

# **Subsidised *E*mployment in “*P*ublic Works” and in the Non-Profit Sector (*SEP*) in Germany**

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# Overview of the presentation

- definitions
- historical origins
- SEP as an employment relationship
- quantitative importance of SEP
- structural characteristics of SEP
- implementation
- fields of activity and type of employer
- objectives and their contradictions
- evaluation
- current debate
- conclusions

# Contemporary measures included under the heading of SEP

- *Arbeitsbeschaffungsmaßnahmen (ABM)*
  - since 1969 in the present form
- *Strukturanpassungsmaßnahmen (SAM)*
  - since 1993 (different name from 1993-1997)
- *Beschäftigung schaffende  
Infrastrukturmaßnahmen (BSI)*
  - since 2002, not yet statistically represented

# **Other measures of active labour market policy**

- **continued vocational training (apart from subsidised employment relationships)**
- **employment subsidies to private employers for the hiring of target groups**
- **allowances to unemployed persons for starting their own business**

# Long Tradition of SEP

- “Relief works” (*Notstandsarbeiten*) regulated at national level in 1920
- Job Placement and Unemployment Insurance Act 1927 codified “relief works”
- Job Placement and Unemployment Insurance Act of 1952 largely copied law of 1927
- Employment Promotion Act, 1969 - 1997, codified “Measures of (direct) job creation” (*Arbeitsbeschaffungsmaßnahmen - ABM*)

# Changing conditions of SEP (1)

- **1920 - 1935: repeated changes between and parallel existence of:**
    - employment contract, wages below collective agreements (incentive to take up regular work)
    - voluntary “working for the benefit” plus food and shelter, no contract
  - **1935 - 1945: compulsory service for young people**
    - not because of unemployment but because of labour shortage and for the purpose of education in the Nazi spirit
- ⇒ apprehension in contemporary Germany against “compulsory work”

## Changing conditions of SEP (2)

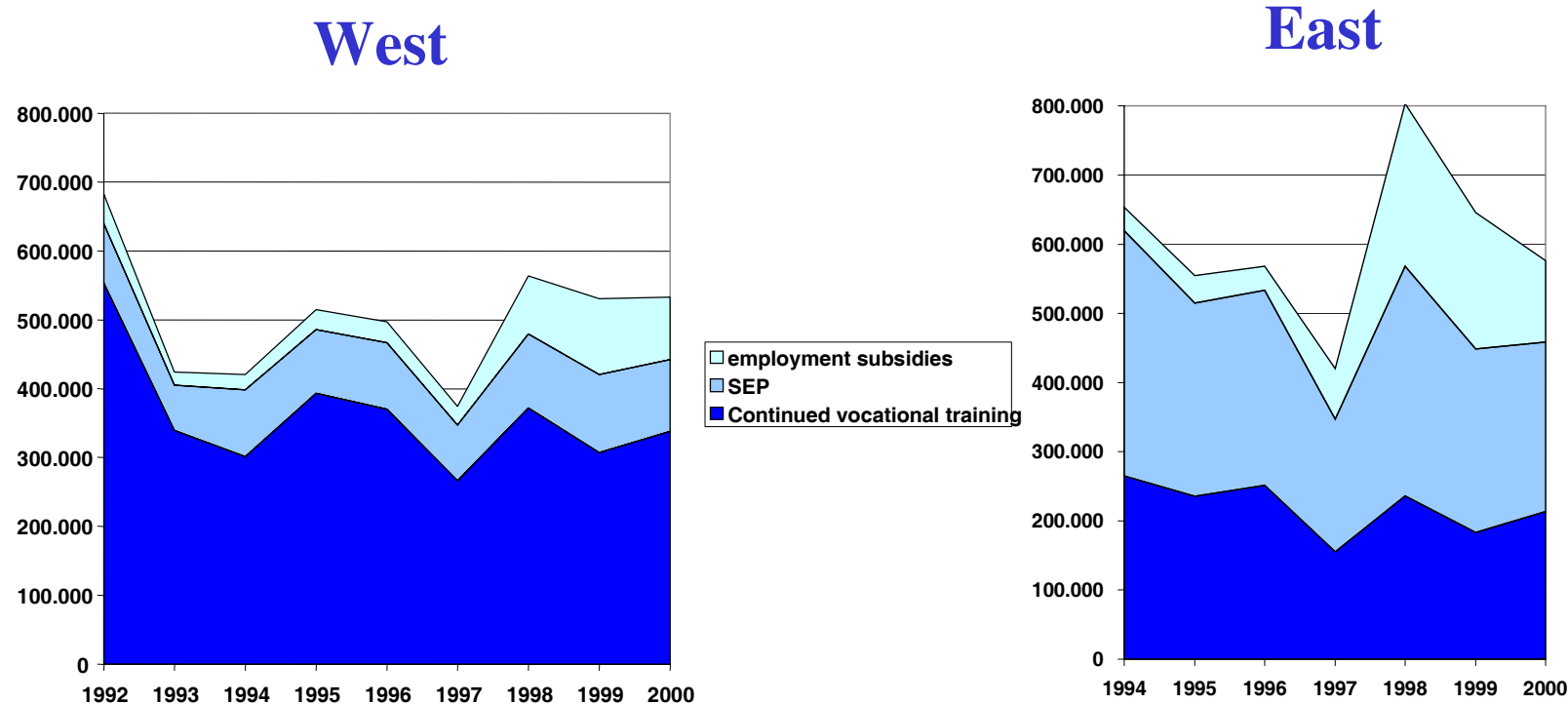
- **1952 - 1968: working for the benefit - no employment contract**
- **1968 - 1997: employment contract with full pay (collective agreement in the respective sector)**
- **since 1997: subsidies calculated on a basis of 80% of full pay**
  - ⇒ non-profit employers forced to introduce contracts below collective agreements, unions forced to accept or block the implementation of the programme

