Minimum Income Support in the Absence of a Legal Minimum Wage: the Case of Germany

7th European Round Table on Poverty and Social Exclusion
Workshop no. 1: "Guaranteeing a Minimum Income Support"
Marseille, 15/16 October, 2008
Poverty risk **before** and **after** social transfers

Source: EU-SILC 2006
Low-wage*) employment West / East / Germany

*) individual hourly wage < 2/3 median hourly wage (separate thresholds for East and West)

Source: German Socio-Economic Panel, calculations by IAQ

low-wage thresholds 2006: 9.61 € West 6.81 € East

+ 50%
Weakening wage regulation

| Percentage of workforce in establishments covered by collective agreement |
|-----------------------------|-----------------------------|
|                             | 1996 | 2005 |
| West                        | 69%  | 59%  |
| East                        | 56%  | 42%  |

- social partners' wage bargaining autonomy constitutionally guaranteed
- some collective agreements under low-wage threshold for some categories of employees
- almost 50% of workforce not covered by collective agreements
- no legal minimum wage
- *erga omnes* regulation possible with consent of the concerned social partners – but without existing agreement to be extended no *erga omnes* possible
Benefit Reform 2005: Recalibration and Merging of Benefits

(1) Unemployment insurance

shorter duration for older unemployed

(2) Unemployment assistance

obligation to accept any job, even below collective agreement or 'going rate'

Basic Income Support for Jobseekers ("unemployment benefit II")

(3) Housing benefits

social assistance

Child Bonus for low-income families
Welfare reform 2005: Introducing two in-work-benefits

Example: couple with two children (one earner)

- **Child bonus**
- **supplementary UB II**

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<th>Gross Income in € per month</th>
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- **Basic Income Support for Jobseekers** (from Oct 2005 on)
- **before welfare reform** (Social Assistance 2004)
In-Work-Benefits on the Rise

• 1.3 million ≈ 25% UB II recipients with earned income
• 'mini-jobs' (marginal part-time employment under 400 Euros/month) accounting for more than half of in-work benefits
  ⇒ twofold low-wage subsidy: exemption from social insurance contributions + in-work benefits
Fundamental Dilemma of In-Work Benefits in Absence of Effective Wage Regulation at Lower End

- Supplement justified because the wage is low?
- Wage low because supplement is available?
  ⇒ Subsidising workers' livelihoods or subsidising employers' wage dumping?

Empirical Uncertainty - Lack of Suitable Flow Data:

- Low wage workers applying for supplementary benefit?
- Benefit recipients hustled into accepting low-wage job?
  ⇒ 'Activating' labour market policy merely compensating for or contributing to fraying of wages at lower end?