IAB-DISCUSSION PAPER

Articles on labour market issues

18|2022 Exits from and returns to welfare benefit receipt in Germany: Cumulative disadvantages or a different kettle of fish?

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Korrigierte Fassung vom 23.01.2024

Exits from and returns to welfare benefit receipt in Germany: Cumulative disadvantages or a different kettle of fish?

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Abstract

In 2005, Germany introduced the integrated welfare benefit "unemployment benefit II" for needy individuals capable of working and their families. In line with international trends, the benefit system is characterised by a broad definition of eligibility and a focus on labour market integration through activation. The heterogeneous recipient groups comprise not only unemployed individuals but also, e.g. low-wage and part-time workers and recipients with family responsibilities. Not only individual employment take-up can enable exits from benefit receipt, but also changes in household composition or household income. A considerable share of exits is only temporary, i.e. former recipients become dependent on benefits again after a short time.

Using rich administrative data and estimating discrete-time hazard rate models, we analyse non-employed benefit recipients' chances to exit from and to remain independent of benefit receipt considering different exit routes. We find that employment-related exits from benefit receipt are more stable than others are. Labour market resources are important particularly for employment-related exits, but do not safeguard former recipients from returning to benefit receipt. Among sociodemographic characteristics, cumulative disadvantages for foreign citizens and for the labour market integration of older recipients emerge in that they are associated with low exit and high return probabilities. The results call for differentiated measures addressing not only specific subgroups but also different exit strategies.

Zusammenfassung

Im Jahr 2005 wurde in Deutschland die integrierte Sozialleistung "Arbeitslosengeld II" für erwerbsfähige Hilfebedürftige und deren Familien eingeführt. Im Einklang mit internationalen Trends ist das Leistungssystem durch eine breite Definition der Anspruchsberechtigung und einen Schwerpunkt auf der Arbeitsmarktintegration durch Aktivierung gekennzeichnet. Die heterogenen Empfängergruppen umfassen nicht nur Arbeitslose, sondern z.B. auch Geringverdiener, Teilzeitbeschäftigte und größere Familien. Nicht nur die individuelle Aufnahme einer Beschäftigung kann den Ausstieg aus dem Leistungsbezug ermöglichen, sondern auch Veränderungen in der Haushaltszusammensetzung oder im Haushaltseinkommen. Ein beträchtlicher Teil der Ausstiege ist nur vorübergehend, d. h. ehemalige Leistungsbeziehende sind nach kurzer Zeit wieder auf Leistungen angewiesen.

Unter Verwendung umfangreicher administrativer Daten und durch Schätzung diskreter Verweildauermodelle analysieren wir die Chancen von nicht erwerbstätigen Leistungsbeziehenden, aus dem Leistungsbezug auszusteigen und unabhängig davon zu bleiben, wobei wir verschiedene Ausstiegswege berücksichtigen. Wir stellen fest, dass beschäftigungsbezogene Ausstiege aus dem Leistungsbezug stabiler sind als andere. Arbeitsmarktressourcen sind vor allem für einen beschäftigungsbezogenen Ausstieg wichtig, schützen ehemalige Leistungsbeziehende aber nicht unbedingt vor einer Rückkehr in den Leistungsbezug. Unter den soziodemografischen Merkmalen zeigen sich kumulative Nachteile für

ausländische Staatsangehörige und für die Arbeitsmarktintegration älterer Leistungsempfänger, da sie mit niedrigen Ausstiegs- und hohen Rückkehrwahrscheinlichkeiten verbunden sind. Die Ergebnisse erfordern differenzierte Maßnahmen, die nicht nur auf bestimmte Untergruppen, sondern auch auf unterschiedliche Ausstiegsstrategien abzielen.

JEL classification

I38, J64, J68

Keywords

cumulative disadvantage, employment, recidivism, survival analysis, welfare benefits

Acknowledgements

1. Introduction

International trends in welfare state reforms called 'New welfare' focus on labour market participation rather than income replacement as a means of fighting poverty (Bonoli/Natali 2012; Taylor-Gooby/Gumy/Otto 2015). New welfare pursues labour market participation by a focus on activation and investment in human capital. Activation implies enabling and demanding benefit recipients to take steps (back) towards employment (Eichhorst et al. 2008). Background for the focus on activation is the observation that welfare benefits while alleviating poverty also reduce monetary incentives to work, which might prolong the duration of benefit receipt (see, e.g. Tatsiramos 2014). Job search requirements and activation measures can make benefit receipt less convenient und thus can increase work incentives. Consequently, benefit systems that are less generous or characterized by a stronger conditionality of benefit receipt are often characterised by a shorter duration of receipt (e.g. Gangl 2004; Kluve 2010). However, this comes at the cost that recipients take up jobs of worse quality or matching less to their qualification, which in turn are often less stable leading benefit recipients to become unemployed again quickly (for sanctions, see Arni/Lalive/Van Ours (2013); for unemployment benefits, see Gangl (2004)).

Activation is one of three major trends in reforms of unemployment protection conceptualised as 'triple integration' (Clasen/Clegg 2011). The other trends are benefit homogenisation and risk re-categorisation. Benefit homogenisation means that the level of entitlements is less dependent on previous earnings and the individual work history. Risk re-categorisation characterises a process of broadening the concept of unemployment as the base for defining target groups of labour market policies. In this process, not only the registered unemployed but also low-wage earners, the working poor or lone parents are considered as target groups of labour market policy.

Germany followed both reforms trends of New Welfare and of a triple integration when it introduced unemployment benefit II (UBII) in 2005 as an integrated means-tested welfare benefit for needy individuals capable of working and their families. UBII provides a second-tier income protection for the unemployed after expiration of unemployment insurance benefits (UIB) as well as a general minimum income for low-income households or those unemployed without (sufficient) entitlements to UIB. It aims to bring the jobless back into work through job-search requirements and activation measures. The demanding system is seen as one driving force for the robustness of the German economy during the last global economic recession starting in late 2008 (Weber 2015). On the downside, Germany has a continuously dualised labour market (Eichhorst/Marx 2020). This also concerns former UBII recipients of whom a considerable share become dependent on benefits again after a short time and remain on the margins of the labour market.