# SEP as a placement offer

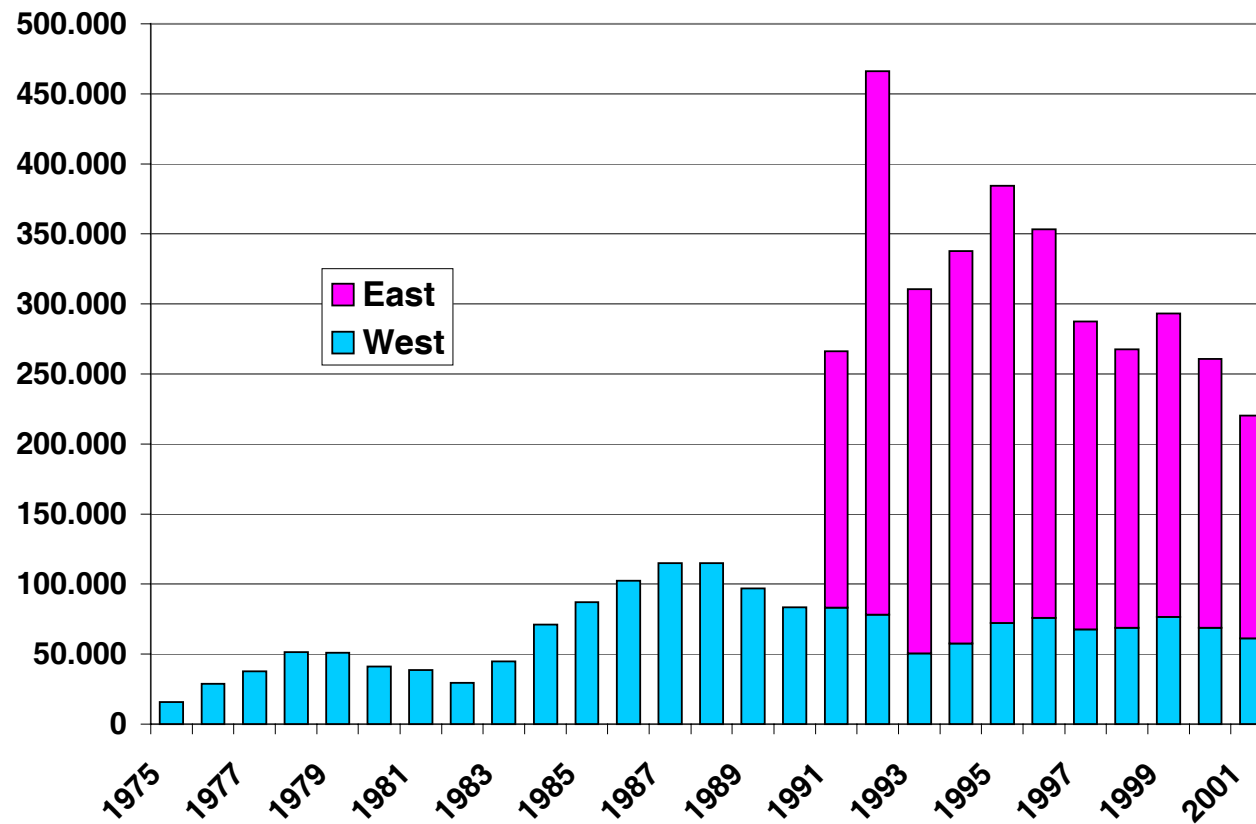
- Temporary job in an SEP programme is considered a job offer.
  - General conditions of acceptability apply; refusal of SEP offer can result in a temporary “freeze” of payments.
  - SEP offer may serve as a “work test”.
- ⇒ SEP employers do not see themselves as testers of readiness to work but have work they want to get done.
- Placement in SEP counts as a successful placement in the performance monitoring of the Public Employment Service (recently contested).



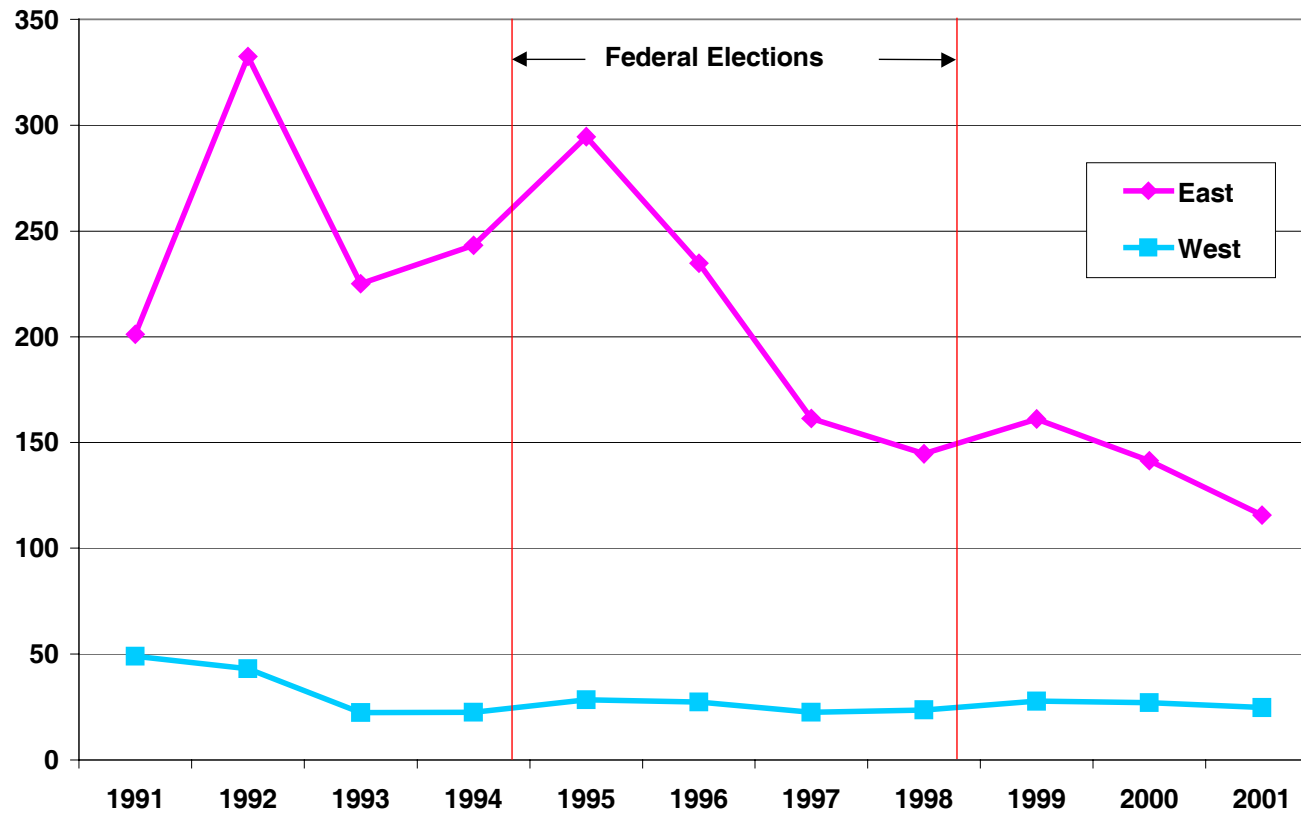
# Annual entrants into training, SEP, and into regular jobs through employment subsidies



