at an early stage before printing.

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## **Abstract**

The study explores the way out of benefit receipt by labour market integration of young adults in Germany. Under 25-year-olds are a target group of the German social policy. If they rely on the payment of social benefits a prompt integration into employment or training is the main priority. The aim is to prevent young people from long-term benefit dependency. The causes of long-term benefit receipt can be discussed from different perspectives: Based on diverse labour market theories, poor perspectives of young benefit recipients can depend on low labour market opportunities. But in the political and public discourse in Germany, long-term benefit receipt of young adults is mostly regarded as the consequence of young people's low labour supply and resignation in benefit dependency. The article examines the chances to leave benefit dependency by labour market integration of about 650 18- to 24-year-old benefit recipients in 2005. The analysis is based on the survey "Life Circumstances and Social Security 2005" of the Institute for Employment Research (IAB) in Germany and on longitudinal register data of the Federal Employment Agency for three years, 2005 to 2007. The analyses show that most young benefit recipients enter a job or training during the observed period of time; though in many cases young adults keep on receiving benefits. Long-term benefit dependency is predominantly a matter of poor job prospects of low qualified young people and young single parents. But there is no evidence that ongoing benefit claims may go hand in hand with young people's poor labour supply.

## **Zusammenfassung**

Die Studie betrachtet die Ausstiegswege junger Erwachsener aus dem Arbeitslosengeld-II-Bezug über den Arbeitsmarkt. Unter 25-Jährige sind eine besondere Zielgruppe der deutschen Sozialpolitik: Um längerfristige Abhängigkeit von sozialstaatlichen Leistungsbezug zu vermeiden, sollen junge Hilfeempfänger so schnell wie möglich in Beschäftigung oder Ausbildung vermittelt werden. Das Risiko einer Verfestigung im Hilfebezug wird aus unterschiedlichen Perspektiven diskutiert: Basierend auf arbeitsmarkttheoretischen Überlegungen kann längerer Hilfebezug auf geringe Opportunitätsstrukturen von jungen Leistungsbeziehern auf dem Arbeitsmarkt zurückgeführt werden. Dagegen wird in der politischen und öffentlichen Diskussion in Deutschland häufig angeführt, dass die jungen Leistungsempfänger nur ein geringes Arbeitsangebot zeigen würden und sich auf Dauer im Hilfebezug einrichten. Dieser Artikel untersucht die Chancen von rund 650 18- bis 24-jährigen Arbeitslosengeld-II-Beziehern im Januar 2005, den Hilfebezug über eine Integration in den Arbeitsmarkt zu beenden. Die Analysen basieren auf der Studie „Lebenssituation und Soziale Sicherheit 2005“ des Instituts für Arbeitsmarkt- und Berufsforschung (IAB) und administrativen Längsschnittdaten der Bundesagentur für Arbeit über drei Jahre, 2005 bis 2007. Die Ergebnisse zeigen, dass die meisten jungen Hilfeempfänger im Beobachtungszeitraum einen Job oder eine Ausbildung aufnehmen. Den-

noch beziehen viele von ihnen weiterhin Arbeitslosengeld II. Längerer Hilfebezug erscheint in erster Linie als Konsequenz der eingeschränkten Arbeitsmarktperspektiven gering qualifizierter junger Erwachsener und junger Alleinerziehenden. Dagegen zeigen sich keine Hinweise, dass längerer Hilfebezug mit einem geringen Arbeitsangebot seitens der jungen Hilfebezieher zusammenhängt.

**JEL classification:** I13, J2, J13

**Keywords:** welfare, employment, young adulthood

# 1 Introduction

Social policy in Germany, as in other European welfare states, focuses on the special needs of young people in risk of poverty and labour market exclusion. Benefit receipt concerns a notable number of young people in Germany: Over the years 2005 to 2007 – the reference period of this study – consistently roughly one million 15- to 24-year-olds received benefits (German Federal Employment Agency 2008); this approximates 10 per cent of all young people in this age group (Popp/Schels 2008). Nevertheless, very little empirical research has assessed poverty and benefit claims during the transition to adulthood. The existing literature discusses various causes for young adults' financial hardship (Aassve et al. 2006; Reinowski/Steiner 2005): Young people can claim financial help due to prolonged school or training, during unemployment or when they have established their own family but do not earn sufficient money. They can overcome financial problems by employment integration and rising incomes with proceeding employment experience. Following this perspective, social benefit dependency of young adults is regarded as a transitory experience.

But if young people fail to establish in stable employment they face a high risk for recurrent unemployment and long-term social benefit dependency (Kieselbach 2003; see also Bradley et al. 2003; Gallie et al. 2003 for the connection of social exclusion and labour market transitions in general). Long-term benefit dependency during the vulnerable transition to adulthood is suggested to be a grave experience (France 2008; Furlong 2000): Financial hardship may constrain the scope for young adults' demanding familial and employment decisions and their development opportunities. Additionally, previous research on the personal consequences of longer social benefit receipt among adults in Germany has shown that the individual chances to escape benefit claims decrease over time and further material, social and psychological stress may arise (Buhr 1995). Therefore the concern of the political discourse in Germany is that young people with low perspectives may withdraw from the labour market and resign to benefit dependency.

In spite of the political consideration, the empirical questions how long young people depend on social benefits and if they can enter the labour market are still lacking an answer. Hence, this study addresses following main issue for young social benefit recipients in Germany: Which factors influence young adults' chances to leave benefit dependency by labour market integration? This information is substantial for social policies: Prospective activation and support for the special needs would be certainly important for young benefit recipients at risk of longer benefit receipt than for young people in transitory benefit claims. Furthermore, it is important information if longer benefit dependency and labour market inactivity are caused by individual deficits that can be directly diminished by activation policies, e.g. further training, or by social and familial reasons (Heady 1997).