As a means-tested benefit on household level, UBII comprises heterogeneous recipient groups consisting not only of unemployed but also of low-wage and part-time workers, recipients with family responsibilities or with health restrictions. Thus, exits from benefit receipt do not have to be rooted in individual labour market behaviour, but can also lie in changes in the household composition (e.g. partner moving in or children moving out) or household income (e.g.

employment of household members, other benefits). The exit route out of benefit receipt is also likely to shape its sustainability. Particularly for work-related exits, cumulative disadvantages (DiPrete/Eirich 2006) could play a role in the sense that certain characteristics do not only decrease chances of leaving UBII receipt, but also increase the chances of returning.

In the broad and demanding German UBII system, the stability of exits from benefit receipt together with the exit routes taken by heterogeneous recipient groups are two crucial points to be studied. In this paper, we analyse individual UBII recipients' chances to exit from and to return to benefit receipt with special attention to the routes that take initially non-employed recipients out of benefit receipt (i.e. with or without own employment). Therefore, we provide an empirical analysis of how these two design features shape benefit receipt dynamics and individuals' chances for long-term self-sufficiency and contribute to the understanding of prolonged and repeated benefit receipt. We use rich administrative data on benefit recipients from the German Federal Employment Agency ("Sample of Integrated Welfare Benefit Biographies", SIG). First, we describe the processes of leaving UBII receipt and returns by exit routes. Second, we estimate discrete-time hazard rate models for competing risks that control for unobserved heterogeneity for exits from benefit receipt within three years of first benefit receipt. Third, we apply similar models to estimate the probabilities to return to benefit receipt within three years after the exit.

The results show that work-related exits from benefit receipt accounted for slightly more than half of the exits. Exits are often not stable: 37 percent return to benefit receipt within twelve months with work exits being more stable than other exits. Labour market resources help individuals to leave UBII receipt, particularly to own employment. However, they are not unequivocally associated with higher chances of staying out of benefit receipt. The household context, age and citizenship are relevant for the chances to leave welfare through both exit routes. The results for foreign citizens and for the labour market integration of older recipients hint at a cumulative disadvantage in that these groups do not only have lower chances of leaving UBII receipt with employment, but also higher risks of returning. The role of the household context mirrors a gender-specific division of labour. The results call for differentiated measures addressing not only specific subgroups but also different exit strategies.

2. Institutional framework

Having managed the last economic recession comparatively well, the German labour market situation in the past decade has developed "From [the] Sick Man of Europe to Economic Superstar" (Dustmann et al. 2014). Employment rates have been increasing since the early 2000s (Eichhorst/Tobsch 2015). However, the increasing employment rate is to some extent driven by the increase in non-standard (e.g. part-time, temporary agency) employment. At the same time poverty rates and income inequality increased in the early 2000s and then stagnated (Biewen/Ungerer/Löffler 2019; Haupt/Nollmann 2014), indicating a substantial polarisation within the country.

Institutional changes such as the Hartz reforms in the early 2000s have been seen as one driving force behind the prosperous development of the economy (Weber 2015). In 2005, the last step of

the Hartz reforms (Hartz IV) merged the former unemployment assistance (UA) and social assistance (SA) to form a new means-tested basic income benefit named UBII for needy individuals who are capable of working and their families (Eichhorst/Grienberger-Zingerle/Konle-Seidl 2010).

The German UBII system aims to bring jobless people back into work through job-search requirements and activation measures. The basic principle is the one of enabling and demanding: On the one hand, benefit recipients are required to actively search for a job, participate in active labour market programmes (ALMPs) and to accept any job offer. Otherwise, their benefits can be cut. On the other hand, UBII recipients have certain rights to assistance with taking up employment (e.g. training programmes, job placement service). However, activation measures focussed more on work first strategies than on qualification, which might support stable employment and permanent exits from UBII receipt (Oschmiansky/Ebach 2009).

The German welfare benefit system is characterised by a broad targeting. It is a means-tested benefit for all needy individuals capable of working and their family members, regardless whether they are unemployed. Between 2007 and 2019, on average 6.2m individuals (9.5% of the population under retirement age) received UBII in 3.4m households (Statistics Department of the Federal Employment Agency 2020). The heterogeneous recipients groups comprise (long-term) unemployed, low-wage or part-time workers, single parents and larger families. Given these characteristics of the benefit system, exits from benefit receipt do not have to be rooted in the individual labour market behaviour, but can also lie in changes in the household composition or income. While administrative data enables identifying exits from benefit receipt with own employment, direct information on other events associated with exits from UBII receipt is lacking. Descriptive evidence from survey data suggests that besides the take-up of own employment, the partner's employment take-up (particularly for women) and a partner moving in (only for women) are commonly associated with exits from UBII receipt (Trappmann/Beste 2013). Moreover, for recipients aged 50 to 64 years exits are often associated with pensions.

From a dynamic perspective, leaving UBII receipt is only a first step. To sustain the exits is an important subsequent goal. Considering the demanding elements of the system and the dualised labour market, it is not surprising that almost one-fourth (23%) of those recipients who were able to leave UBII receipt in 2018 returned within three months (Statistics Department of the Federal Employment Agency 2019) and only 55 percent of the UBII recipients taking up employment stayed employed for six months or more in 2013 (Bruckmeier/Hohmeyer 2018).

3. Previous evidence and theoretical considerations

3.1 Determinants of leaving welfare benefit receipt by exit routes

In many countries, welfare benefit recipients often receive benefits for extended or repeated periods (e.g. Bane/Ellwood 1994; Königs 2018). Reasons for these phenomena can be rooted in unfavourable characteristics of recipients resulting in low employment chances and/or longer

durations in receipt, which might contribute to decreasing exit rates by, among others, declining human capital due to unemployment. Several previous studies have investigated transitions from welfare receipt to self-sufficiency and their determinants (e.g. Bäckman/Bergmark 2011; Carpentier/Neels/Van den Bosch 2014; Dahl/Lorentzen 2003; Hohmeyer/Lietzmann 2020). They find that previous duration on benefits, sociodemographic characteristics and labour market resources affect the chances to exit benefit receipt.