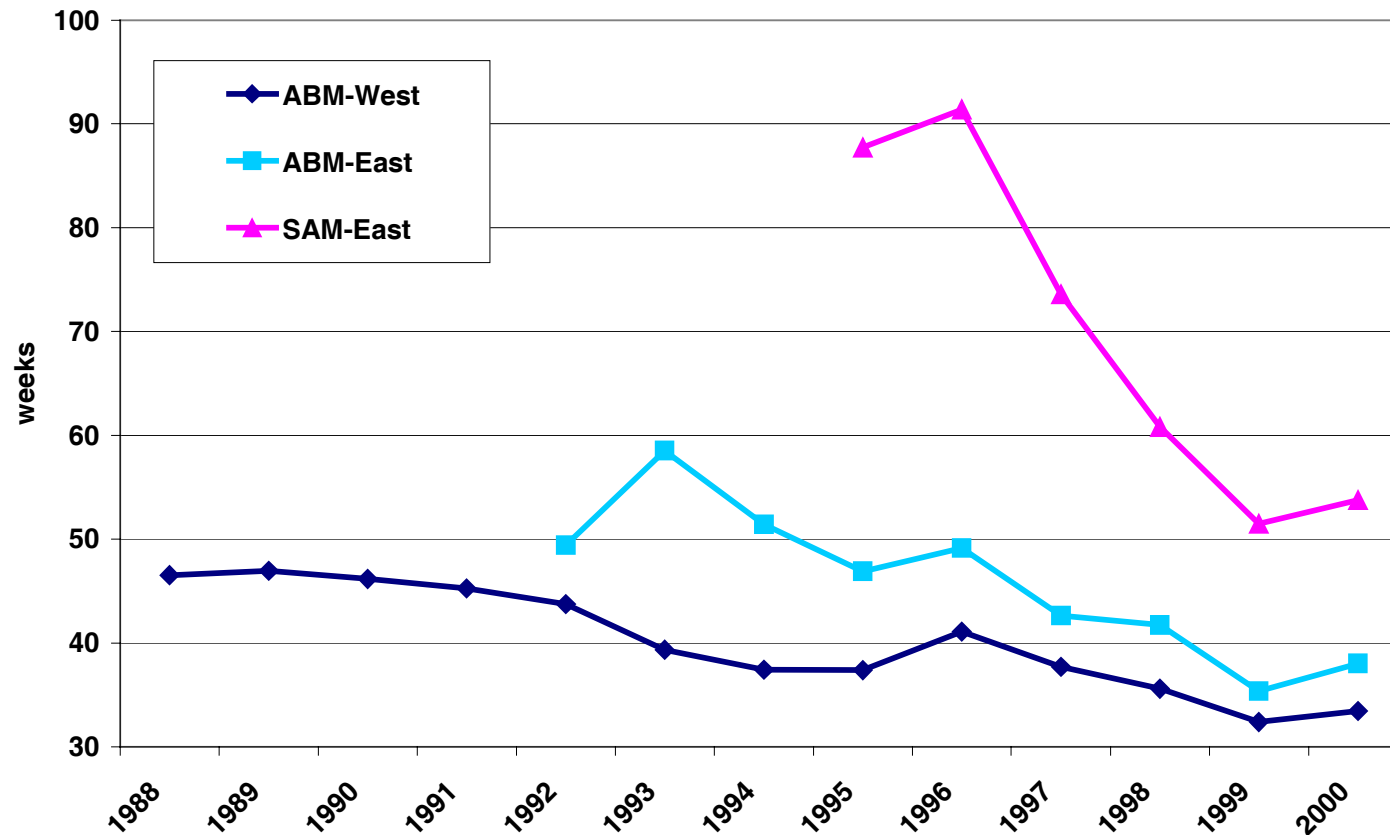
# Average annual stocks of SEP participants