Therefore this study examines the labour market transitions of 18- to 24-year-old social benefit recipients in Germany of 2005 by using a survey on benefit recipients

and administrative data on their employment and benefit biography for three years. It assesses the dynamics of poverty during the life stage of education and labour market entry. It contributes aspects of poverty to the existing empirical literature on school-to-work transitions in Germany. Poverty is defined as a household's necessity to claim a state provided socio-economic existence minimum. The concept refers to the current German benefit system that was introduced in 2005 by the so called "Hartz IV" reforms<sup>1</sup> and combines former unemployment and social assistance<sup>2</sup>. The newly introduced social benefit provides an ultimate means-tested basic income subsidy for 15- to 64-year-olds capable of working and their households on missing or inadequate incomes (Eichhorst et al. 2006). Activation policies play a decisive role within the German social benefit system. In general, a prompt integration into employment is seen as the best way to counteract long-term benefit dependency. And every job – with little exceptions – is reasonable. Under 25-year-olds are a specific target group because early interventions during the transition to adulthood are considered to be particularly effective (Möhring-Hesse 2006): Young benefit recipients should receive placement offers or qualification schemes within a short time not to get accustomed to labour market inactivity. As individual shortfalls in education are central causes for labour market problems, low qualified young people should primarily be integrated in further qualification. Furthermore, if young people are not willing to engage actively in their integration process financial sanctions can be stricter than those addressing elder benefit recipients. So, activation policies aim to support the labour market integration of young adults by qualification and employment schemes as well as by strong measures of control.

The article is organized as follows: According to the national focus of this study, the following section summarises the facts about young German benefit recipients and refers to existing empirical evidence. Section 3 discusses several theoretical aspects. Section 4 provides information about the data and methods used for this analysis. The results are presented in section 5. Section 6 gives a summary and concluding remark.

## **2 Benefit dependency of young adults in Germany – facts and empirical findings**

Benefit receipt of young adults can be related to several reasons. A study considering the living conditions of 18- to 24-year-old benefit recipients in Germany in January 2005 shows that about one-third were unemployed; additionally one-tenth participated in qualification schemes (table 1). Furthermore employees with insufficient

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<sup>1</sup> Introduced by the "Fourth Act for Modern Services in the Labour Market" (Viertes Gesetz für moderne Dienstleistungen am Arbeitsmarkt) of December 2003.

<sup>2</sup> Former unemployment assistance was a means-tested, but earnings-related benefit for long-term unemployed with prior employment experience after the expiry of unemployment insurance benefits. Social assistance was a means-tested basic income protection for people who could not rely on sufficient financial resources from employment, other social benefits or family transfers.



earnings can be supported by the social benefit as well; this constellation accounts for less than one-tenth of the young benefit clients in January 2005 (Popp et al. 2006). Beside poor individual labour market perspectives, benefit receipt of young adults can also be caused by the familial situation. Over all about one-third of the young benefit recipients live together with an unemployed parent or partner (Popp/Schels 2008). The young people themselves may be in various further activities: One-third of the 18- to 24-year-old benefit recipients in January 2005 were attending school or vocational training and almost one-tenth were on parental leave (Popp et al. 2006).

**Table 1**  
**Labour market status of 18- to 24-year-old benefit recipients in January 2005**  
**(weighted per cent, n=1783)**

labour market status	%
unemployed	36.9
student	20.7
scheme participation	12.4
trainee	11.7
on parental leave	8.8
employee	6.2
else	3.2
total	100.0

source: Popp et al. 2006

Although there is no empirical work on the labour market transitions of young benefit recipients yet, some figures indicate that unemployment, poor qualifications and the risk of benefit receipt are strongly linked to each other. About one-fifth of the young unemployed benefit recipients in January 2005 were without school leaving certificate, furthermore two-third had no vocational degree (yet) (Popp et al. 2006). The share of low-skilled people in the group of young benefit recipients is above the average of the overall under-25-year-old German population: In comparison, less than one-tenth of all school leavers in 2004 finished general education without a degree; furthermore, one-half of all under-25-year-olds in 2004 were without vocational degree (German Consortium for Coverage of Education 2006). In particular, young people with low educational background may face discontinuous labour market careers (Solga 2008): Young people with poor qualifications have limited access to training placements or higher education (Baethge et al. 2007; German Consortium for Coverage of Education 2008), are more often unemployed or enter the labour market in poor work or temporary jobs (Lauterbach/Sacher 2001; McGinnity et al. 2005; Scherer 2001; Konietzka 2003). Furthermore young people experiencing long-term unemployment are at risk for limited job and earnings perspectives (Dietrich/Kleinert 2005; Lauterbach/Sacher 2001; Scherer 2004a). Young adults growing up in poor families and with parental unemployment may in particular cumulate labour market risks as they achieve lower levels of education (e.g. Baumert et al. 2006; Becker 2000; Becker/Nietfeld 1999; Krug/Popp 2008; Stocké 2007) and become unemployed themselves more often (McGinnity/Hillmert 2004; Scherer 2004b). The well-developed research on the school-to-work transitions of young

Germans is not linked to issues of financial hardship and benefit receipt yet. But the literature provides at least some important information as in the field of social research benefit receipt is mainly discussed in the context of individual labour market risks and perspectives.

Unemployment and poor work are the main causes for poverty and benefit dependency in Germany in general (Buhr 1995; German Government 2008); and integration into employment is one of the most important ways out of benefit dependency for 18- to 64-year-olds (Buhr 1995; Gangl 1998; Gebauer 2007; Gebauer et al. 2003<sup>3</sup>). As these studies focus on the adult population in benefit receipt, leaving benefit dependency by training is relevant for a very little share of them (Buhr 1995). But this possibility might become important when concentrating on young people. Results show that quitting a living on benefits is mainly a matter of first, individual qualifications, second, of the familial situation and third, of economic cycles. People with poor qualifications as well as with families receive social benefits for an above average time (Andreß/Strengmann-Kuhn 1997; Buhr/Weber 1998; Gangl 1998; Gebauer 2007). Therefore the studies conclude that longer benefit dependency is the consequence of missing labour market opportunities in most cases. In contrast, some studies underline that the labour supply of benefit recipients matters as well and that it depends on the individual financial situation and the personal wage expectations (Schneider/Uhlendorff 2005; Schwarze/Raderschall 2002).

Previous German studies report just a few particular findings about the ways out of benefit receipt of young people. Buhr (1995) has shown that under 20-year-old benefit clients depend on social assistance longer than the average population. The author relates this finding to difficulties during the school-to-work transition but does not argue in further detail. Furthermore, Gangl (1998) and Gebauer (2007) focus on getting out of benefit claims by full-time employment; they show that the chances are better for young adults than for people in the thirties or forties. This result reflects a higher general labour market mobility of young people. Furthermore, Gangl (1998) considers rising earnings of employed benefit clients as an alternative exit options. In this scenario, young people are not better off in comparison to elder benefit recipients. However, the author does not discuss any further that due to low training fares and starting salaries young adults may face a higher risk to experience poor work and benefit dependency even though being employed.