Different routes can take welfare benefit recipients out of receipt. Exits can be associated with the take-up of employment, with increases in working hours or wages or with changes in household composition. The determinants of welfare duration are likely to differ for these different routes. Human capital (qualifications, labour market experience) could directly affect employment chances and wages (Becker 1994) and could therefore be particularly important for employment-related exits. Sociodemographic determinants such as the household context and age in contrast could be particularly relevant for other exits e.g. through changes in the household composition or transitions to other benefits.

While some studies concentrate on work-related exits (see e.g. Beste/Trappmann (2016); Dahl/Lorentzen (2003)), only few empirical studies distinguish between different exit routes. Blank (1989) distinguishes between three exit routes out of Aid to Families with Dependent Children receipt in the United States for single mothers in a competing risk model: marriage, earnings increase and other. The coefficients differ significantly across these three categories: The likelihood of leaving receipt with marriage increases with age and decreases with unemployment level and being non-white. In contrast, the chances of leaving welfare with an earnings increase rises with the educational level and the benefit level and decreases with the number of children. The residual category "other exits" is correlated only with few explanatory variables. Nam (2005) uses event history analysis to study welfare receipt according to the Personal Responsibility and Work Opportunity Reconciliation Act for women in the U.S. and distinguishes between work and non-work exits. Her findings indicate that those with multiple employment barriers leave benefit receipt through work less often than those with few barriers do, but more often without working.

Bäckman/Bergmark (2011) use event history analysis to study SA exits to three destinations (any destination, core workforce and quick return to SA) in Sweden in the early 2000s. Past SA receipt and labour force status determine exits to all three destinations. Belonging to the core workforce in the year prior to SA receipt (with a minimum income that corresponds approximately to the minimum gross income from one year of full-time employment) is the most positive individual predisposition for the chances of exiting SA receipt, particularly to the core workforce.

With less than two per cent of the working age population receiving SA between 1999 und 2009, SA in Belgium is a residual system compared to UBII in Germany. Carpentier/Neels/Van den Bosch (2017) find that exit patterns from SA vary by destination (work, ALMPs, social insurance and other). Duration dependence is stronger for exits to work than for the other routes. Women had lower chances of leaving SA to work or an ALMP but higher chances of leaving to social insurance. On average, the probability to exit to work declined with age, but not to an ALMP or to social insurance. Single parents were less likely than childless single persons to exit to work and a social insurance benefit. Having worked in the year before entering SA was positively associated only with exit to work, but not with the other destinations. European-born beneficiaries were

significantly less likely than native-born beneficiaries to exit SA to work. For beneficiaries from outside Europe, the probability to exit to work was similar to that of people of native origin.

Looking at the local Minimum Income Programme of the Madrid Regional Government, Ayala/Rodriguez (2007) distinguish between administrative (other, age 65, moving out of Madrid region, death, imprisonment), fraud (non-compliance, inadequate use of benefits, non-schooling of children fraud) and successful exits (earnings above threshold, voluntary) categorised by public officials. Determinants and the time patterns differ considerably between the exit routes. The only variables that maintain their sign and statistical significance are employability and number of children. The probability of exit to success or fraud is stable over time with moderate growth, whereas the profile for other exits (mainly by reaching age 65) is decreasing over time.

So far, there is no study on the determinants of different exit routes out of UBII receipt in Germany. Gangl (1998) studies the determinants of leaving the former SA system to the labour market (employment take-up, increased income, subsidised employment), to other benefits and to other destinations in a piecewise-constant exponential model with competing risks in the city of Bremen. Labour market resources determine the chances to exit SA to the labour market, particularly to employment take-up.

Overall, previous evidence from other countries and systems underlines that determinants differ for the exit routes. Labour market resources seem to be particularly important for work-related exits, but this does not hold throughout. Results differ with the benefit systems and the definitions of the alternative non-work exit routes.

3.2 Determinants of re-entering welfare benefit receipt

A substantial share of exits from welfare benefit receipt is not sustainable (e.g. Cheng 2003; Königs 2018; Nam 2005; van Berkel 2007). Thus, one should consider not only the (first) exit from benefit receipt, but also the sustainability of the exit and its determinants. Characteristics that affect duration of benefit receipt can also affect return probabilities. Particularly for work-related exits, labour market resources could not only promote employment-related exits but also remaining employed and staying out of benefit receipt (e.g. found for education and the chances of finding and keeping a job by García/van Soest (2017)). Therefore, unfavourable characteristics can represent a cumulative disadvantage in that they do not only decrease chances of leaving UBII receipt with employment, but also increase the chances of returning.

So far, only few studies regard the sustainability of exits and its determinants. Looking at Norway, Hansen (2009) uses discrete-time event history analysis to study the duration of SA receipt and the likelihood of re-entries among those who exited SA. He finds that immigrants stay longer in SA but show no differences in the likelihood to return compared to people born in Norway. In the only study on re-entry into UBII receipt in Germany, Schels (2013) studies young benefit recipients between 18 and 29 years. The risk of re-entering benefit receipt is time-dependent with the highest risk of recurrent benefit receipt in the following three months and decreasing risks afterwards. Young beneficiaries who have a partner with and without children have a higher probability of returning to benefit receipt than singles, indicating that young people can hardly achieve a stable financial situation when starting a family.

Considering also the labour force state after exit, Bergmark/Bäckman (2004) study exits from and returns to long-term SA receipt in Sweden. Those who are gainfully employed after long-term receipt are less likely to return, particularly compared to those in "other" maintenance states. Persons under the age of 45 years and newly arrived immigrants are less likely to leave and more likely to return. Single men with or without children leave long-term receipt at a higher rate and return at a lower rate. Single mothers leave long-term receipt also at a higher rate, but are more likely to return.

To our knowledge, only two studies consider the role of the exit route when analysing return probabilities. Nam (2005) finds that those who left benefit receipt with employment have a lower probability of returning than those who left without employment, even after controlling for several variables. Those with employment barriers do not only leave welfare less likely for work, but they also have a higher likelihood of returning to welfare.

