

Job Entry and the Ways Out of Benefit Receipt of Young Adults in Germany

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Abstract

The study explores the ways out of benefit receipt by labour market integration of young adults in Germany. Under 25-year-olds are a certain 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 be related to 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 arrangement in benefit dependency. The article examines the chances to leave benefit dependency by labour market integration of about 650 18- to 24-year-old benefits 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 on the one hand that most young benefit recipients enter a job or training during the observed period of time; though on the other hand, 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 also evidence that ongoing benefit claims may go hand in hand with discouraging experiences of discontinuous school-to-work-transitions.

1. Introduction

Social policy in Germany, as in other European welfare states, pays attention to the special needs of young people in risk of poverty and social exclusion. Benefit receipt affects 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 (Adamy 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 after one year in benefit dependency 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 arrange in benefit dependency.

In spite of the political consideration, the empirical questions how long young people depend on social benefits and if labour market integration is a promising way out are still lacking an answer. Hence, this study addresses following main issues for young social benefit recipients in Germany: Which factors influence their chances to leave benefit dependency by labour market integration? And which subgroups are in certain risk of longer benefit dependency due to low employment prospects? 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 diminished by activation policies, e.g. further training, or by social and familial reasons (Heady 1997).

Activation policies play a decisive role within the German social benefit system¹. 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 certain target group because early interventions during the transition to adulthood are considered to be particularly efficient (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 be preliminary 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.

This article examines the ways out of benefit dependency of 18- to 24-year-old social benefit recipients in Germany in the beginning of 2005 by using a survey on benefit recipients and administrative data on their employment and benefit biography for three years. Several aspects of the young people's living conditions can be considered: qualifications, household and financial situation and social origin. 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 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.

¹ See Second Book of the Social Security Code.

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

The current German benefit system was introduced in 2005 by the so called “Hartz IV” reforms and combines former unemployment assistance and social assistance. The social benefit is a means-tested basic income subsidy for 15- to 64-year-olds capable of working and their households on missing or inadequate incomes. It ensures a socio-cultural existence minimum for living and housing and supports employment integration by active labour market policies (Eichhorst et al. 2006). Benefit receipt of young adults can be related to several reasons. Table 1 shows that in January 2005, about one-third of the 18- to 24-year-old benefit recipients were unemployed; additionally one-tenth participated in qualification schemes. Furthermore employees with insufficient 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 training and almost one-tenth were on parental leave (Popp et al 2006).

*** table 1 about here***

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 is strongly linked to each other. About one-fifth of the young unemployed benefit recipients in January 2005 were without educational degree, furthermore two-third had no vocational degree (yet) (Popp et al 2006). The number 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 certain risk for limited job and earning 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 more often unemployed themselves (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 quantitative most important ways out of benefit dependency (Buhr 1995; Gangl 1998; Gebauer 2007; Gebauer et al 2003²). These studies focus on 18- to 64-year-olds, therefore leaving benefit dependency by training is relevant for a very little percentage of the benefit recipients (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; 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

² The presented studies in this section refer to previous social assistance recipients.

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.

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

Explanations have to be found which young benefit recipients can take up training or employment in general; and especially gainful training or employment that contributes to a household income covering the social existence minimum. The process of becoming independent from social benefits has to be discussed by different theoretical perspectives: 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 labour market behaviour of benefit recipients in the benefit system and familial context and third, the individual familial resources for job entry by social origin. On basis of the different theoretical argumentations, hypotheses are drawn for the empirical analysis.

Matching processes on the labour market

Leaving benefit dependency by labour market integration³ 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 (Spence 1973; Stiglitz 1975). 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

³ Besides employment, integration into vocational training in firms depends on labour market processes as well.

earnings. Qualifications and job experience are indispensable labour market resources. They are used as indicators for individual productivity based on the perspective of human capital theory that the educational investments by schooling or proceeding employment experience develop the individual productivity in terms of skills and knowledge (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 – go hand in hand with sorting out processes due to negative signalling. According to these statements, skilled and experienced people have better recruiting perspectives and access to advantaged job positions with good earnings than people with low human capital. The conclusion for the subgroup of young benefit recipient is that qualifications and labour market experience may accelerate people's chances to leave benefit dependency.

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. Relevant subgroups are e.g. defined by gender or migration background meaning that females and migrants are disadvantaged labour market groups. Employers assess their productivity by statistical discrimination (Arrow 1975). 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.

