

PD Dr. Matthias Knuth

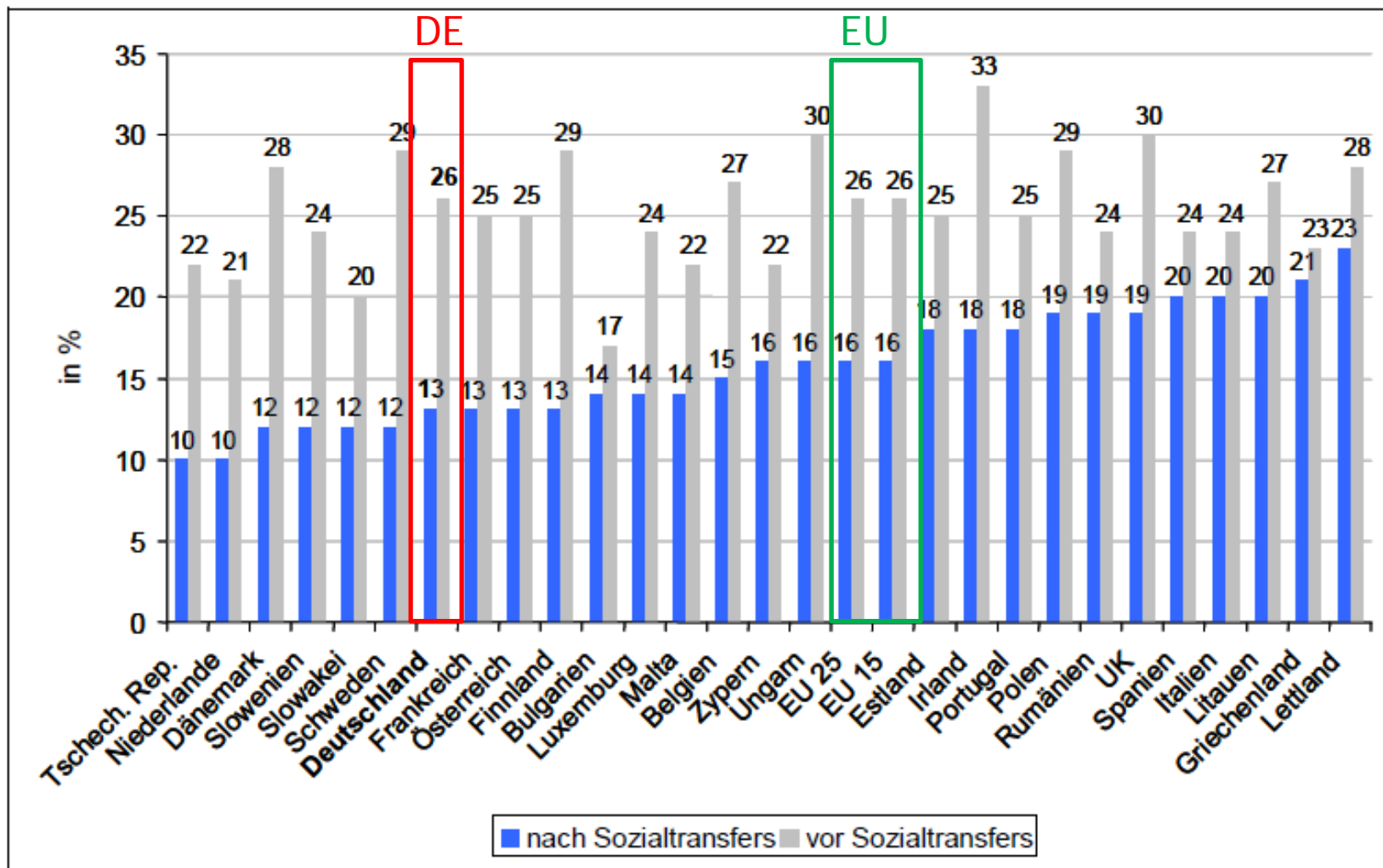
Minimum Income Support in the Absence of a Legal Minimum Wage: the Case of Germany