Summing up so far, there exists a demand for detailed empirical information on young social benefit recipients. Therefore this article analyses the ways out of benefit receipt of young adults by labour market integration and considers the possibility that young adults might experience ongoing benefit receipt despite employment.

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<sup>3</sup> The presented studies in this section refer to previous social assistance recipients.

### 3 Theoretical perspectives on labour market processes and leaving benefit dependency

Theoretical considerations have to ask for the mechanisms beyond the process of becoming independent from or dependent on social benefits. Which young benefit recipients can take up vocational training or employment in general; and especially gainful training or employment that contributes to a household income covering the social existence minimum? Economic labour market theories matter as well as considerations about poor people's labour market behaviour (according to Gangl 1998). Hence, the following section refers to first, matching processes on the labour market, second, the individual labour market behaviour in the benefit system and familial context and third, the individual familial resources for job entry by social origin. On the basis of the different lines of theoretical arguments, hypotheses are drawn for the empirical analysis.

#### *Matching processes on the labour market*

Leaving benefit dependency by labour market integration is based on a matching process that depends first, on the demand for employees' labour market resources and second, the individual labour supply (Sørensen/Kalleberg 1994). Individual resources, which matter for the matching process, are accentuated by screening and signalling theories (Stiglitz 1975; Spence 1973). On the one hand employers use easily observable indicators to infer differences in productivity among potential employees to minimize their risk for bad matches; on the other hand they reward accumulated resources by gainful job positions e.g. with good earnings. Qualifications and job experience are indispensable labour market resources as they are used as indicators for individual productivity according to human capital theory (Becker 1962). Young people with employment experience have already sustained their position on the labour market; that is a positive signal for further jobs (Bynner 1998). In contrast, times of economic inactivity — especially long-term unemployment — lead to human capital depreciation (Mincer/Ofek 1982). This may go hand in hand with sorting out processes due to negative signalling.

Beside qualifications and employment experience, personal ascriptive characteristics are used as observable productivity indicators in the recruiting process as well. If a potential employee belongs to a subgroup of which the employer has statistic information about the average labour market productivity this average productivity is ascribed to the job candidate. Employers assess his productivity by statistical discrimination (Aigner/Cain 1977, Arrow 1975). Relevant subgroups are e.g. defined by gender or migration background meaning that females and migrants are disadvantaged labour market groups (Phelps 1972). Assuming a lower productivity, employers will not recruit young women and migrants or just offer low paid and unqualified job positions. These poor employment prospects may go hand in hand with risks of longer benefit dependency.

These arguments mostly refer to employment entries; but labour market integration of young benefit recipients may also subsume vocational training that it is a crucial

career move for future employment opportunities. In Germany the structures of the vocational training system - in firm-based training, vocational schools or universities – is matched on previous schooling (e.g. Allmendinger/Hinz 1998). In particular, the recruitment of trainees for firm-based training is contingent on the employer's productivity assumptions (Lex 1997). Over all, low qualified school graduates have limited training possibilities and are often supported by training schemes (Antoni et al. 2007; German Consortium for Coverage of Education 2008). Doubtless, an entry into vocational training is not accompanied by sharp financial gains comparable to employment. But the chances to leave benefit receipt are given by state training allowances depending on the household situation that are prior to social benefit receipt.

The matching process of benefit recipients on the labour market is partly restricted by the institutional arrangements in the benefit system. Though a prompt integration into the labour market is the prior aim, two subgroups are excluded from the responsibilities to engage in the job search and integration process for different reasons (Second Book of the Social Security Code). First, these are students and trainees anticipating better labour market prospects after graduation: The benefit system supports them as long they follow education and their families cannot meet the basic needs on their own. Second, benefit recipients have got the scope to address their selves to familial commitments under certain conditions: This is the case for parents caring for their own children below the age of three as the well-being of the children has priority; but as well for people attending relatives.

According to the presented perspectives, the opportunity structures for employment and vocational training depend on individual resources and characteristics and therefore can be assigned for the exit options from benefit dependency in particular. Various subgroups among the young social benefit recipients may have privileged chances and high incentives to take up employment and leave benefit dependency. The presented considerations lead to following hypotheses:

- Assuming privileged recruiting and training perspectives and access to advantaged job positions for skilled and experienced people one can expect that qualifications and labour market experience may accelerate young people's chances to leave benefit dependency. In contrast, low qualified and young adults with unemployment experience should face low chances to leave benefit dependency by labour market integration due to negative signalling.
- Young migrants and women are disadvantaged subgroups on the labour market by statistical discrimination. They may experience lower chances to leave benefit dependency by labour market integration than non-migrants or men.
- Students, trainees and young adults on parental leave, are currently not involved in job search duties and therefore are less likely to leave benefits claims by employment or training compared with unemployed or employed benefit recipients.

### *Labour market behaviour of benefit recipients in the benefit system and familial context*

The presented labour market theories do not consider that the labour market behaviour of the benefit recipients may be influenced by the experiences of poverty. Thus, the discourse on welfarisation offers an additional perspective on the labour market situation of young people in benefit receipt: It argues that people trapped in poverty, often show a low labour supply. Rational choice approaches offer an explanation assuming that benefit recipients trade their costs and utilities of ongoing benefit dependency against taking up employment off. In this scenario, employment is attractive if people can raise their income situation significantly; job offers with poor perspectives would be denied. Literature mostly addresses this issue by both economic reservations wage models (e.g. Cahuc/Zylerberg 2004: 115 f) and socio-political wage gap principle (e.g. Gebauer et al. 2003). In contrast, the concept of learned helplessness as a socio-psychological approach refers to a discouraging process and not to a conscious utilization of the social benefits as assumed by the rational choice perspective (Leisering/Voges 1992). Much more it is assumed that long-term and repeated benefit dependency may initiate a vicious circle: People reduce their engagement in job search activities and finally arrange in benefit dependency if they fail on the labour market again and again or are not supported properly by the benefit system (Bane/Ellwood 1994; Solga 2005 for self-selection of low-qualified youths in Germany).

But beside individual financial considerations and experiences, it should be also mentioned that employment decisions depend on the household constellation: People living together in households trade the rewards of and resources for employment off against familial commitments to assure the welfare of their family. Their employment decisions depend on the job and wage prospects of the employable household members as well as on the availability of child care facilities (Becker 1976; Büchel/Spieß 2002; Leisering/Voges 1992). Over all, parents caring for their children have limited job alternatives, especially in full-time. According to the dominant male-breadwinner family model in Germany (Pfau-Effinger 1998), the employment restrictions are mostly related to mothers. Though traditional gender roles are eroding in younger cohorts (Buchholz/Grunow 2006), they might still be dominant among low skilled and unemployed young women (Hammer 1996). Furthermore, lone parents cannot arrange child caring commitments with a partner meaning that they face a higher risk to rely on social benefits when they have restricted access, cannot afford or do not prefer professional child caring.