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: 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 in the first 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 on the labour market 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:

- The chance to leave benefit receipt by integration into gainful employment or education is greater for high skilled young adults. They are attractive employees who are rewarded by good recruiting perspectives and access to profitable job positions.
- The young adults' chance to leave benefit receipt by integration into gainful employment or training is raised with proceeding employment experience and diminished with unemployment.
- Young migrants and women are certainly disadvantaged subgroups on the labour market compared with non-migrants and men. The latter may experience better chances to leave benefit dependency by labour market integration.
- 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: 115f) 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. 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; Leisering/Voges 1992; 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: Parents trade the time for employment off against familial commitments to assure the welfare of their family (Becker 1976; Leisering/Voges 1992). Parents caring for their children have limited job alternatives, especially in full-time. Lone parents should be certainly disadvantaged as they cannot arrange child caring commitments with a partner. They 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 relative adequate financial situation, e.g. by familial financial support, than for peers with poor finances.
- 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. This connection is mostly discussed by scholars who explore the reasons for poor educational achievements of poor and underclass children (e.g. Boudon 1974; Erikson/Jonsson 1996; Esser 1999) that may limit the employment perspectives in the long run. In addition, social networks are an important source as they offer access to and information about gainful labour market positions (Granovetter 1973; Lin 2000). It can be assumed that labour market entrants have not yet build up own labour market related networks; much more they strongly depend on the resources of their family (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 job positions. Furthermore, it is assumed 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. Standardised interviews with about 20.000 benefit recipients took place at the end of 2005. These 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.

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 following employment status: registered unemployment, employment liable for social insurance and vocational training. 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 information⁴. 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. 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 income reaches a sufficient extent to become independent from social benefits. Hence, the combination of both dimensions leads to three different destination states that describe different exit routes from benefit receipt as illustrated in table 2 and described below.

*** table 2 about here ***

- (A) Exit by labour market integration: Young adults leave benefit receipt by job entry into a gainful employment or training position. Thereby labour market integration subsumes several different opportunities: First of all it accounts for starting a new job or vocational training. Further possibilities for 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

⁴ Data are organized in person months as the survey gives monthly information.

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 leave benefit dependency by reasons that cannot be linked to individual labour market transitions. This possibility is seen as a minor way out of benefit receipt if young people do not progress their employment career. The destination state C subsumes various exit options: Firstly people can gain independence from social benefits which is an income subsidy for households by familial events like (re-)employment of the parents or partner or marriage. These events cannot be differentiated in the used survey and register data. Secondly exit by further reasons refers to transitions into unemployment benefit receipt. Due to small numbers this possibility is pooled to destination state C. Thirdly the exit option might subsume some other 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 destination state in 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 destination states are observed for the 674 young adults. The high number of events indicates that young people who can reduce benefit receipt by labour market integration might turn to further destination states until they potentially gain financial independence. In most cases, more than 40 per cent of all events, the young people left benefit dependency by further reasons. In about 20 percent, young persons could escape benefit claims by employment or training. 37 per cent of all observed events are reduced benefit dependency by labour market integration (table 6, appendix).

The transitions into the three destination states are considered by event history models with competing risks (Blossfeld et al 2007). The model allows for multiple episodes to consider further transitions after reduced benefit receipt by labour market integration. Piecewise constant exponential models control for changing transition rates over time since last event: the model includes intervals of three months for the first two years and a single interval for the third year. The episodes following a previous partial exit are marked by a dummy indicator; furthermore the analysis is controlled 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.

The model includes several further independent covariates. Table 7 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 educational 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 current employment status captures employment, short-term unemployment⁵ (up to 12 months), long-term unemployment (more than 12 months) and further activities. The latter subsumes young people in training, school, parental leave or missing information in the data. The information in the analysis refers to the observed employment status with one month lag to avoid direct interactions with the dependent destination states.

The financial situation is measured by the young adults' given information about the household's net income in the survey⁶. The income is weighted to consider differences for households with more persons; the new OECD equivalent scale is used. 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.

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 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.

⁵ Here, unemployment includes scheme participation.

⁶ Alternative operationalization by reservation wage or wage gap models are not considered in the model as these concepts are not relevant for students, trainees and further young adults without previous employment experience.

Some respondents could not give any information about their parents; so the models are controlled for missing 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 recipients 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 observation⁷. 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. According to previous results (Buhr 1995), these young people run a certain risk to experience grave individual consequences.

*** figure 1 about here ***

Becoming independent from social benefits can be a process of several labour market transitions until young adults realize 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. About one-quarter 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, about one-half, end their first benefit episode by further reasons.