7th European Round Table on Poverty and
Social Exclusion

Workshop no. 1: "Guaranteeing a Minimum
Income Support"

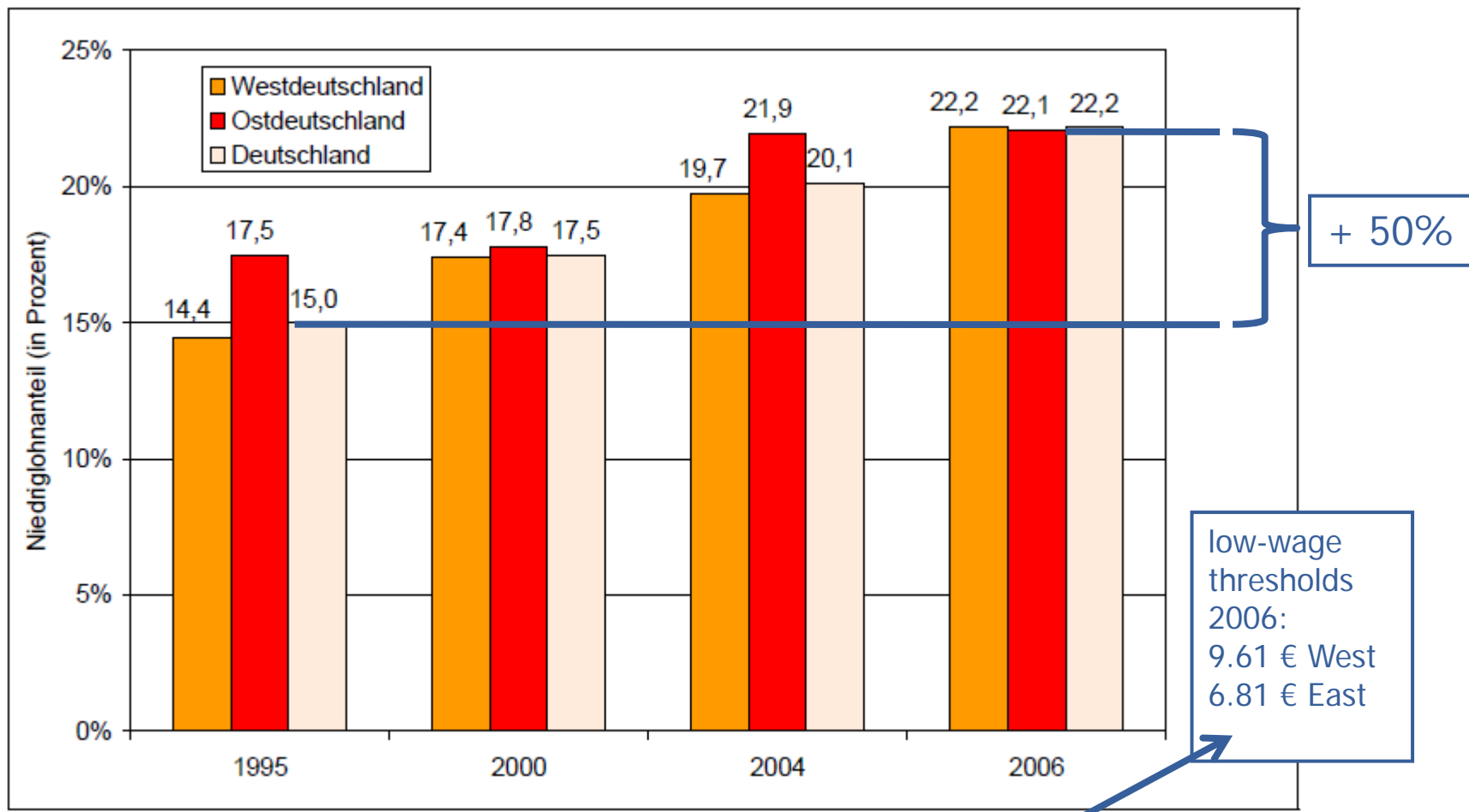
Marseille, 15/16 October, 2008

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)