From these perspectives, one can expect altered labour market behaviour of different subgroups among the young benefit recipients. Hence, labour market inactivity of benefit recipients could be dependent on following mechanisms:

- According to rational choice literature, young benefit recipients' incentives to take up employment or training should be lower for young people living in a comparatively adequate financial situation despite benefit dependency than for peers with

very poor finances. Financial restrictions and pressure may vary among young benefit recipients by e.g. familial financial support or remaining savings.

- According to the concept of learned helplessness, young people's incentives to take up employment or training are reduced with repeated unemployment and benefit dependency.
- Furthermore, it is assumed that employment chances vary by household constellation: Young people living with children in a household, in particular lone parents show less chances to leave benefit dependency by labour market integration.

#### *Individual familial resources for job entry by social origin*

Particularly with regard to young adults in benefit receipt, we have to take into account that growing up in poverty and welfare dependency can affect people's aspirations and resources. At least this is argued by the "culture of poverty"-thesis (Lewis 1968; Murray 1984; Wilson 1987), which states that young people in the underclass adopt a distant behaviour to employment when they have experienced parental long-term unemployment and benefit receipt in their families. Here, long-term benefit dependency is perceived as a phenomenon among a certain subpopulation that has established in benefit receipt over generations and cannot be reached by activating benefit policies.

But on the contrary, an intergenerational transmission of poverty risks can also be the consequence of restricted accumulation of labour market relevant resources by social origin. Concepts of social reproduction discuss that the parents' socio-economic status affects the children's educational achievements (e.g. Boudon 1974; Erikson/Jonsson 1996; Esser 1999) that may structure the employment perspectives in the long run. In addition, labour market entrants strongly depend on the resources of their family that offer access and information about gainful labour market positions (Dietrich/Abraham 2005) Young people growing up in families from low social origin have limited network resources and possibilities for career path orientation (Solga 2005): While low qualified parents in minor job positions or unemployment have information and contacts to job positions in their labour market segment, parents in good job positions can support their children to enter advantaged jobs.

This considerations lead to following hypotheses:

- According to the approach of a "culture of poverty", young people from low social origin should have low incentives to leave benefit dependency in general as they might have learned to deal with benefit receipt when growing up.
- Furthermore, higher chances to leave benefit receipt by labour market integration should be observed for young people from high social origin as they can accumulate more relevant resources compared with peers from low social background. The latter should especially be in risk to experience benefit receipt despite labour market integration as they more often enter low positions. From this it follows that there exists a singular effect of social origin beside qualifications.

## 4 Data and methods

The empirical analysis is based on the survey 'Life Circumstances and Social Security 2005 (LSS05)' of the Institute for Employment Research (IAB) in Germany. The survey uses a sample of benefit recipients, drawn from the records of the German Federal Employment Agency when the new benefit system was introduced. Standardised interviews with about 20.000 benefit recipients took place at the end of 2005 (Meßmann et al. 2008). The survey data were combined with register data of the German Federal Employment Agency providing information about labour market and benefit receipt biographies. The following analyses refer to 674 18- to 24-year-olds who have received social benefits in January 2005 but neither claimed former unemployment assistance nor social assistance in December 2004. This restriction avoids left censoring. Data capture a period of observation till December 2007. These data provide the opportunity to focus in more detail on young adults than previous studies on benefit receipt could. The latter considered data in which the numbers of young people sampled were too low for separate analysis.

The complex combination of register and survey data provide the advantage to follow young people's benefit careers for a significant period of time and to analyse the influencing factors beyond limited information in the administrative data. In the survey, people were asked for their material situation, household composition, interactions with welfare agencies, health as well as educational and employment careers in 2005. The register data give information about times in benefit receipt and the following types of employment status: registered unemployment, employment liable for social insurance and vocational training in firms. Activities like self employment, shadow employment, studies at university, vocational schools or parenthood cannot be observed in the register data. Therefore the existing career information of the survey was used to fill in missing information<sup>4</sup>. The number of young people for whom there is no information about their current activity in the combined data slightly rises over time as the survey mostly covers the activities in 2005.

The following analysis addresses the first social benefit episode of the young adults beginning in January 2005. It is conducted in two steps: In the first step, descriptive analysis explore the extent to which young benefit recipients exit from benefit receipt by labour market integration. The process of becoming independent from social benefits depends on two linked events: First, if young benefit recipients enter a job or training; second, if the household reaches a sufficient income to become independent from social benefits. Hence, the combination of both dimensions leads to three exit routes from benefit receipt (A – C) and further unimproved benefit receipt (D) as illustrated in table 2 and described below.

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<sup>4</sup> Data are organized in person months as the survey gives monthly information.

**Table 2**  
**Exit routes from benefit dependency, description of content and proportion (in per cent)**

		job/training entry		total
		yes	no	
independence from social benefits	yes	exit by labour market integration (a) 21.1	exit by further reasons (c) 41.9	63.0
	no	partial exit by labour market integration (b) 37.0	- (d) -	37.0
total		58.1	41.9	100.0

source: LSS 05, register data; own calculations

- a) Exit by labour market integration: Young adults leave benefit receipt by entry into a gainful employment or vocational training position. Thereby labour market integration subsumes different opportunities: First of all it accounts for starting a new job or vocational training. Further transitions into a better labour market position by e.g. job replacements or an increasing income (e.g. Gangl 1998) also have to be taken into account especially for the employed benefit recipients or trainees in the sample.
- b) Partial exit by labour market integration: Young people enter a job, training or better employment position but cannot leave benefit receipt at the same time. It is the case if the earnings do not cover the needs of the household. This situation leads to reduced benefit receipt as the amount of the subsidy decreases with an additional income.
- c) Exit by further reasons: Young people can leave benefit dependency by reasons that cannot be linked to individual labour market transitions. Exit route C subsumes independence from social benefits by familial events like (re-)employment of the parents or partner or marriage as the social benefit is based on the income situation of the whole household. These events cannot be differentiated in the used survey and register data. Furthermore this exit option might refer to activities like visiting university or vocational schools, shadow employment or self-employment that cannot completely be captured by the data.
- d) A fourth possibility is that the young adults cannot realize any job entry nor become independent from social benefits. For example this can be the case for long-term unemployment, parenthood or for proceeding education.