Carpentier/Neels/Van den Bosch (2017) estimate a random-effects hazard model of re-entry into SA receipt for beneficiaries in Belgium who left SA during a 4-year observation period. Work-related exits were associated with lower probabilities of returning to SA than exits for other reasons but with higher exits to ALMP participation and social insurance benefit receipt. One reason for this might be that the most common ALMP ('Article 60') involves temporary employment, which is just sufficiently long to allow the participant to become entitled to UIB. Longer spells out of SA were associated with lower probabilities to re-enter the scheme. Recurrent spells in SA for people with migration background (if they were not asylum seekers) could be ascribed mainly to the different profiles of beneficiaries with a migration background and, to a lesser extent, to the different exit types and associated re-entry probabilities these beneficiaries experienced.

Overall, results underline that the stability differs by the route taken out of benefit receipt. Work exits tend to be more stable, except for the residual SA system in Belgium (Carpentier/Neels/Van den Bosch 2017). Several characteristics such as employment barriers that prolong benefit receipt also tend to affect return probabilities (Nam 2005). However, this does not hold universally: Persons with certain characteristics might need longer to exit benefit receipt but do not show higher risks of returning (e.g. immigrants in Norway (Hansen 2009)). None of the cited studies estimated the return process separately by exit route and thus they cannot say whether determinants of returning differ by exit route. The determinants of returning to benefit receipt in comparison to leaving benefit receipt is an empirical question, which has to be studied within the specific institutional context.

4. Data and method

4.1 Data

We use rich administrative data on benefit recipients from the German Federal Employment Agency ("Sample of Integrated Welfare Benefit Biographies", SIG[1]). Using administrative data has the advantage of a large number of observations and accurate information on benefit receipt (Bruckmeier/Hohmeyer/Schwarz 2018). The SIG is a 10 percent sample of UBII recipients between 2005 and 2014. It contains information on contributory and marginal employment, registered unemployment and job search, UIB and UBII receipt, participation in ALMPs, sociodemographic characteristics of individuals as well as their family members. We use a 20 percent sample of the SIG of individuals aged 25 to 59 years and having entered UBII receipt between 2007 and 2011 for the first time. Thus, we can observe all individuals for at least three years after the start of their first benefit receipt. We restrict our sample to the heads of households and their partners who lived in municipalities with complete data between 2005 and 2006.[2]

Furthermore, we exclude those recipients who were employed in the month of entry into benefit receipt. While this selection excludes 28 percent of the population, it enables us to conclude for those who exit with own employment that this employment was taken up after entry into benefit receipt, even though the one observed at the time of exit is not necessarily the first employment relationship since entry.

The data is organised as a monthly person-period record file. We study the two processes of leaving benefit receipt and returning to benefit receipt for 36 months each. We define benefit receipt as being a member of a household that received benefits. We count an exit from benefit receipt if the individual's household did not receive benefits for at least one month. We distinguish between exits from benefit receipt associated with and without (contributory or marginal) individual employment. Exits with employment are those exits when individuals held a (contributory or marginal) job in at least one month in a three-month window around the end of benefit receipt. Exits without employment comprise all other types of exits, which we cannot distinguish in our data: exits associated with being self-employed or a civil servant, with employment (changes) of household members, with changes in the household composition (children moving out, employed partner moving in), with the receipt of other (pension, disability or training promotion) benefits or non-take up of UBII.

For those who entered UBII in 2007 and 2008 and left UBII within three years, we also analyse their first return to UBII receipt within the subsequent three years. A return is defined as having received benefits for at least one month again after at least one month without UBII receipt.

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[1] The SIG data we use in our analysis are not publicly available. A slightly reduced but more recent version of the SIG data is available at the Research Data Centre (FDZ) of the German Federal Employment Agency (BA) at the Institute for Employment Research (IAB) (Bruckmeier et al. 2020; Dummert et al. 2020). For access to the full, data an application for data access at the FDZ of the BA at the IAB according to § 75 SGB X is necessary. The FDZ decides on the approval of the research project on behalf of and, if necessary, in coordination with the Federal Ministry of Labour and Social Affairs.

[2] Several municipalities had problems in collecting and transmitting data on recipients in the first two years after the introduction of UBII, which likely resulted in an underreporting of benefit receipt in these years in these municipalities. To correctly identify individuals without previous UBII receipt, we excluded recipients in these municipalities from the analysis sample.

We are left with 18,247 individuals who entered welfare receipt between 2007 and 2011 (Table 1). Of those who entered welfare receipt in 2007 and 2008, 6,027 individuals left welfare receipt within three years and were at risk of returning.

Table 1: Descriptive Statistics for the Sample
Shares in %

Sample	Exits	Returns
Labour market resources		
Qualification		
Unknown	22.06	21.11
Low	13.69	14.67
Medium	53.73	54.92
High	10.51	9.31
Duration since last job ended in months		
Never employed	16.56	13.34
<12	35.23	39.01
12 to <24	18.05	16.23
24 to <36	8.15	8.89
36 to <48	4.94	6.01
48 and more	17.07	16.53
Labour market experience in months (mean)	69.34	67.55
Sociodemographic characteristics		
Age in years		
25-34	42.89	42.71
35-44	25.14	26.60
45-54	22.06	20.79
55 and older	9.91	9.91
Gender		
Female	54.15	53.11
Male	45.85	46.89
Type of household		
Single	49.75	46.97
Couple w/o children	17.22	17.26
Couple w adult children	2.15	2.52
Other	2.70	2.65
Couples 1 child	10.22	11.12
Couples 2 children	6.48	7.30
Couples 3+ children	3.52	3.85
Lone parent 1 child	5.12	5.36
Lone parent 2 children	2.08	2.31
Lone parent 3+ children	0.76	0.66
Missing	0.01	0.00

Sample	Exits	Returns
Citizenship		
Germany	76.57	80.40
Turkey	5.24	4.84
Southern Europe	4.86	4.65
Eastern Europe	4.61	3.02
North and Western Europe	0.91	0.78
Africa	2.31	1.94
Asia	4.30	2.84
Other	0.79	0.90
Missing	0.42	0.63
Further control variables		
Region		
Eastern Germany	65.19	62.60
Western Germany	34.81	37.40
Unemployment rate on district level (mean)	9.91	10.00
Year of entry		
2007	25.62	55.72
2008	20.41	44.28
2009	21.23	
2010	17.88	
2011	14.87	
Year of first exit from benefit receipt		
2007		23.43
2008		40.35
2009		23.73
2010		9.97
2011		2.52
N	18247	6027

Source: SIG, own calculations

4.2 Method

We estimate discrete-time hazard rate models for competing risks and controlled for unobserved heterogeneity for exits from benefit receipt within three years of first UBII receipt. These models estimate the monthly probability to exit benefit receipt depending on the duration in the state and time-constant and/or time-varying covariates as well as an individual-specific random effect (Allison 1982; Jenkins 2005). As competing risks, we regard work-related exits and other exits.