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

⁷ It has to be mentioned that repeated benefit receipt might occur (Schels 2008) and has to be analysed by further studies.

training. Much more the following selected findings illustrate a different picture: More than two-third of the surveyed young adults enter job or training that leads either to a partial or full exit from benefit receipt. Furthermore, almost two-third of the young adults who left benefit receipt by further reasons and one-half of those who were in permanent benefit dependency over three years have could reduced their benefit receipt by labour market integration in the months before. The description clearly shows 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 about here ***

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 or training. Some started minor jobs. Just a small number of the young benefit clients 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. Young people who took up a regular job more often leave benefit claims than depend on state support further on. In comparison, young adults who enter minor jobs stay in reduced benefit receipt more often than the average. Nevertheless, reduced benefit dependency can also be observed for young adults taking up regular employment; and minor employment can lead to financial independence.

*** table 4 about here ***

Summing up so far, there is great variation in the ways out 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 predominantly 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, B) partial exit by labour market integration and C) leaving benefit receipt by further reasons.

Qualifications are one of the strongest predictors for the 18- to 24-year old benefit recipients' chance to leave benefit dependency by labour market integration. Young adults with university entrance diploma or vocational degree may leave benefit receipt within a relative short period of time into training or employment. There are no significant effects from qualifications on partial exits by labour market integration. The hypothesis that qualifications are important resources for the young benefit recipients to find a gainful job positions can be confirmed. Furthermore, graduates with university entrance degree have significant better chances to leave benefit receipt in general as can be seen by the positive effect on an exit by further reasons. This finding may suggest that high skilled young people more often live in households with relative good general resources in comparison to other young benefit clients. It is a further possibility that high skilled school graduates follow further or academic education. These events cannot completely be captured in the used data and have to be examined by future studies.

Moreover, the current labour market status and previous biography of the young adults have effects. 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. Furthermore, there is a strong positive effect from long-term unemployment on the probability that young adults reduce benefit dependency by labour market integration. These interesting results lead to following two explanations: First, unemployed young adults are certainly supported by activation policies as illustrated by the high transition rates while students, trainees and 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. Second, 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.

A previous partial exit by labour market integration has positive effects on both further partial exits and the way out of benefit dependency by further reasons; but it does not significantly promote a final exit by labour market integration. This finding indicates two different paths through benefit receipt. First, young people may contribute some money to the household with a partial exit by labour market integration until e.g. another member of the household takes up additional employment. Second, some young benefit recipients seem to experience employment careers in state support. This shows that labour market integration of young benefit recipients is not evitable connected with steeply progressing employment careers and prompt financial gains.

The more often 18- to 24-year-old benefit recipients were previously employed the better are their chances to be integrated into the labour market. This finding supports the assumption that experienced employees have good prospects for reemployment. But the connection between the number of employment episodes and labour market perspectives is curve-linear; this can be seen in the negative effect from the squared numbers of employment spells. Furthermore, raising unemployment experience diminishes the probability to leave benefit receipt, also in a moderate curve-linear way. Numerous employment and unemployment episodes indicate a discontinuous employment career of the young benefit recipients. 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).

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 in longer benefit receipt and not enter a job or training if they have arranged in a relative adequate financial situation in benefit receipt. However, the analysis shows no significant effects from the equivalent household income on the benefit recipients' labour market transitions; still interestingly, living in a relative better financial situation in the end of 2005 raises the chance to leave benefit receipt by further reasons significantly. These households might already have possessed further incomes that smoothes the way to financial independence. Although the model reports just this single effect, this is a hint that households in a relative adequate financial situation seem not to arrange in benefit receipt.

Employment decisions may also depend on the familial context. The analysis shows that young people living in households with children have few chances to leave benefit dependency by employment and – except people with an own family - by further reasons. Roughly speaking, longer benefit receipt corresponds with young lone parenthood or establishing an own family as well as with living at the parents' home. The latter indicates an uncertain employment integration of the parents (Popp et al 2006). 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; Strengmann-Kuhn 2001). But some differentiations have to be mentioned: First, young benefit recipients with an own family can leave benefit receipt easier by further reasons as for example reemployment of the partner is an additional option. Second, 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 effect from living with a partner on the exit chances by employment integration.

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. It was argued that long-term unemployed are sorted out in the recruiting

process. But according to the concept of learned helplessness, an alternative explanation may be that young adults withdraw from the labour market and arrange in benefit dependency to avoid further disappointments. 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 clients show no lower 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. But previous benefit receipt raises the chance to leave benefit claims by further reasons significantly. A possible explanation is that some young adults may cycle on and off welfare due to insecure social and familial living conditions (see Richburg-Hayes/Freedman 2004 for the USA). Some further results suggest that familial benefit careers in permanent or recurrent benefit receipt might occur beyond young peoples' labour market options: children of low qualified parents show a higher transition rate from benefit dependency by further reasons; young benefit recipients whose parents were unemployed at the respondents' age of 15 have especially low prospect to leave benefit receipt by further reasons. This perspective has to be followed up in further studies.