In total more than 800 transitions into the described events are observed for the 674 young adults. Table 2 shows, that in more than 40 per cent of all events, the young people left benefit dependency by further reasons (C). In about 20 percent, young persons could escape benefit claims by employment or training (A). Further 37 per cent of all observed events are reduced benefit dependency by labour market integration (B).

In the second step, the study measures the explanatory factors on the young adults' ways out of benefit receipt by labour market integration by a multivariate event his-



tory analysis. Therefore the analysis concentrates on exit routes by labour market integration that is defined by destination states A) and B). The transitions into the destination states are considered by exponential models with competing risks (van den Berg 2001; Blossfeld et al. 2007). The model allows for multiple episodes to consider further transitions after reduced benefit receipt by labour market integration. Each episode after a transition into reduced benefit receipt starts with time equal to 0 and is marked by a dummy indicator. The specifications of the baseline hazard are piecewise constant transition rates that control for changing transition rates over time since last event: the model includes intervals of three months during the first two years and a single interval for the third year. Furthermore the analysis controls for the duration in social benefit receipt since January 2005. Spells are right censored if young people are still living on benefits in the end of December 2007 or have left benefit dependency by further reasons.

The model includes several further independent covariates. Table 6 in the appendix provides an overview over the distribution of the variables and if the information is taken from survey or register data.

- Human capital is measured by both schooling and vocational qualifications: The first covers no or lower secondary school degree, secondary school degree and university entrance degree. For students, the educational qualification measures the degree they achieve. The latter is a dummy indicator for vocational degree. Both variables are time dependent as young people may graduate during the period of observation.
- The employment biography is described by the accumulated number of previous employment episodes and the number of unemployment episodes. The values of these parameters count on with further episodes. The analysis is controlled for non-linear effects by including the squared values of the indicators.
- The employment status captures employment, short-term unemployment<sup>5</sup> (up to 12 months), long-term unemployment (more than 12 months) and further activities in the month before. The latter subsumes young people in training, school, parental leave or missing information in the data.
- The financial situation is measured by the young adults' given information about the household's net income in the survey. The income is weighted to consider differences for households with more persons; the new OECD equivalent scale is used (according to Hagenaars et al. 1994). The analysis estimates periodic effects of the equivalent household income as the household information given refers to two points of time, December 2004 and November 2005.
- Previous benefit receipt is measured by a dummy variable for receipt of unemployment assistance or social assistance before 2005.
- Social origin is measured by two indicators: first, the highest educational degree of the father or mother and second, the highest employment position of the father or mother at the respondent's age of 15. The first indicator considers the fact that

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<sup>5</sup> Unemployment includes scheme participation.

one parent has at least a secondary school certificate. The second comprises the information if mother or father have been in qualified jobs, in minor employment, or non-employment including unemployment. Some respondents could not give any information about their parents; so the models are controlled for no information.

- The household constellation distinguishes between young singles, living with a partner, living with a partner and children, lone parents and young people living with their parents. The variable considers changes in the household formation over time.
- Furthermore the analysis accounts for gender and young migrants, who were not born in Germany or whose parents have immigrated to Germany. The model is also controlled for age and the regional youth unemployment rate.

## 5 Results

### 5.1 Exits from benefit receipt and labour market integration – descriptive findings

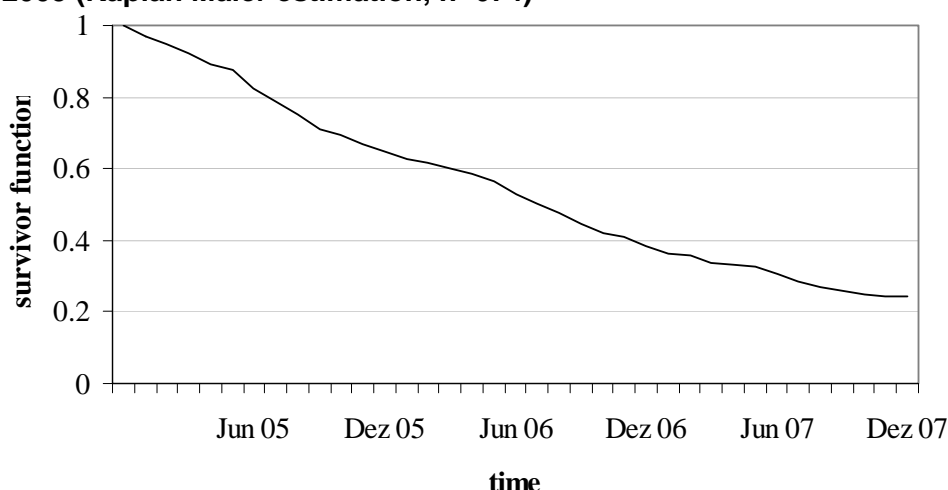
The extent to which young benefit clients exit from benefit receipt is described in the following section. The survivor function for social benefit dependency (figure 1) shows that 25 per cent of the surveyed 18- to 24-year-old benefit recipients in January 2005 were in permanent benefit dependency over three years. Roughly 75 per cent left a living on benefits for at least one time during the period of observation<sup>6</sup>. Although most surveyed young benefit recipients leave benefit receipt until December 2007, more than 60 per cent of the benefit claims lasted longer than one year. This duration can be defined as long term benefit dependency as empirical studies have shown that after one year in benefit dependency the individual risk to experience grave psychological, social and economic consequences rises (Buhr 1995).

Becoming independent from social benefits can be a process of several labour market transitions until young adults realise a final exit. Therefore table 3 shows first, how many surveyed 18- to 24-year-olds have ended benefit receipt by labour market integration or by further reasons and second, if they entered a job or training and reduced benefit receipt in the months before the exit. 26 per cent of the young benefit recipients in January 2005 finally leave a living on benefits by labour market integration. But most of the young benefit recipients, 52 per cent, end their first benefit episode by further reasons.

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<sup>6</sup> It has to be mentioned that repeated benefit receipt might occur (Schels 2008) and has to be analysed by further studies.