As time-constant control variables, we include gender, age, duration since the end of last dependent employment and labour market experience (i.e. months in contributory or marginal employment) measured at the entry into benefit receipt. Qualifications, household composition, citizenship and region of residence are included as time-varying covariates. Furthermore, we control for the year of entry into benefit receipt, the calendar month and time-varying local labour market conditions via both a typification of regions in terms of labour market conditions

and agglomeration (Dauth/Dorner/Blien 2013) and the annual average unemployment rate at a district level.

We also apply a discrete-time hazard rate model to estimate the probabilities to return to benefit receipt within three years after exit. We use the same covariates described above except that age and the previously time-varying covariates are fixed at the value observed for the last month in benefit receipt because we could not observe them in times without benefit receipt. In addition, we control for the year of the first exit from benefit receipt, i.e. the year when the return process starts.

5. Results

5.1 Descriptive evidence

The cumulative incidence of exits from benefit receipt shows that both exit routes are important and work exits are slightly more common than other exits (Figure 1). After one year, 51 per cent have left welfare receipt: 26 per cent to work and 25 per cent to other destinations. After three years, 74 per cent have left welfare receipt, thereof 38 per cent to work. Despite the strong focus on activation and labour market integration of recipients, exits to other destinations were substantial and could be rooted in the complex interaction with possible other household incomes, particularly employment of partners, and changing household composition. This also reflects the heterogeneous composition of benefit recipients that is not limited to (long-term) unemployed individuals.

Figure 2 displays the survival out of welfare receipt by exit route. It shows, first of all, that returns to benefit receipt are quite common: after twelve months more than one third (37%) have returned. Second, the exit route matters for the stability of exits: work exits are significantly more stable than other exits. After one year, 36 per cent of those who had exited welfare receipt to work have returned, whereas 38 per cent of those who had exited to other destinations already returned.

Figure 1: Cumulative Incidence of Exits From Welfare Benefit Receipt by Exit Route
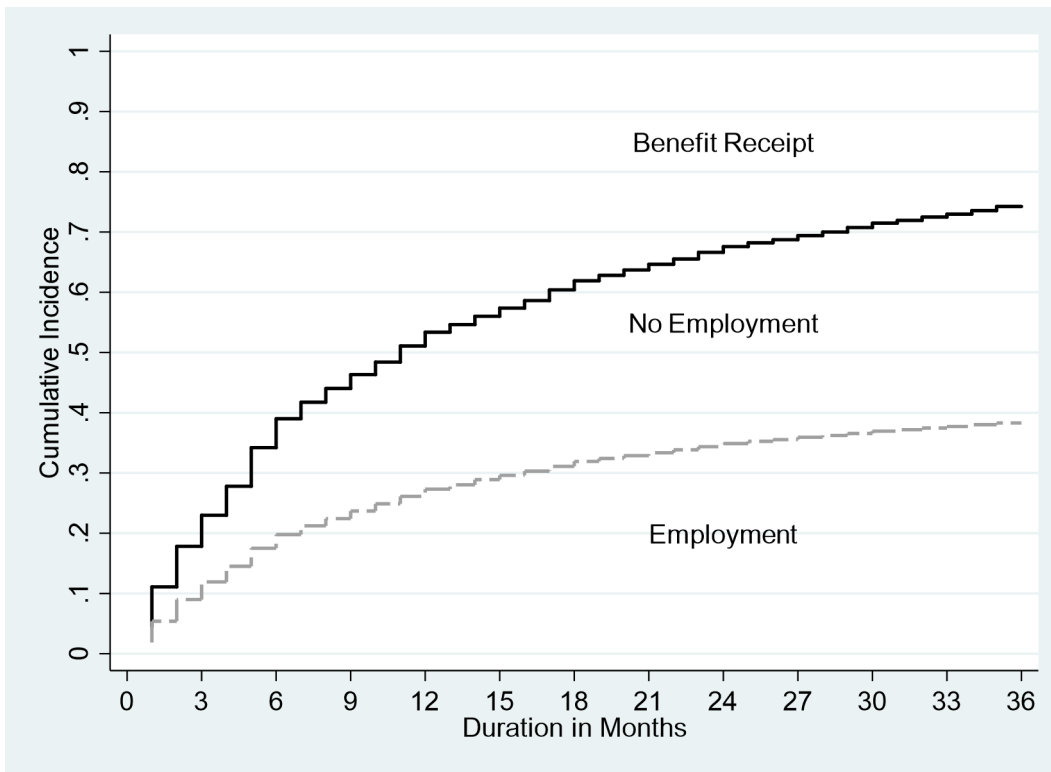
Source: SIG, own calculations