# SEP participants per thousand remaining unemployed (average annual stocks)



# Average individual duration of SEP participation (in weeks)



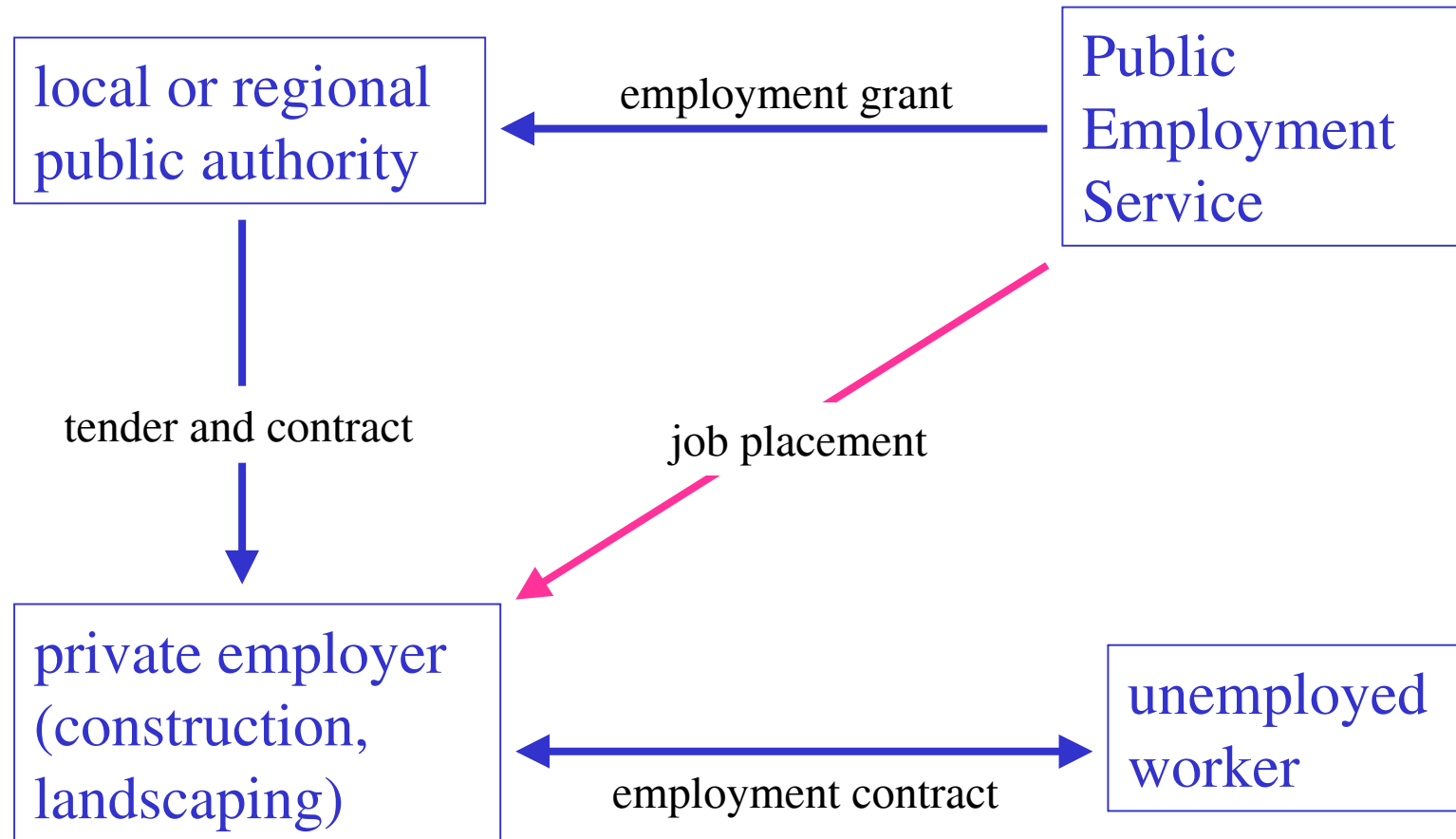
# Summary of statistical description

- much higher volume of SEP in East than in West, but with tendency to decline in both parts
- much higher ratio of SEP participants to (remaining) unemployed in East than in West
- rather long, though declining duration of individual participation

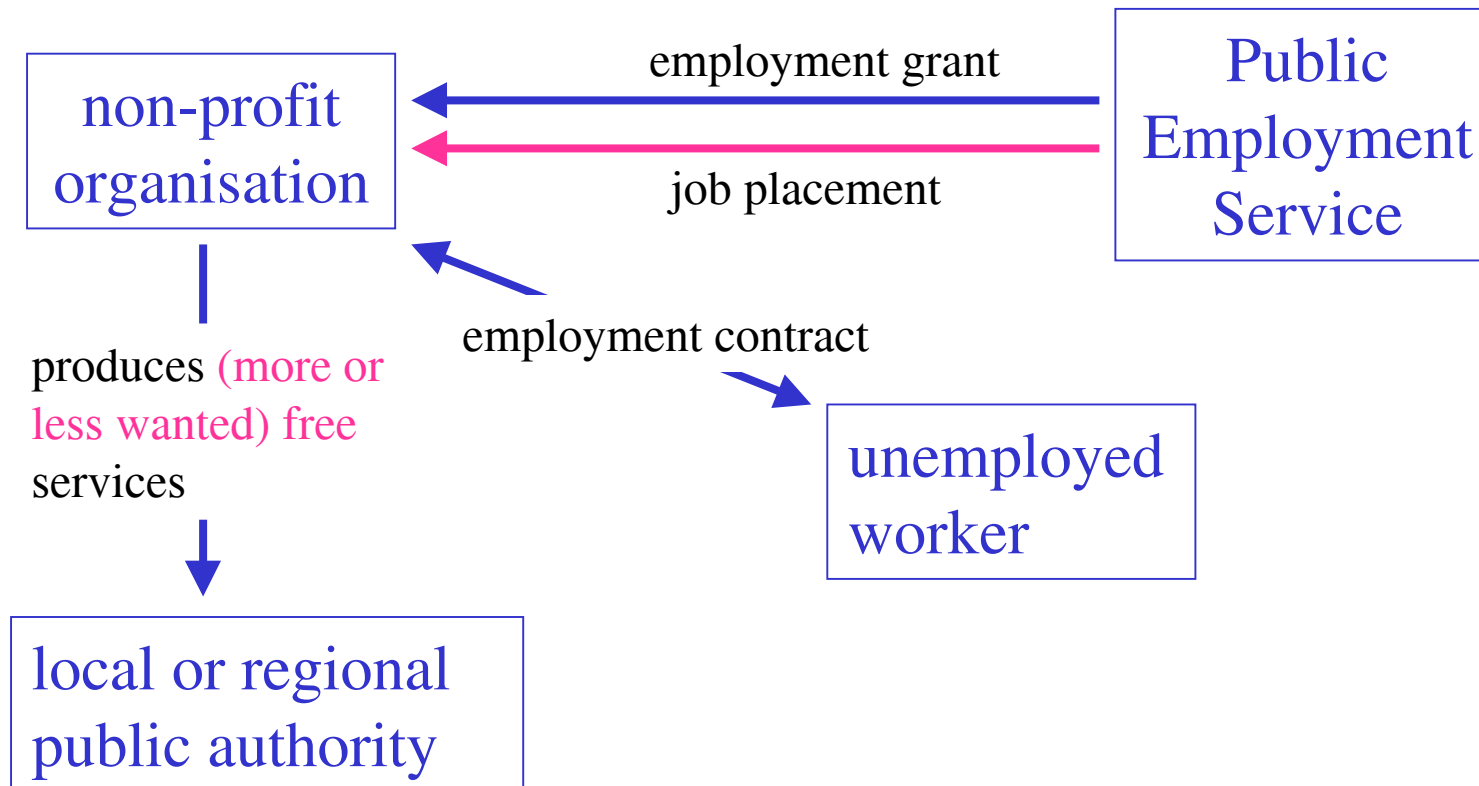
# **Implementation of SEP: legal ideal since 1920**