**Figure 1**  
**Duration of social benefit dependency of 18- to 24-year-old benefit recipients of 2005 (Kaplan Maier estimation, n=674)**



source: LSS 05, register data; own calculations

Though labour market integration is not the prior way out of benefit claims, this finding must not be interpreted in the way that young benefit clients are detached from employment or training. Much more the following selected findings illustrate a different picture: Altogether 68 per cent of the surveyed young adults enter job or training that leads either to a partial or full exit from benefit receipt. Furthermore, 60 per cent of the young adults who left benefit receipt by further reasons and 48 per cent of those who were in permanent benefit dependency over three years could reduce their benefit receipt by labour market integration in the months before. The descriptive statistics clearly show that a notable number of young benefit recipients entered at least one job or training although they might stay in benefit dependency further on. Reduced benefit dependency is a relevant experience among the young social benefit recipients.

**Table 3**  
**Ways out of benefit receipt of 18- to 24-year-old benefit recipients of 2005 in 2007 (weighted cell per cent, row per cent, n=674)**

realised exits options	partial exit by labour market integration during benefit receipt		total
	no	yes	
<b>exit by labour market integration</b>	<b>11.7</b>	<b>14.4</b>	26.2
	44.8	55.2	100.0
<b>exit by further reasons</b>	20.6	<b>31.4</b>	52.0
	39.7	60.3	100.0
<b>none, permanent benefit receipt</b>	11.4	<b>10.5</b>	21.8
	52.0	48.0	100.0
<b>total</b>	43.7	56.3	100.0

Bold figures illustrate the proportion of young adults that have experienced at least any labour market integration leading to full or partial exits from benefit receipt.

source: LSS 05, register data; own calculations

Whether the entry into a new job or training leads to financial independence might be dependent on the job characteristics. Table 4 shows that most of the 18- to 24-

year-old benefit recipients of January 2005 whose labour market career proceeded in the period of observation took up regular employment (34 per cent) or training (32 per cent). 25 per cent started minor jobs. Just a small number of the young benefit clients, 8 per cent, entered a better labour market position out of present employment, e.g. by increasing income, a second job or changing posts.

However, exits and partial exits from benefit dependency are partly linked to different types of labour market positioning. Regular jobs are the most common way out of benefit receipt: The figures show that 47 per cent of all exits from benefit claims by labour market integration are realised by young people who took up a regular job. In comparison, integration into vocational training and minor employment are the most frequent events among reduced benefit dependency. Nevertheless, reduced benefit dependency can also be observed for young adults taking up regular employment. 27 per cent of all partial exits go hand in hand with integration into regular jobs. And minor employment can lead to financial independence (13 per cent of all exits from benefit receipt by labour market integration).

**Table 4**  
**Kinds of job or training entry of 18- to 24-year-old benefit recipients of 2005 in 2007 (weighted per cent)**

	exit	partial exit	total
regular employment	46.9	26.9	34.2
training	30.9	33.3	32.4
minor employment	13.3	32.0	25.2
better job position	9.0	7.8	8.2
total	100.0	100.0	100.0
n	184	299	483

source: LSS 05, register data; own calculations

Summing up so far, there is great variation in the ways out of and through benefit receipt of young adults. Though many surveyed young adults enter a job, training or better employment position, labour market integration is not the numerically most important reason for leaving benefit receipt. Integration into regular employment seems to be the most promising but not exclusive way out of benefit receipt. So, which factors promote or hinder leaving benefit dependency by labour market integration? Which groups of the young adults are more likely to stay in benefit receipt despite being employed or in training? The following section considers these questions.

## 5.2 Leaving benefit dependency by employment integration

The following analysis assesses by a multivariate analysis if the young adults' ways out of benefit receipt depend on labour market resources, the individual financial and familial situation, or on social origin. Table 5 presents the hazard ratios of the piecewise constant model with competing risks: A) exit from benefit dependency by labour market integration and B) partial exit by labour market integration.

**Table 5**  
**Determinants of the ways out of social benefit dependency of 18- to 24-year-old benefit recipients of 2005 (hazard ratios)**

covariates	models	
	exit by labour market integration a	partial exit by labour market integration b
<b>schooling</b> ( <i>rf=no/lower secondary school certificate</i> )		
secondary school certificate	1.177	0.935
university entrance diploma	2.075 ***	0.976
<b>vocational degree</b> ( <i>rf=no degree</i> )		
	1.478 **	1.090
<b>employment status, one month lag, (ref: non-employment)</b>		
employed	1.092	0.729
short-term unemployed, <=12 months	4.093 ***	2.483 ***
long-term unemployed, 13 months and more	2.826 ***	5.884 ***
<b>previous partial exit</b> ( <i>rf = none</i> )	0.776	1.801 ***
<b>employment career</b>		
previous employment episodes	1.318 ***	1.095 **
(previous employment episodes) <sup>2</sup>	0.988 **	1.000
previous unemployment episodes	0.646 ***	0.871
(previous unemployment episodes) <sup>2</sup>	1.052 ***	1.013
<b>previous benefit receipt</b> ( <i>rf= no</i> )	0.881	1.127
<b>equivalent household income</b> (/100), periodic effects		
income situation of Dec 04 in Jan 05 – Oct 05	1.006	0.996
income situation of Nov 05 in Nov 05 – Dec 06	1.009	1.002
income situation of Nov 05 in 2007	0.967	0.962
<b>household constellation</b> ( <i>rf= single</i> )		
with partner, no children	0.536 **	1.065
single parent	0.410 **	1.268
with partner and children	0.415 ***	1.218
with parents	0.839	0.943
<b>highest qualification of parents</b> ( <i>rf = secondary school certificate of higher</i> )		
no information	0.654	1.106
no/lower secondary school certificate	0.630	1.210
<b>highest labour market status of parents, at respondents' age of 15</b> ( <i>rf = qualified employment</i> )		
no information	0.751	0.927
low qualified employment	0.903	1.104
unemployed, not employed	1.551 **	1.018
<b>socio demographics</b>		
female ( <i>rf =male</i> )	0.851	0.989
background of migration ( <i>rf = no</i> )	0.766	0.939
<b>controls</b>		
age	1.019	0.935
regional youth unemployment rate	0.991	0.999
time in benefit dependency since Jan 2005	1.022	0.984
events	184	299
episodes/persons/person months		1061/674/24264
log pseudolikelihood	-568.59368	-909.2664
prob>chi2		0.000

Significance: \* p <= 0.1; \*\* p<0.05; \*\*\*p<0.01, Robust standard errors for clusters by individual, rf= reference category

Models controlled for piecewise constant periodic effects, but not reported

source: LSS 05, register data; own calculations

According to the assumptions and in line with previous research on labour market transitions, qualifications and labour market experience are strong predictors for the 18- to 24-year old benefit recipients' chance to leave benefit dependency by labour market integration. Moreover, following particular results should be emphasized: Unemployed young adults – especially short-term unemployed – are more likely to leave benefit dependency by labour market integration compared with young non-employed, i.e. students, trainees or young parents. This interesting result shows that unemployed young adults are certainly supported by activation policies while young adults are subsidized during education and young parents for child caring. This finding illustrates the institutional settings for certain subgroups among the benefit recipients.