Figure 2: Survivor Function of Returns to Welfare Benefit Receipt by Previous Exit Route
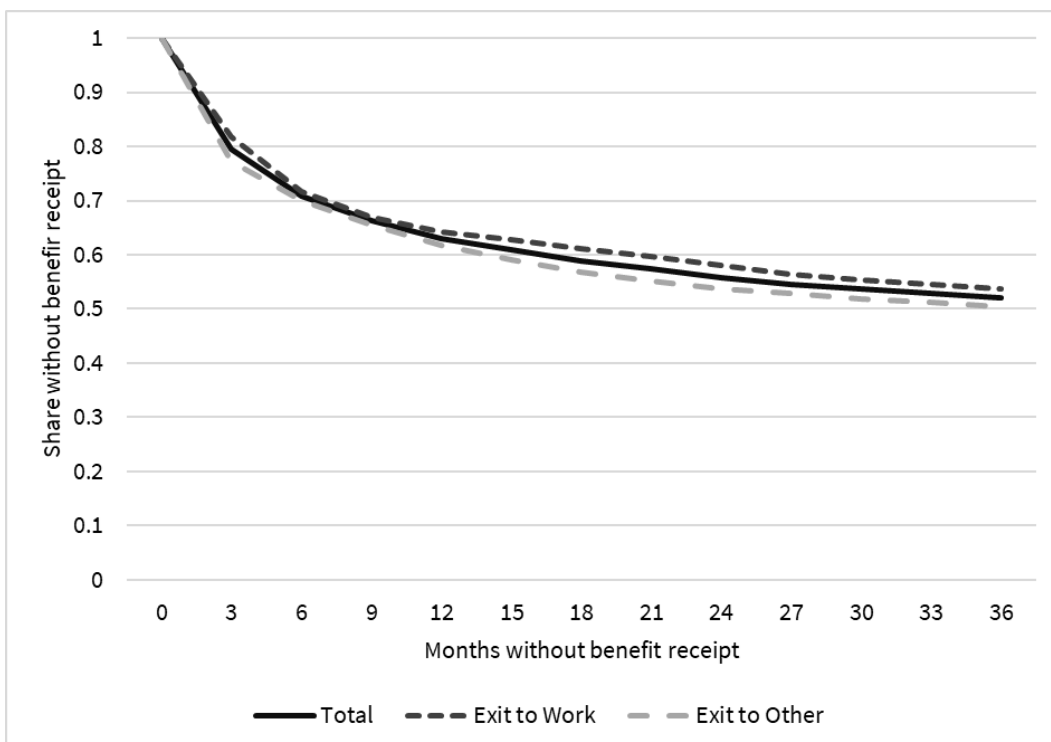
Source: SIG, own calculations

5.2 Determinants of leaving welfare benefit receipt by exit route

The first three columns of Table 2 present marginal effects from the discrete-time hazard rate models for exits from welfare receipt in general and by exit route. First, we find evidence for duration dependence in benefit receipt. The hazard rate decreases with duration in welfare receipt after nine months for exits in general and exits to other states. The probability of work-related exits increases during the first twelve months and decreases afterwards.

Second, labour market resources are very relevant for work-related exits. Individuals with a high qualification level (tertiary education) leave welfare receipt faster than those with a medium (vocational qualification) or low (no vocational qualification) level do. This holds for both exit routes, but is particularly evident for work exits. Recent employment experience also matters for the chances to leave welfare receipt: Chances of leaving welfare for work decrease with longer durations since the last contributory or marginal job ended before benefit receipt, while this is not the case for other exits. Furthermore, previous cumulative employment experience is associated with faster exits into work, but not into other destinations. Overall, these results are in line with expectations based on human capital theory that labour market resources are helpful particularly for work exits.

Third, with respect to sociodemographic characteristics, the results show that a higher age is associated with lower chances to exit welfare receipt via both routes. For exits in general and work exits, a high age has the largest negative effect in the model, which might be rooted in health restrictions or a reluctance of employers towards hiring older workers. Age is less important for the exits to other destinations, maybe because different exit routes (disability benefits or pensions of older household members) become available.

The gender and household effects hint at the potential reasons for other exits. The effect of gender differs by exit route: Women are less likely to exit with own employment but are more likely to exit for other reasons. The latter can be a result of their partner's employment. Couples without children under 18 years of age have the highest probability for work exits. This result points to restrictions due to care responsibilities for coupled as well as lone parents. That this effect is stronger for women as indicated by the interaction effect, underlines this assumption as well as an asymmetric gender division of labour. For other exits, the pattern differs in that they are particularly likely for partnered women.

The main effect of the household type concerning other exits hints to two other potential reasons: The positive effects for parents with (particularly adult) children might be rooted in additional household income available for households with children (i.e. child-related benefits upstream of UBII such as child allowance or housing benefits or own income of older children via an apprenticeship) or in older children moving out.

Turning to citizenship, we find that the chances of leaving welfare receipt differ by region of citizenship but only slightly by exit route. Individuals with citizenship from Turkey, Eastern and Southern Europe, Africa and Asia leave welfare slower than German citizens do. This indicates lower labour market opportunities of immigrants and maybe fewer entitlements to other benefits (disability, pensions).

The coefficients of the further control variables indicate the relevance of labour market conditions: Exits from benefit receipt are more likely in regions with lower unemployment rates.

Work-related exits become more likely for later entry cohorts, i.e. for those which are less affected by the economic downturn of 2009 in the early stages of benefit receipt.

Overall, labour market resources are important particularly for work-related exits. Several sociodemographic variables are relevant for both types of exits. The role of the household context (i.e. partnership and children) is gender-specific and mirrors the gender-specific divisions of labour, which leads to different exit routes.