- **public authority calls for tender concerning additional public works for which unemployed shall be hired**
- **Employment Service gives wage subsidy to public authority as co-financing of the public works**
- **private employer wins tender and hires unemployed**

# Implementation of SEP: the legal ideal



# Implementation of SEP: the dominating reality

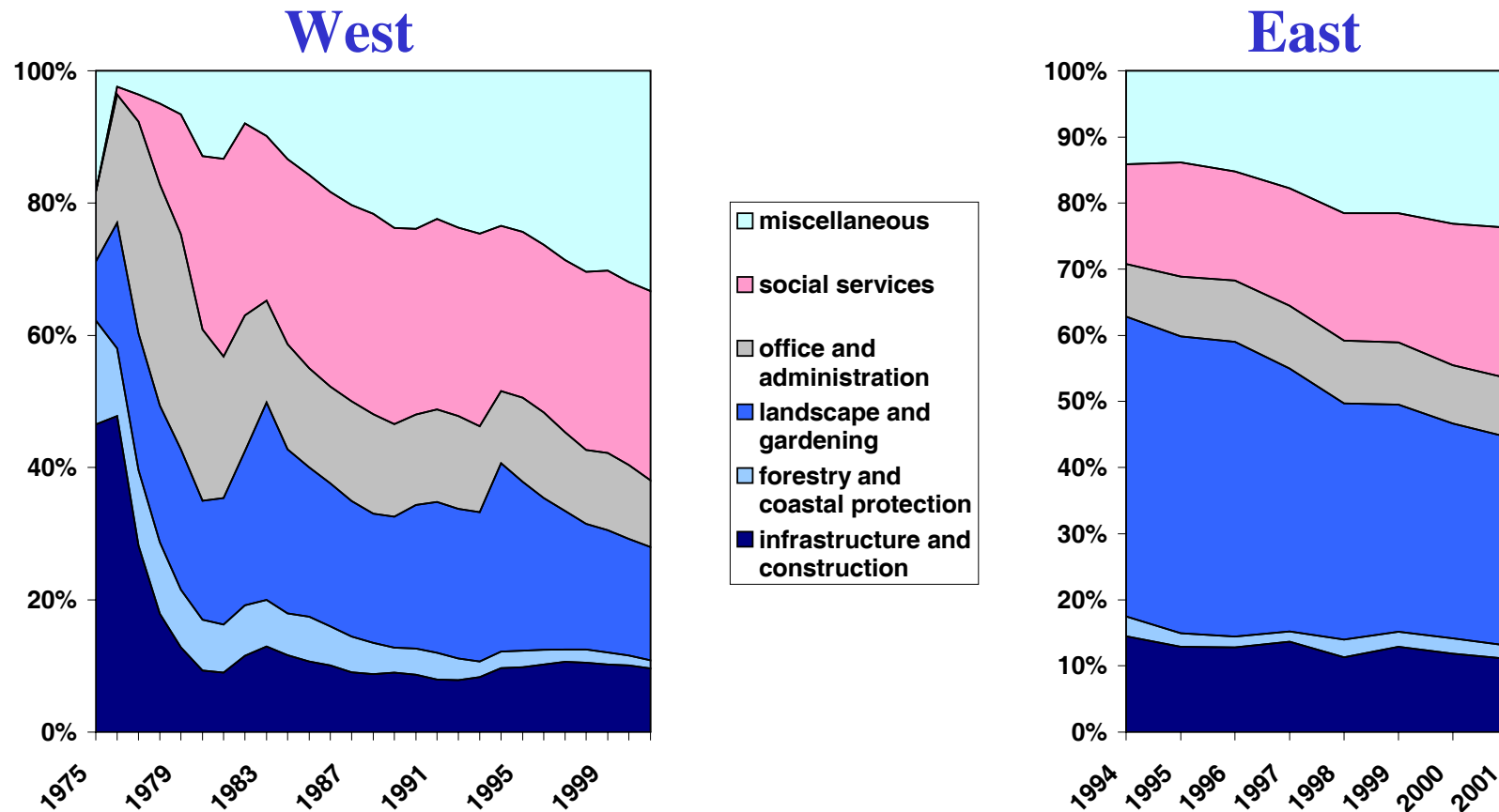




# **Implementation of SEP: reality in the service economy**

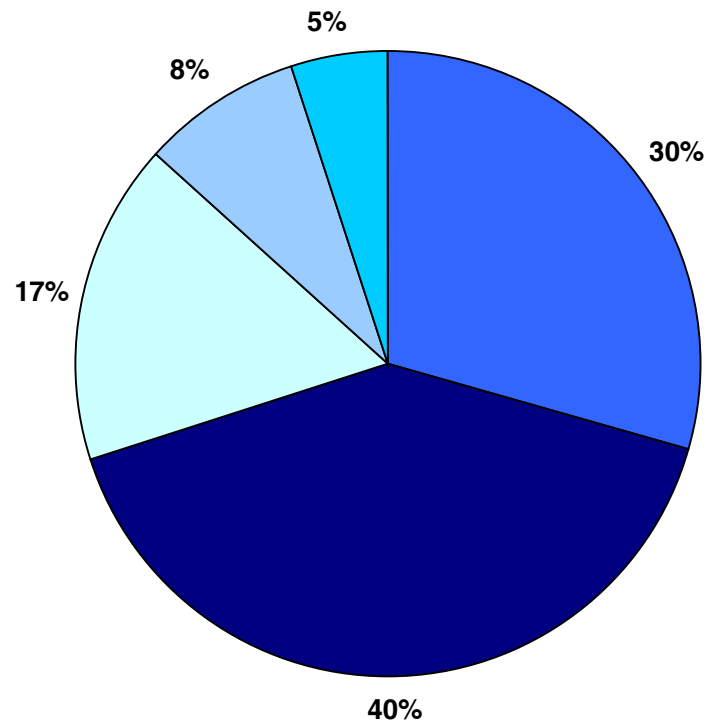
- **public authority or non-profit organisation applies to Employment Service for an additional „project“**
- **Employment Service grants wage subsidy up to 100% for a limited period of time**
- **Employment Service „places“ unemployed in the project**
- **recipient of grant hires the „placed“ workers on a fixed-term contract**

# Fields of activities in SEP: average annual participants (*ABM* only)

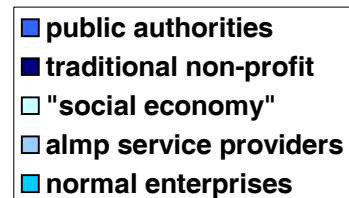