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 grew 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 8, appendix). Although both interaction effects are not significant, the effect from social origin loses its significance and strength. This finding can be interpreted the way that there exists a connection between parental and own unemployment which corresponds with former empirical findings (McGinnity/Hillmert 2004). Taking up employment seems to be more urgent for the surveyed subgroup among the unemployed benefit clients. Though this study shows in general that the financial situation of young

benefit clients or their social background does affect their labour market transitions directly; this particular finding indicates that some young benefit recipients might experience a certain 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, ongoing benefit receipt seems not to be a matter of poor labour supply of young people with low social background or financial utilization of the benefits - some findings even indicate the contrary.

Nevertheless 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): Escaping benefit claims by employment or training is mainly a question of labour market opportunities.

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 try on 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 subsidized 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 contact; in contrast, it may erode young people's motivation (France 2008; Walther 2006). 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 basis of a detailed orientation process seems to be the better way out of benefit receipt.

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Tables and Figures

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

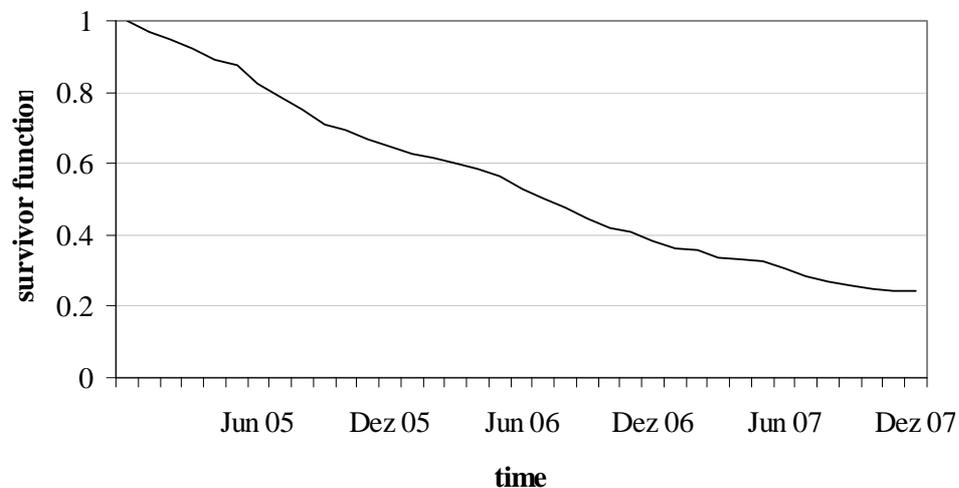
Labour market status	%
unemployed	36.9
student	20.7
scheme participation	12.4
trainee	11.7
on parental leave	8.8
employee	6.2
else	3.2
total	100.0

source: Popp et al 2006

Table 2: Possible destination states within benefit dependency

		Job/training entry	
		yes	no
Independence from social benefits	yes	Exit by labour market integration (A)	Exit by further reasons (C)
	no	Partial exit by labour market integration (B)	- (D)

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

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)

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

source: LSS 05, register data; own calculations

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.

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 of employed benefit recipients	9.0	7.8	8.2
total	100.0	100.0	100.0
n	184	299	483