Table 2: Determinants of Exits from and Returns to Benefit Receipt by Exit Route

Average Marginal Effects in Percentage Points

	All exits	Exit into work	Exit into other	All returns	Return from work	Return from other
Time in/out of benefit receipt in months (Ref.: 1-3)						
4 to 6	0.013***	0.010***	0.005***	0.020***	0.022***	0.013*
7 to 9	-0.001	0.004*	0.000	0.017*	0.010	0.017*
10 to 12	-0.008**	0.002*	-0.006**	0.016*	-0.006	0.031***
13 to 15	-0.016***	0.000	-0.012***	0.001	-0.031***	0.031**
16 to 18	-0.016***	-0.002*	-0.009***	0.010	-0.017	0.036***
19 to 21	-0.022***	-0.003*	-0.014***	0.006	-0.017	0.029*
22 to 24	-0.022***	-0.004*	-0.013***	0.010	-0.012	0.030*
25 to 30	-0.028***	-0.007**	-0.016***	0.001	-0.014	0.010
31 to 36	-0.029***	-0.008***	-0.016***	-0.006	-0.022*	0.006
Labour market resources						
Qualification (Ref.: Medium)						
Unknown	0.018***	0.006***	0.012***	-0.089***	-0.077***	-0.078***
Low	-0.005***	-0.005***	0.000	-0.023***	-0.032***	0.001
High	0.020***	0.019***	0.003**	-0.007	-0.006	-0.010
Duration since last job ended in months (Ref.: <12)						
Never employed	-0.024***	-0.026***	-0.003*	-0.020	-0.001	-0.037*
12 to <24	-0.017***	-0.016***	-0.004***	-0.020***	-0.016*	-0.012
24 to <36	-0.018***	-0.021***	0.001*	-0.030***	-0.024***	-0.032*
36 to <48	-0.015***	-0.020***	0.004*	-0.028***	-0.016	-0.039**
48 and more	-0.017***	-0.022***	0.003*	-0.012	0.006	-0.028*
Labour market experience	0.000***	0.000***	-0.000	-0.000	-0.000	0.000
Labour market experience squared	-0.000**	-0.000**	0.000*	0.000	0.000	-0.000
Sociodemographic characteristics						
Age in years (Ref.: 25-34)						
35-44	-0.012***	-0.011***	-0.003**	0.029***	0.028***	0.017
45-54	-0.023***	-0.022***	-0.005***	0.028***	0.036***	0.007
55 and older	-0.033***	-0.032***	-0.006***	-0.003	0.042***	-0.035***
Gender (Ref.: Male)						
Female	-0.001*	-0.005***	0.004***	-0.009	-0.018**	-0.002

	All exits	Exit into work	Exit into other	All returns	Return from work	Return from other
Type of household (Ref.: Single)						
Couple w/o children	0.011***	0.001*	0.010***	0.035***	0.012	0.053***
Couple w adult children	0.021***	0.003*	0.018***	0.039*	0.014	0.064**
Other	0.004*	-0.003*	0.007**	0.035	0.051	0.031*
Couples 1 child	-0.000	-0.008***	0.008***	0.043***	0.005	0.078***
Couples 2 children	-0.002*	-0.010***	0.008***	0.020*	-0.002	0.036**
Couples 3+ children	-0.008***	-0.016***	0.006**	0.031*	0.020	0.037*
Lone parent 1 child	-0.013***	-0.010***	-0.004*	0.026	0.013	0.039*
Lone parent 2 children	-0.020***	-0.018***	-0.005*	-0.006	-0.007	0.075*
Lone parent 3+ children	-0.011*	-0.017**	0.008	-0.035	†	†
Female#household type (Ref.: female*single)						
Female*Couple w/o children	0.001	-0.012***	0.007**	-0.020	-0.031*	-0.006
Female*Couple w adult children	-0.005	-0.022**	0.008*	0.075*	0.048*	0.085
Female*Other	0.000	-0.002	0.002	-0.042	-0.099*	0.001
Female*Couples 1 child	0.001	-0.013***	0.013***	0.044*	-0.004	0.080***
Female*Couples 2 children	0.002	-0.015***	0.016***	0.052**	0.026*	0.066*
Female*Couples 3+ children	0.007*	-0.013***	0.018***	0.059*	0.030*	0.087*
Female*Lone parent 1 child	-0.006*	-0.005*	-0.003*	0.052	0.029*	0.079
Female*Lone parent 2 children	0.004	0.004	0.001	0.091	-0.005	-0.014
Female*Lone parent 3+ children	-0.021*	0.000	-0.029*	0.025	†	†
Citizenship (Ref.: Germany)						
Turkey	-0.016***	-0.010***	-0.008***	0.041***	0.056***	0.014
Southern Europe	-0.005*	-0.003*	-0.003*	0.025*	0.040*	-0.002
Eastern Europe	-0.015***	-0.011***	-0.007***	0.049***	0.028	0.042*
North and Western Europe	0.000	0.000	0.001	-0.012	0.020	-0.037
Africa	-0.013***	-0.001	-0.011***	0.084***	0.051*	0.108**
Asia	-0.024***	-0.012***	-0.013***	0.021	0.021	0.021
Other	0.006*	-0.002	0.009*	0.023	0.037	-0.005
Exit route						
Exit to work (Ref.: exit into other)				-0.013**		
Further control variables						
Region (Ref.: Western Germany)						
Eastern Germany	0.000	-0.003*	0.002*	0.009	-0.009	0.034**
Unemployment rate on district level	-0.002***	-0.001***	-0.001***	0.002	0.003	0.001
Year of first entry into benefit receipt (Ref.: 2007)						
2008	-0.001	-0.002*	0.001*	0.004	-0.003	0.014
2009	0.002*	0.001*	0.001*			
2010	0.005**	0.004**	0.001*			
2011	0.004**	0.005***	0.000			

	All exits	Exit into work	Exit into other	All returns	Return from work	Return from other
Year of first exit from benefit receipt (Ref.: 2007)						
2008				-0.005	0.009	-0.027*
2009				-0.008	0.021*	-0.049***
2010				-0.018	0.022*	-0.069***
2011				-0.037**	-0.001	-0.083***
N	294,688	294,688	294,688	134,536	67,891	66,502
N (groups)	18,166	18,166	18,166	5,988	2,927	3,057
Log likelihood	-51369.4	-29977.4	-29552.3	-12168.7	-5798.5	-6242.8
sigma_u	0.358	0.696	0.595	3.109	2.301	3.777
rho	0.037	0.128	0.097	0.746	0.617	0.813
chi2_c	6.16	32.33	5.75	360.773	94.093	254.042

The results are from the discrete-time hazard rate models controlling for unobserved heterogeneity. Further control variables: Regional labour market types, calendar months. Significance levels: * 5%; ** 1%; *** 0.1%.
† Categories of lone parents with 2 and 3 or more children are combined due to low case numbers among lone fathers.
Source: SIG, own calculations.