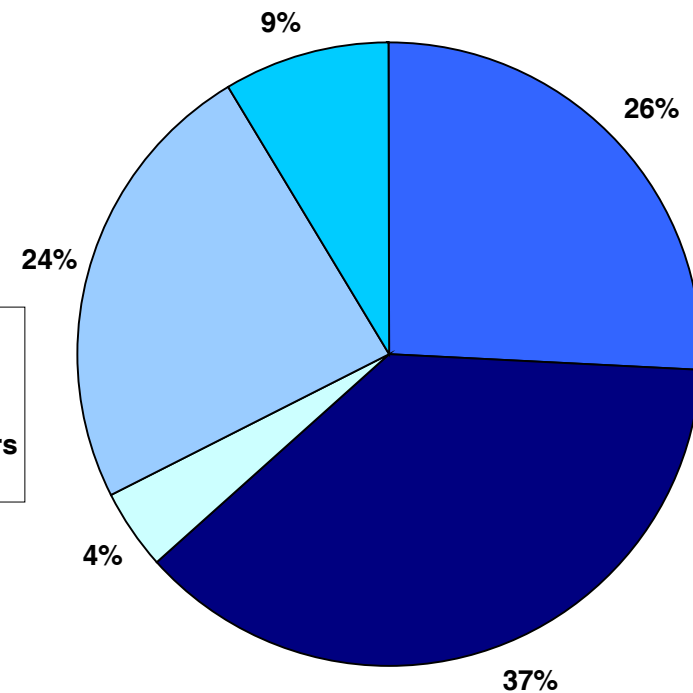


# SEP by types of employers (*ABM* only)

## West



## East



# **„Ordnungspolitik“: legal permissibility is prominent before ALMP objectives**

- **Criteria from 1920 until today:**
  - additional employment
  - in the public interest = not for profit
- **preferably (current legal wording)**
  - improving conditions for the creation of permanent jobs
  - creating job opportunities for the hard to place
  - preparing or complementing structural improvements, improving the social infrastructure or the environment.

# SEP between displacement and economic irrelevance

- in the public interest
  - additional
    - not profitable, **marketisation of products or services discouraged, no for-profit-jobs to be expected**
    - no immediate legal obligation on the side of public authorities
    - without the subsidy, the work would not be done or would be done only later
- ⇒ **job will disappear when subsidy ends**