source: LSS 05, register data; own calculations

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	exit by further reasons C
qualifications (<i>rf=no/lower secondary school certificate</i>)			
secondary school certificate	1.178	0.936	0.972
university entrance diploma	2.077 ***	0.978	1.497 **
vocational degree (<i>rf=no degree</i>)			
	1.478 **	1.090	1.025
employment status , one month lag, (<i>ref: non-employment</i>)			
employed	1.092	0.729	1.099
short-term unemployed, <=12 months	4.094 ***	2.485 ***	1.239
long-term unemployed, 13 months and more	2.827 ***	5.890 ***	1.151
previous partial exit (<i>rf = none</i>)			
	0.776	1.802 ***	2.160 ***
employment career			
previous employment episodes	1.318 ***	1.094 **	0.990
(previous employment episodes) ²	0.988 **	1.000	0.997
previous unemployment episodes	0.646 ***	0.871	0.860
(previous unemployment episodes) ²	1.052 ***	1.013	1.007
highest qualification of parents (<i>rf = secondary school certificate of higher</i>)			
no information	0.654	1.108	1.400 *
no/lower secondary school certificate	0.629	1.210	1.343 *
highest labour market status of parents , at respondents' age of 15 (<i>rf = qualified employment</i>)			
no information	0.750	0.927	1.073
low qualified employment	0.903	1.104	0.910
unemployed, not employed	1.551 **	1.019	0.743 *
equivalent household income (/100), periodic effects			
income situation of Dec 04 in Jan 05 – Oct 05	1.006	0.996	0.999
income situation of Nov 05 in Nov 05 – Dec 06	1.009	1.002	1.040 ***
income situation of Nov 05 in 2007	0.967	0.962	0.999
previous benefit receipt (<i>rf= no</i>)			
	0.881	1.126	1.435 *
household constellation (<i>rf= single</i>)			
with partner, no children	0.536 **	1.065	1.159
single parent	0.410 **	1.268	0.501 **
with partner and children	0.415 **	1.218	1.437 **
with parents	0.839	0.944	0.657 **
socio demographics			
female (<i>rf = male</i>)	0.851	0.988	0.971
background of migration (<i>rf = no</i>)	0.765	0.938	1.124
controls			
age	1.019	0.936	0.933 *
regional youth unemployment rate	0.992	0.999	0.953 ***
time in benefit dependency since Jan 2005	1.022	0.984	0.978
events	184	299	342
Episodes/persons/person months		1061/674/24264	
Log pseudolikelihood	-568.59368	-909.2664	-866.5328
Prob>chi2		0.000	

Significance: * p <= 0.1; ** p<0.05; ***p<0.01, Robust standard errors, rf= reference category

Models controlled for piecewise constant periodic effects, but not reported

source: LSS 05, register data; own calculations

Appendix

Table 6: Realized destination states of 18- to 24-year-old benefit recipients of 2005 in 2007 (weighted per cent, events=825)

		job/training entry		total
		yes	no	
Independence from social benefits	yes	21.1	37.0	58.1
	no	41.9	-	41.9
total		63.0	37.0	100.0

source: LSS 05, register data; own calculations

Table 7: Descriptive statistics, January 2005 (n=674)

Variable	Values	N	Per cent*	Mean	Stand. dev.	Data source	time dependency
qualifications / 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	-	-		
	long-term unemployed (13 months and more)	13	2	-	-		
employment career	previous employment episodes	-	-	2.2	2.6	Register data	yes
	previous unemployment episodes	-	-	1.1	1.4		
highest qualification of parents	no information	74	11	-	-	Survey data	no
	no /lower secondary school certificate	238	35	-	-		
	secondary school certificate or higher	362	54	-	-		
highest labour market status of parents, at respondent's age of 15	no information	89	13	-	-	Survey data	no
	unemployed/not employed	117	22	-	-		
	low qualified employment	146	17	-	-		
	qualified employment	322	48	-	-		
financial situation	equivalent household income (/100)	-	-	6.74	3.75	Survey data	Yes, period specific effects
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	-	-		
	with parents	365	54	-	-		
socio demographics	female	351	52	-	-	Survey data	no
	background of migration	279	41	-	-	Survey data	no
Controls	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 8: 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	
qualifications (<i>rf=no/lower secondary school certificate</i>)		
secondary school certificate	1.165	
university entrance diploma	2.042	***
vocational degree (<i>rf=no degree</i>)		
	1.490	**
employment status , 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	***
previous partial exit (<i>rf = none</i>)		
	0.775	
employment career		
previous employment episodes	1.325	***
(previous employment episodes) ²	0.988	**
previous unemployment episodes	0.640	***
(previous unemployment episodes) ²	1.053	***
highest qualification of parents (<i>rf = secondary school certificate or higher</i>)		
no information	0.634	
No/lower secondary school certificate	0.621	
highest labour market status of parents , at respondents' age of 15 (<i>rf = qualified employment</i>)		
no information	0.756	
low qualified employment	0.905	
unemployed, not employed	1.217	
equivalent household income (/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	
previous benefit receipt (<i>rf= no</i>)		
	0.863	
household constellation (<i>rf= single</i>)		
with partner, no children	0.538	**
single parent	0.415	**
with partner and children	0.414	***
with parents	0.845	
socio demographics		
female (<i>rf = male</i>)	0.848	
background of migration (<i>rf = no</i>)	0.785	
controls		
age	1.017	
regional youth unemployment rate	0.990	
time in benefit dependency since Jan 2005	1.023	
interaction effects: parental unemployment/non-employment		
* 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, rf= reference category
 Models controlled for piecewise constant periodic effects, but not reported
 source: LSS 05, register data; own calculations