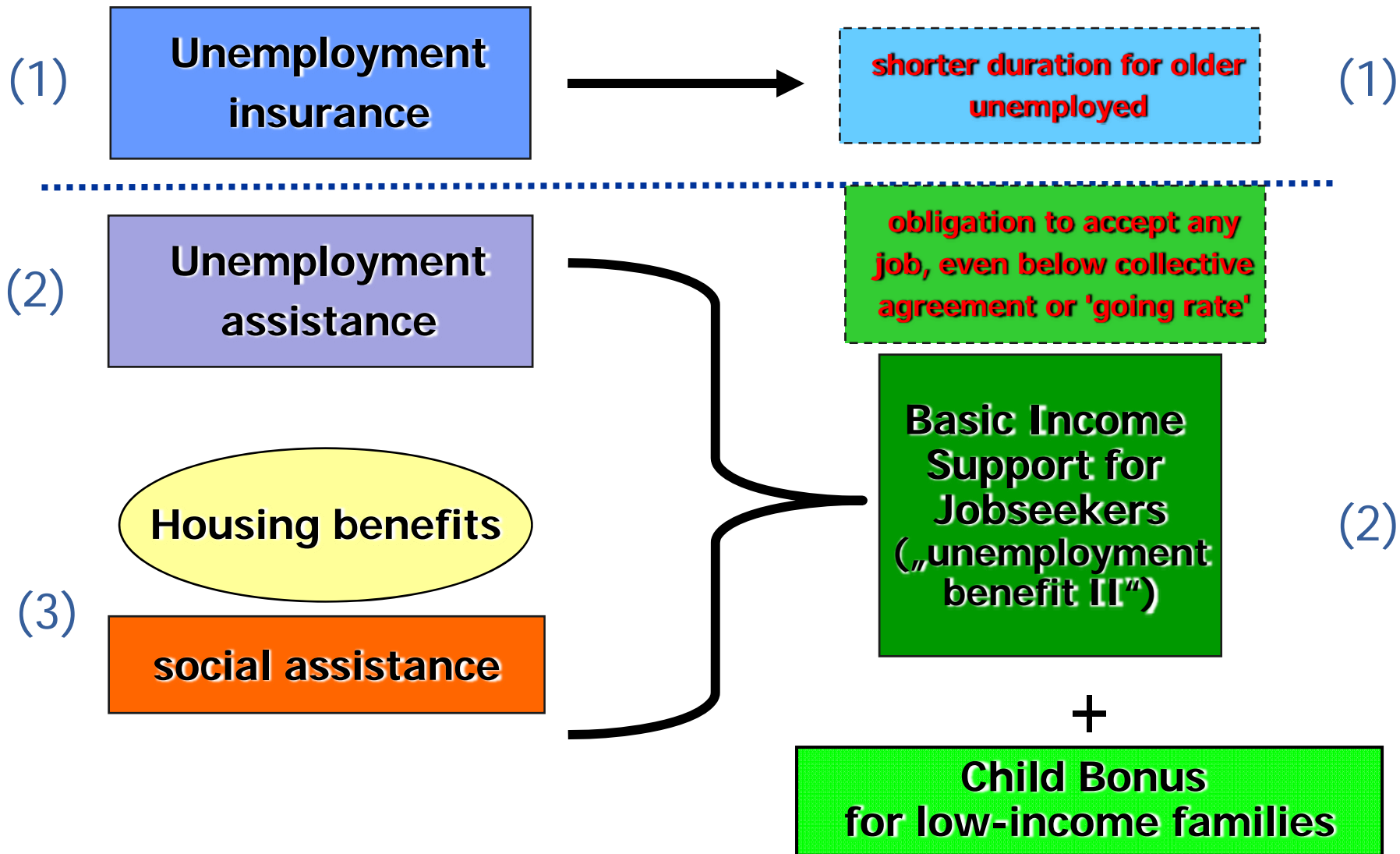
Weakening wage regulation