# „Wiedereingliederung“ (insertion) as an objective of SEP?

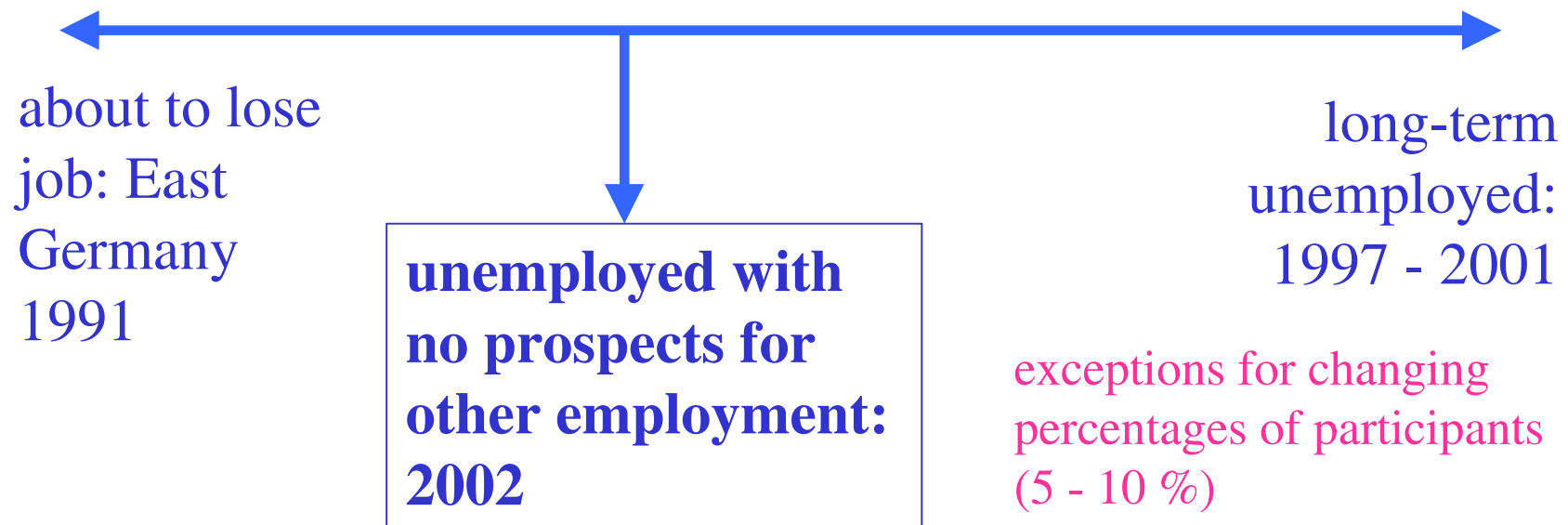
- **Employment Promotion Act, 1969 - 1997**
  - reducing unemployment (and thus competition among job-seekers)
  - permanent and skills-adequate **re-employment** (*Wiedereingliederung*)
  - contribute to the creation of permanent jobs through impacts for the improvement of the social infrastructure and for other structural improvements
- **Social Law, 3rd Book, 1998:**
  - **stabilisation** or skills formation through subsidised employment
  - improvement of prospects **for re-employment** (*Eingliederungsaussichten*)
  - as opposite

# The tacit objectives of SEP in the East German transformation process

- macro (economy): cushioning the job loss
- meso (region): preventing poverty shock, rebuilding industrial sites in hope of new industrial location
- micro (enterprise): “outplacement” into temporary surrogate job
- individual: higher income than benefits, self-esteem through useful work
- *Wiedereingliederung (insertion)* not present on the political agenda of the early 1990ies

# Target groups / eligibility for SEP

- eligible for unemployment compensation  
(*Arbeitslosengeld* or *Arbeitslosenhilfe*)





# Evaluation of SEP (1): Re-employment rates in earlier studies (1970ies and 1980ies)

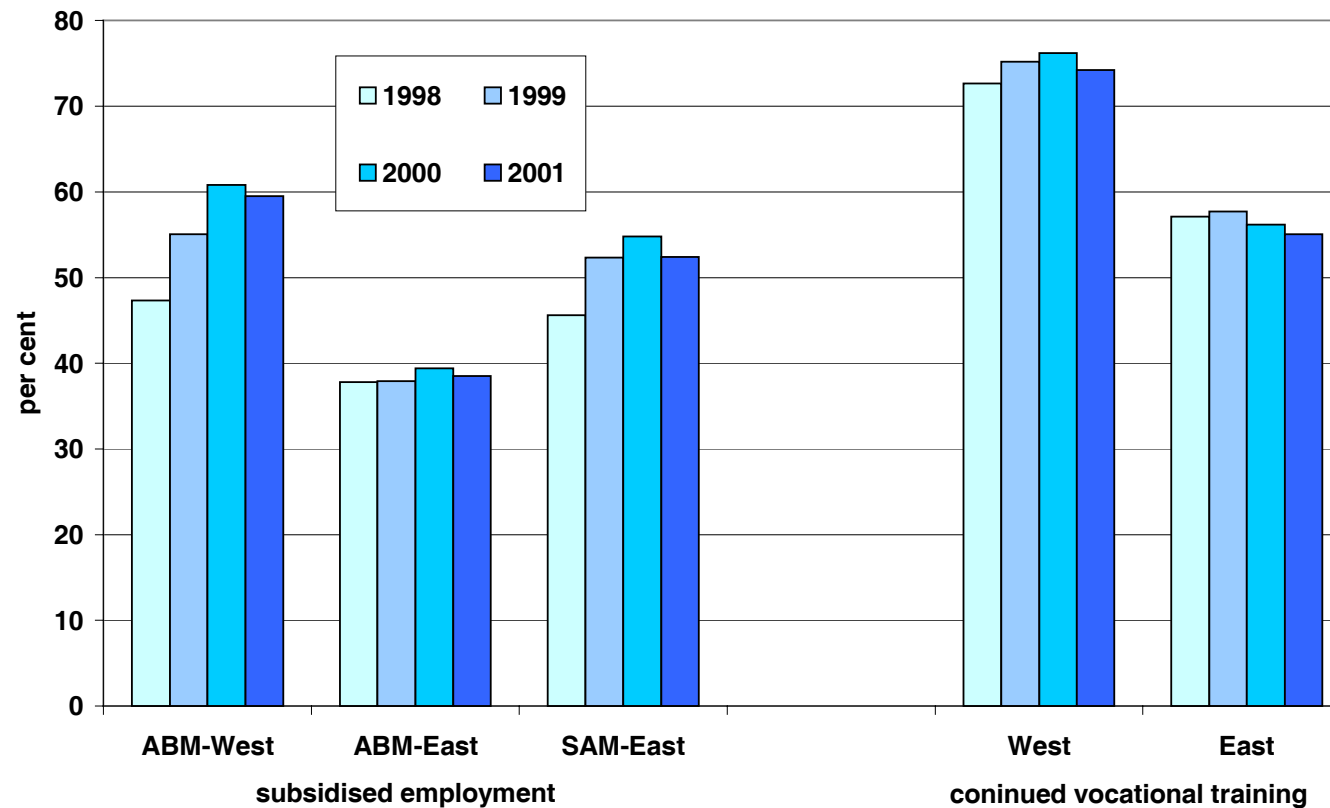
- 20-30% re-employment immediately after exit, 40-45% after 12 months
- re-employment rates higher in earlier than in later studies

