Subsidised Employment in “Public 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

West

East

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Average annual stocks of SEP participants

![Bar chart showing the average annual stocks of SEP participants from 1975 to 2001. The chart compares East and West groups, with peaks in the 1990s for both.]
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

- Local or regional public authority
- Tender and contract
- Private employer (construction, landscaping)
- Employment grant
- Job placement
- Employment contract
- Unemployed worker

Public Employment Service
Implementation of SEP: the dominating reality

non-profit organisation

produces (more or less wanted) free services

local or regional public authority

employment grant

job placement

employment contract

unemployed worker

Public Employment Service
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)

West

East

- miscellaneous
- social services
- office and administration
- landscape and gardening
- forestry and coastal protection
- infrastructure and construction
SEP by types of employers (ABM only)

West

- public authorities: 30%
- traditional non-profit: 17%
- "social economy": 8%
- almp service providers: 5%
- normal enterprises: 40%

East

- public authorities: 26%
- traditional non-profit: 24%
- "social economy": 9%
- almp service providers: 4%
- normal enterprises: 37%
„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 (*Eingliederungs-aussichten*)
  - 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)*

about to lose job: East Germany 1991

unemployed with no prospects for other employment: 2002

long-term unemployed: 1997 - 2001

exceptions for changing percentages of participants (5 - 10 %)

- 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
„Verbleibquote“ = not registered as unemployed 6 months after exit

- ABM-West
- ABM-East
- SAM-East
- West
- East

subsidised employment
continued vocational training

per cent

1998 1999
2000 2001
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

- creation of additional employment
- reduction of unemployment
- personal stabilisation
- skills formation
- public good infrastructure
- re-employment mobility

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

• contradiction between theory (structural improvement) and reality (marginal services)
• legislators find nor 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

- Creation of additional employment
- Reduction of unemployment
- Employer of last resort for the very hard to place
- Personal stabilisation skills formation
- Re-employment mobility
- Jobtraining
- Public good
- Social services
- Infrastructure