Furthermore, there is a strong positive effect from long-term unemployment on the probability that young adults reduce benefit dependency by labour market integration. Young long-term unemployed may switch to low paid jobs due to declining labour market prospects over time. This interpretation is supported by the descriptive finding that partial exits are to high percentage integrations in minor employment (see section 5.1). This result confirms the assumption that long-term unemployed may be sorted out from gainful job positions and just have access to minor job positions. As a consequence some young benefit recipients seem to experience employment careers in state support: A previous partial exit by labour market integration has a positive effect on further partial exits; but it does not significantly promote a final exit by labour market integration. This shows that labour market integration of young benefit recipients is not evitable connected with steeply progressing employment careers and prompt financial gains. Moreover, there exists a strong curve-linear effect of accumulating employment episodes and raising unemployment experience. These covariates indicate a discontinuous employment career of the young benefit recipients that diminishes the probability to leave benefit receipt. Young people may be trapped in a line of temporary jobs and recurrent unemployment that limits their employment and financial perspectives in the long run as already shown by previous studies (e.g. Dietrich/Kleinert 2005; Lauterbach/Sacher 2001; Scherer 2004a).

A further hypothesis was that long-term benefit receipt may be the consequence of discouraging experiences on the labour market and repeated benefit receipt. As already mentioned, the exit chances by labour market integration are diminished with repeated unemployment. Besides sorting out processes due to human capital depreciation it can also be argued that the negative effects of recurrent unemployment is a hint that young adults withdraw from the labour market and arrange in benefit dependency to avoid further disappointments. An alternative explanation can be that young people in discontinuous employment careers are a selective subgroup that is characterised by a low well-being, work motivation or work performance (Hammer 1996). The analysis cannot give clear evidence which explanation matters more, further studies have to investigate in this issue. The result for previous benefit receipt shows a different picture: earlier social or unemployment assistance receipt

before 2005 do not reduce young people's chance to enter the labour market. Long-term benefit dependency among young adults seems to be a question of repeated unemployment but not repeated benefit dependency.

The assumption was introduced that subgroups like young women and migrants have significant poor labour market prospects and chances to leave benefit receipt according to statistical discrimination. This assumption cannot be confirmed. Though recent research has shown that migrants and women are a certain risk group for benefit dependency due to disadvantaged labour market positions (Gangl 1998; German Government 2008; Strengmann-Kuhn 2007), further differences in the ways out of benefit receipt between men and women, migrants and non-migrants can not be seen among the surveyed subpopulation of young adults.

A further assumption was that the labour market behaviour of the young benefit recipients may be influenced by the individual experiences of poverty beside labour market opportunities. It was expected that young benefit clients may stay longer in benefit receipt and not enter a job or training if they have arranged in an acceptable financial situation due to state support. However, the analysis shows no significant effects from the equivalent household income on the benefit recipients' labour market transitions. But employment decisions depend on the familial context. The analysis shows that young people living in households with children or a partner have few chances to leave benefit dependency by employment. Longer benefit receipt corresponds with the process of starting an own family. The result supports findings of recent research showing that the employment perspectives of parents caring for their children and especially lone parents are limited (e.g. Gebauer 2007; German Government 2008; Klett-Davies 2007; Lietzmann 2009; Strengmann-Kuhn 2001). Moreover, living together with a partner may not be equivalent to a higher financial security for all young adults as can be seen in the negative correlation between living with a partner and the exit chances by employment integration.

Surprisingly, the 18- to 24-year-old benefit recipients whose mother or father was not employed at the respondents' age of 15 are more likely to leave benefit dependency by labour market integration than young people with parents in qualified employment positions. First of all, this contradicts the assumption that the labour market dynamics in benefit dependency of young adults might be restricted when they have grown up in families in an insecure labour market position. An explanation could be that young adults with unemployed parents have to contribute to the households' income or that they face high financial pressure to earn money on their own as they cannot draw back to familial financial resources. This might especially be true for young unemployed as the findings of this study suggest that they are most flexible in realizing labour market transition. This assumption is tested by a second model including an interaction effect between the benefit recipients employment status and previous parental unemployment (table 7, appendix). The effect from social origin loses its significance and strength. Taking up employment seems to be more urgent for unemployed benefit clients with poor social background.

Though this study shows in general that the financial situation of young benefit clients or their social background do not affect their labour market transitions directly; this particular finding indicates that some young benefit recipients might experience more pressure to take up employment than others due their very individual familial and social context.

## **6 Summary and conclusions**

This study addresses the question which groups among young adults in social benefit dependency in Germany have particularly low labour market prospects and therefore less chances to escape benefit receipt. It examines the labour market transitions and duration in benefit claims of 18- to 24-year-old social benefit clients. The young adults started to receive benefits in January 2005 and were followed over a period of three years till December 2007. Though the results show that labour market integration is not the most frequent way out of benefit receipt of young adults, numerous surveyed young benefit recipients can at least reduce benefit receipt by job or training entry. Labour market integration of young benefit recipients not necessarily corresponds with leaving benefit receipt as in many cases the earnings do not cover the needs of the household. However, these important results reject the general perception within the public and political discussion in Germany that young benefit recipients show a low labour market orientation. Contrarily, the findings indicate that ongoing benefit receipt is not a matter of a culture of poverty of young people with a low social background or a financial utilization of the benefits. Escaping benefit claims by employment or training is mainly a question of labour market opportunities.

There are certain risk groups among the surveyed 18- to 24-year-old social benefit clients who face high risks for longer benefit dependency. These are low qualified young people and those with discontinuous and disrupted school-to-work-transitions. Also young parents – and especially lone parents – face high difficulties to earn sufficient money for their family. These results confirm former findings about German adult social assistance clients (Buhr 1995; Gangl 1998; Gebauer et al. 2003; Gebauer 2007). Furthermore, the study shows in some cases that longer benefit dependency of young adults may be a consequence of the subjective experience of insecure employment careers: Some young long-term unemployed continue trying to find a job although they might reduce requirements and shift to minor employment. But in particular young benefit recipients with discontinuous employment biographies or in minor non-gainful employment positions are at risk to be trapped in careers of poor work subsidised by the state. Some further findings suggest that long-term unemployed benefit clients seem to withdraw from the labour market as a consequence of discouraging experiences. These findings can be connected to qualitative research on individual benefit careers and the risk of marginalisation during the transition to adulthood (Ludwig 1996: 188, 283): Young people who shortly change between employment, unemployment and benefit receipt cannot gain any long-term perspective.