⇒ frequency and scope of evaluation declined over time

## Evaluation of SEP (2)

- monitoring of individual outcomes by Employment Service only since 1998
- misleading name „*Eingliederungsbilanz*“ (*bilan d'insertion*)
- actually percentage of those not registered as unemployed 6 months after exit from SEP
  - may actually be in new programme or out of the labour force

**„Verbleibsquote“ = not registered as unemployed 6 months after exit**



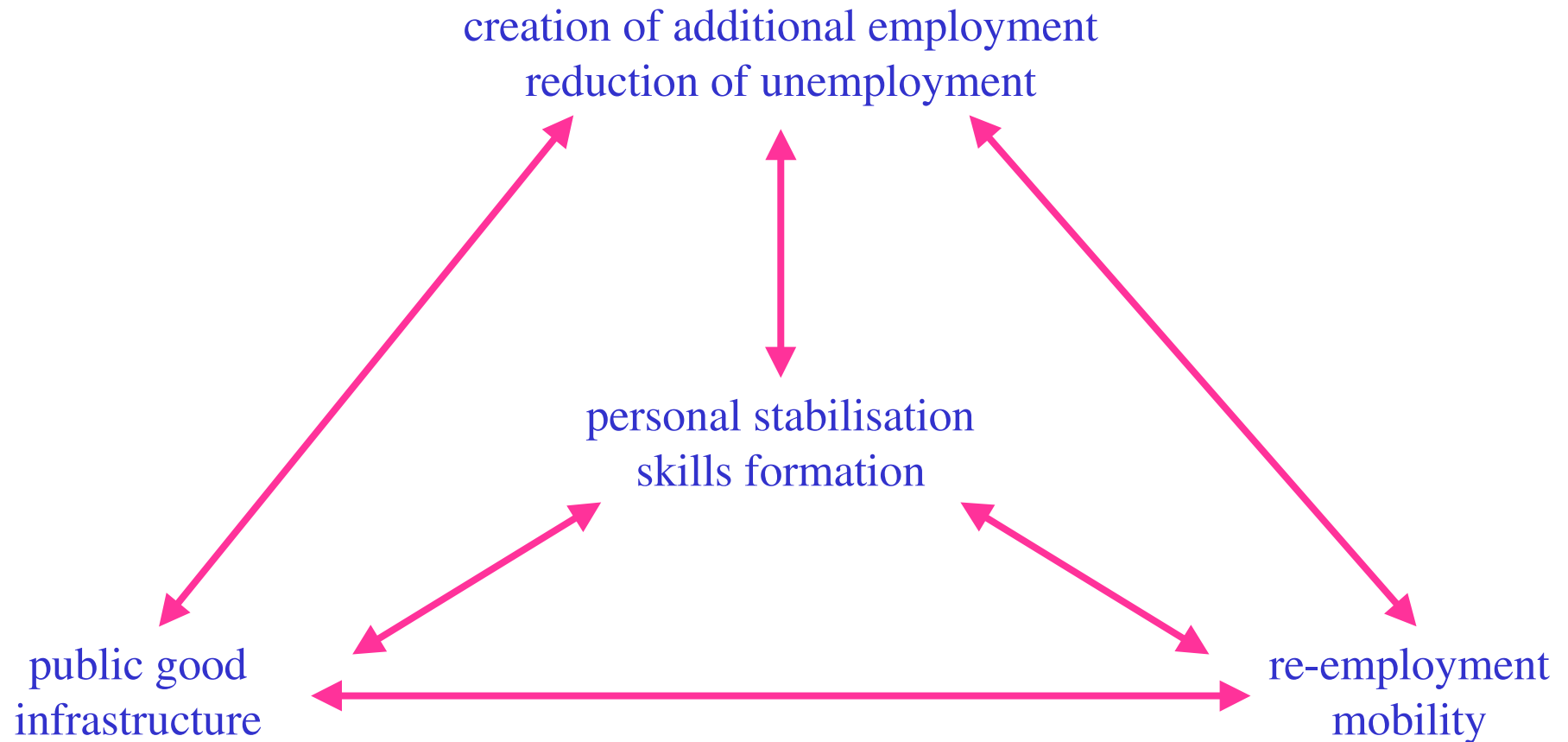
## **Evaluation of SEP (3): econometric estimations of causal effects**

- **individual history data only available for transition period in East Germany 1990-1994**
- **insignificant or contradicting results from the same data set, depending on the model**
- **none of the studies yielded evidence for any substantial impact of SEP**
- **assumption of poor effects on re-employment became dominant in public debate**

# Why has the public image of SEP deteriorated in the 1990ies? (1)

- many conflicting objectives without order of priorities →
- only re-employment can as yet be (poorly!) measured - with unsatisfying results
- after long abstention from evaluation, results came as a shock
- instrument with „Keynesian“ tradition vulnerable under neo-liberal hegemony

# The magic triangle of SEP objectives



## Why has the image of SEP deteriorated in the 1990ies? (2)

- contradiction between theory (structural improvement) and reality (marginal services)
- legislators find no way out of dogmatic dilemmas („*Ordnungspolitik*“)
- work appears often meaningless or inadequately received by public authorities (“make work”)
- target groups often hardly able to do the work (low productivity and quality)

# The future of SEP

- **SEP as a bridge into retirement for older unemployed (without urge towards job search)**
- **SEP as a means of skills formation for the „hard to train“**
  - training in SEP must become mandatory, training costs must be reimbursed
  - with lower expectations in the product, dogmatic issues of „public interest“ and „additional work“ become less prominent



# The magic triangle of SEP objectives – disentangled