5.3 Determinants of re-entry in comparison

Columns 4 to 6 of Table 2 display the marginal effects for the return into benefit receipt for those who exit from benefit receipt within the first 36 months. First, the general model (column 4) shows that, in line with descriptive evidence, work-related exits are significantly more stable (also when controlling for covariates). Also in line with the descriptive results, risk of returning to benefit receipt is particularly high after four to twelve months after exit. The time effects differ substantially according to the route that previously led out of the first benefit receipt. Work related exits are relatively fragile in the 2nd quarter after exit but become more stable after twelve months without benefit receipt. This could be the case because either employment stabilises and indicates a good match once one is beyond the screening period or individuals acquired eligibility for UIB. For previous exits from benefit receipt for other reasons, the risk to return to benefit receipt is higher after three months until two years after exit.

Second, turning to labour market resources, we find that those who worked within the last year prior to entry into receipt return faster than recipients whose last employment ended between one and three years ago. The stability of work-related exits of those with their last employment relationship within the last twelve months is equally low as the one of those recipients without any previous employment or of one more than three years ago. The reasons for this might differ, though: welfare receipt after recent employment might hint to a recurrently unstable employment situation possibly in labour market segments with high turnover. Rather quick returns for those without previous employment or very long-term unemployment could reflect their long-term exclusion from the labour market and/or low health-related employability. While these effects differ only slightly for exit routes, we find effects in different directions for cumulated previous labour market experience: More labour market experience helps individuals to stay out of benefit receipt after having exited with employment but is associated with lower stability for other exits.

A higher qualification level helps welfare recipients to leave benefit receipt but it does not help individuals substantially to stay out of benefit receipt: Those with low or unknown qualification return more slowly from work than those with medium or high qualification. No differences between qualification levels appear for other exits (except for unknown qualification). Cumulated previous labour market experience has no significant effects on the probability to return to benefit receipt. Overall, we find no unequivocal evidence that labour market resources increase stable self-sufficiency after exit from benefit receipt.

Third, turning to sociodemographic characteristics, we find that the likelihood to return into benefit receipt from work depends on age. For exits in general the youngest and oldest age groups are those most likely to stay out of benefit receipt. The effect of age differed vastly between the exit routes: after a work exit, the group of those aged 55 years and older is most likely to return to benefit receipt, possibly because of health restrictions. In contrast, if this older group had exited for other reasons, they were the most likely to remain independent of welfare. The latter result might be related to transitions of older people and their partners into the pension or disability system. The results concerning citizenship indicate a double disadvantage for Turkish, southern and eastern European and African citizens who do not only leave welfare more slowly but also return faster.

Considering gender and household context, we find that women return significantly more slowly than men when they exited with own employment. Among the different household types, single households are least likely to return to benefit receipt. Lone parents, who have a particularly hard time leaving benefit receipt do not differ from singles with respect to return probabilities overall and when having exited with own employment. In the process of exiting benefit receipt, couples without minor children have the highest exit probabilities, particularly to other destinations. In the return process, however, they show relatively high return probabilities, which might be due to an instability of other household income, particularly partners' employment. This can also be a reason for the higher return probabilities of couples with children. Another reason for higher return probabilities among couples with children could be that the reconciliation of work and care responsibilities is an ongoing process, which might turn more problematic as children reach different age categories and therefore the family faces a different childcare infrastructure, or that additional children are born.

6. Conclusion and discussion

In this paper, we analyse the exits from and re-entries into means-tested welfare benefit receipt in Germany applying a differentiated approach distinguishing between work-related and other exits. The German benefit system after the Hartz reforms follows an international trend focusing on activation and aims to bring the jobless back into work through job-search requirements and activation measures. Moreover, benefit receipt is not conditional on unemployment but on the neediness of the household. Thus, recipients comprise not only unemployed individuals but also low-wage and part-time employees, ALMP participants and family members with care responsibilities. These two characteristics of the benefit system – the demanding elements and the heterogeneous recipient groups – are reflected in our results.

The determinants for work exits are, by and large, in line with previous research. We identify low human capital, a foreign citizenship, older age and lone parenthood as barriers to employment integration. Favourable labour market resources in contrast enable employment-related exits from benefit, but do not safeguard former recipients from returning to benefit receipt. Apparently, it also takes other characteristics than labour market resources to remain independent of welfare benefits. Among sociodemographic characteristics, cumulative disadvantages for foreign citizens and for labour market integration of older recipients emerge in that they are associated with low exit and high return probabilities.

Within the realm of work-related exits and returns, we identify a segment of recipients with instable employment-related exits. The fact that recent employment experience before benefit receipt is associated with faster exits to work as well as faster returns back into benefit receipt from work is likely to be rooted in the demanding elements of the system, i.e. the requirement to accept any job. Furthermore, it reflects the dualised nature of the German labour market, where labour market outsiders have a hard time finding a stable insider position (Biegert 2014). Moreover, a further broadening of the concept of unemployment could involve targeting not only unemployed but also those former benefit recipients that took up employment but remain on the margins of the labour market by polices. Investing in human capital of those with recurrent unstable employment relationships and enabling them to enter different occupational and/or sectoral segments of the labour market might be preferable to pursuing a work-first strategy in the longer term.

Even though the system strongly focusses on labour market integration, the overall picture is more complex. Because of the heterogeneous recipient groups and the definition of the household as benefit receiving unit, a very substantial share of exits is not related to individual employment. Our results point at a certain relevance of other household members' income, particularly labour income of male partners, other benefits and changing household composition for leaving benefit receipt.

A substantial share of exits from benefit receipt – particularly exits not related to individual employment – is unstable. Thus, the social political goal of sustainably improving recipients' financial situation is not met for a substantial group. Besides investing in recipients' capabilities and human capital, it could be a fruitful strategy to foster more stable employment and upward mobility by supporting (former) benefit recipients also after employment take-up.

Furthermore, we find gender differences and a very complex situation with higher return rates for couples and families with children. Thus, job centres should not rely on just one person taking up work to lead the whole household into sustainable self-sufficiency. Promoting dual-earner strategies in couples receiving welfare benefits could lead to more stable exits from benefits for families, because a second earner buffers the risk of unstable employment. This, however, requires possibilities to reconcile work and care, which can only be achieved when local actors of labour market, social and family policy cooperate.

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Figures

Tables

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