Over all, the findings of this study strongly support labour market theoretical approaches on benefit dependency. But they have to be adjusted by socio-psychological concepts of discouraging experiences of young people on the labour market. However, individual up- and downwardly benefit careers might depend on the recipients' valuation of their situation in the context of their individual biography and on their coping resources (Drilling 2004; Ludwig 1996). Further research and theoretical discussion on benefit receipt will have to raise the issue of how individual orientations affect the transitions to financial independence.

According to the results of the study, one can draw some conclusions for social policies. The findings support activation policies for risk groups: Low qualified, long-term unemployed and young people in unstable employment have to be addressed by further training and employment schemes. But still, the benefit system has to be more aware about the special needs of young adults. Current activation policies put the screws on young people to take up employment as fast as possible. But integration into temporary or any unintentional jobs or training positions may not strengthen the labour market attachment; in contrast, it may erode young people's motivation (France 2008; Walther 2006). Young people might be disappointed and finally withdraw from further job search activities if the offers of the counsellors do not lead to vocational training or employment at the end. In line with this perspective, social policies have to raise ideas about how discouraging labour market experiences can be avoided or at least buffered. A prospective integration into gainful employment and training on the basis of an intensive profiling of the young adults' wishes, deficits and prospects seems to be the better way out of benefit receipt.

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## Appendix

**Table 6**  
**Descriptive statistics, January 2005 (n=674)**

variable	values	n	per cent*	mean	stand. dev.	data source	time dependency
schooling / educational aspirations	no/lower secondary school certificate (rf)	305	45	-	-	Survey data	yes
	secondary school certificate	222	33	-	-		
	University entrance diploma	147	22	-	-		
vocational qualifications	Vocational degree	206	31	-	-	Survey data, adjusted with register data	yes
employment status, one month lag	non-employment (rf)	367	54	-	-	Register data, non-employment information completed with survey data	yes
	Employed	60	9	-	-		
	short-term unemployed (<=12 months)	234	35	-	-		
Employment career	long-term unemployed (13 months and more)	13	2	-	-	Register data	yes
	previous employment episodes	-	-	2.2	2.6		
highest qualification of parents	previous unemployment episodes	-	-	1.1	1.4	Survey data	no
	no information	74	11	-	-		
	no /lower secondary school certificate	238	35	-	-		
highest labour market status of parents, at respondent's age of 15	secondary school certificate or higher	362	54	-	-	Survey data	no
	no information	89	13	-	-		
	unemployed/not employed	117	22	-	-		
financial situation	low qualified employment	146	17	-	-	Survey data	Yes, period specific effects
	qualified employment	322	48	-	-		
	equivalent household income (/100)	-	-	6.74	3.75		
benefit career	previous benefit receipt	92	14	-	-	Register data for unemployment assistance, survey data for social assistance	no
household constellation	Single	137	20	-	-	Register data, adjusted with survey data	yes
	with partner	65	10	-	-		
	single parent	32	5	-	-		
	with partner and children	75	11	-	-		
socio demographics	with parents	365	54	-	-	Survey data	no
	Female	351	52	-	-		
Controls	background of migration	279	41	-	-	Survey data	no
	Age	-	-	20	1.8	Survey data	yes
	regional youth unemployment rate	-	-	13.7	3.59	Register data	yes

source: LSS 05, register data; own calculations, \* weighted per cent, rf=reference category

**Table 7**  
**Determinants of the exit from benefit dependency by labour market integration of 18- to 24-year-old benefit recipients of 2005, including interaction effects (hazard ratios)**

covariates	exit by labour market integration a	
<b>schooling</b> ( <i>rf=no/lower secondary school certificate</i> )		
secondary school certificate	1.165	
university entrance diploma	2.042	***
<b>vocational degree</b> ( <i>rf=no degree</i> )		
	1.490	**
<b>employment status</b> , one month lag, ( <i>ref: non-employment</i> )		
Employed	1.079	
short-term unemployed, <=12 months	3.784	***
long-term unemployed, 13 months and more	2.461	***
<b>previous partial exit</b> ( <i>rf = none</i> )		
	0.775	
<b>employment career</b>		
previous employment episodes	1.325	***
(previous employment episodes) <sup>2</sup>	0.988	**
previous unemployment episodes	0.640	***
(previous unemployment episodes) <sup>2</sup>	1.053	***
<b>previous benefit receipt</b> ( <i>rf= no</i> )		
	0.863	
<b>equivalent household income</b> (/100), periodic effects		
income situation of Dec 04 in Jan 05 – Oct 05	1.006	
income situation of Nov 05 in Nov 05 – Dec 06	1.009	
income situation of Nov 05 in 2007	0.967	
<b>household constellation</b> ( <i>rf= single</i> )		
with partner, no children	0.538	**
single parent	0.415	**
with partner and children	0.414	***
with parents	0.845	
<b>highest qualification of parents</b> ( <i>rf = secondary school certificate or higher</i> )		
no information	0.634	
no/lower secondary school certificate	0.621	
<b>highest labour market status of parents</b> , at respondents' age of 15 ( <i>rf = qualified employment</i> )		
no information	0.756	
low qualified employment	0.905	
unemployed, not employed	1.217	
<b>socio demographics</b>		
female ( <i>rf = male</i> )	0.848	
background of migration ( <i>rf = no</i> )	0.785	
<b>controls</b>		
age	1.017	
regional youth unemployment rate	0.990	
time in benefit dependency since Jan 2005	1.023	
<b>interaction effects: parental unemployment/non-employment</b>		
* short-term unemployment, one month lag	1.407	
* long-term unemployment, one month lag	1.896	
<hr/>		
events	176	
episodes/persons/person months	1023/674/24264	
log pseudolikelihood	-551.89885	
prob>chi2	0.000	

Significance: \* p <= 0.1; \*\* p<0.05; \*\*\*p<0.01, Robust standard errors for clusters by individual, rf= reference category

Models controlled for piecewise constant periodic effects, but not reported

source: LSS 05, register data; own calculations



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