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

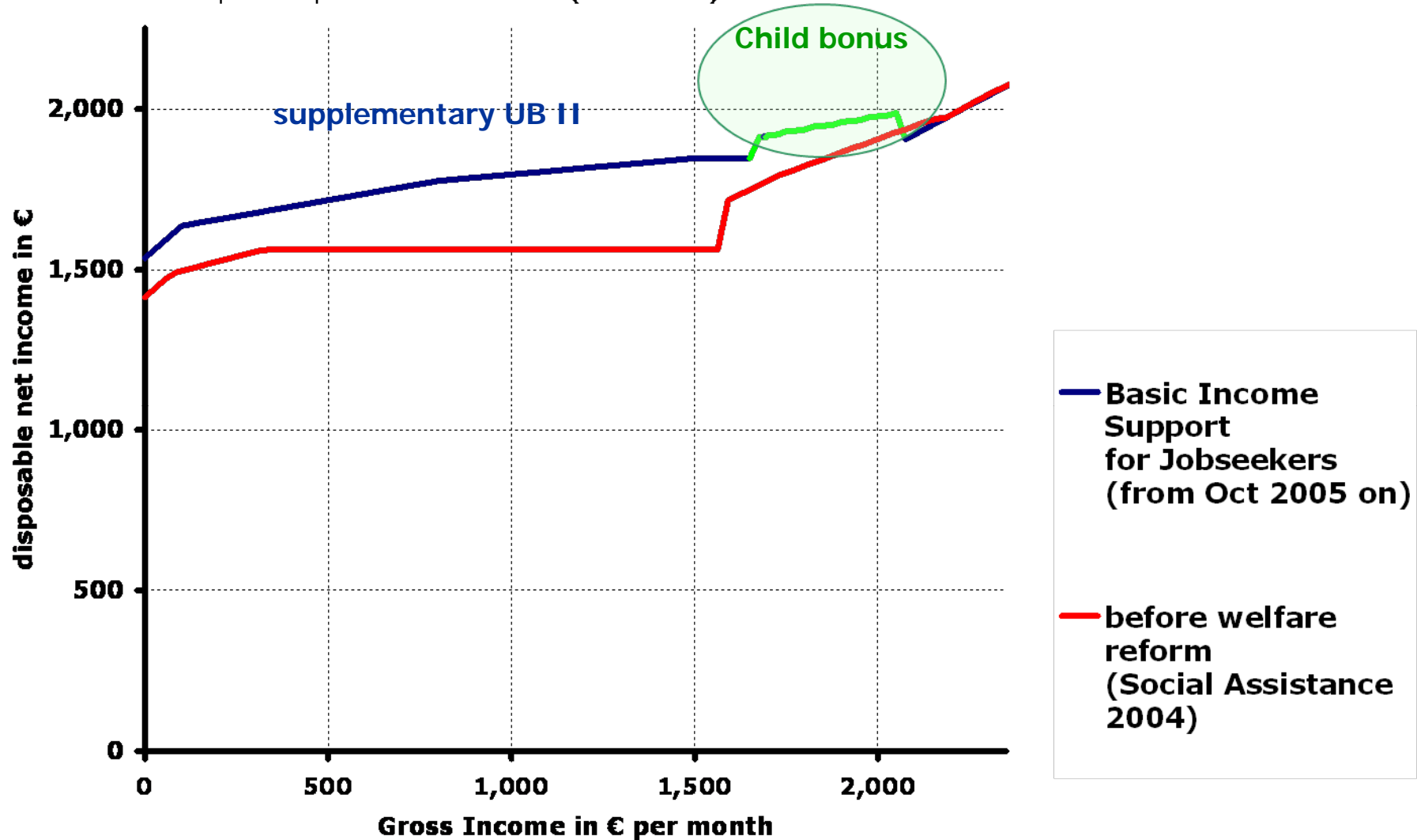
Benefit Reform 2005:

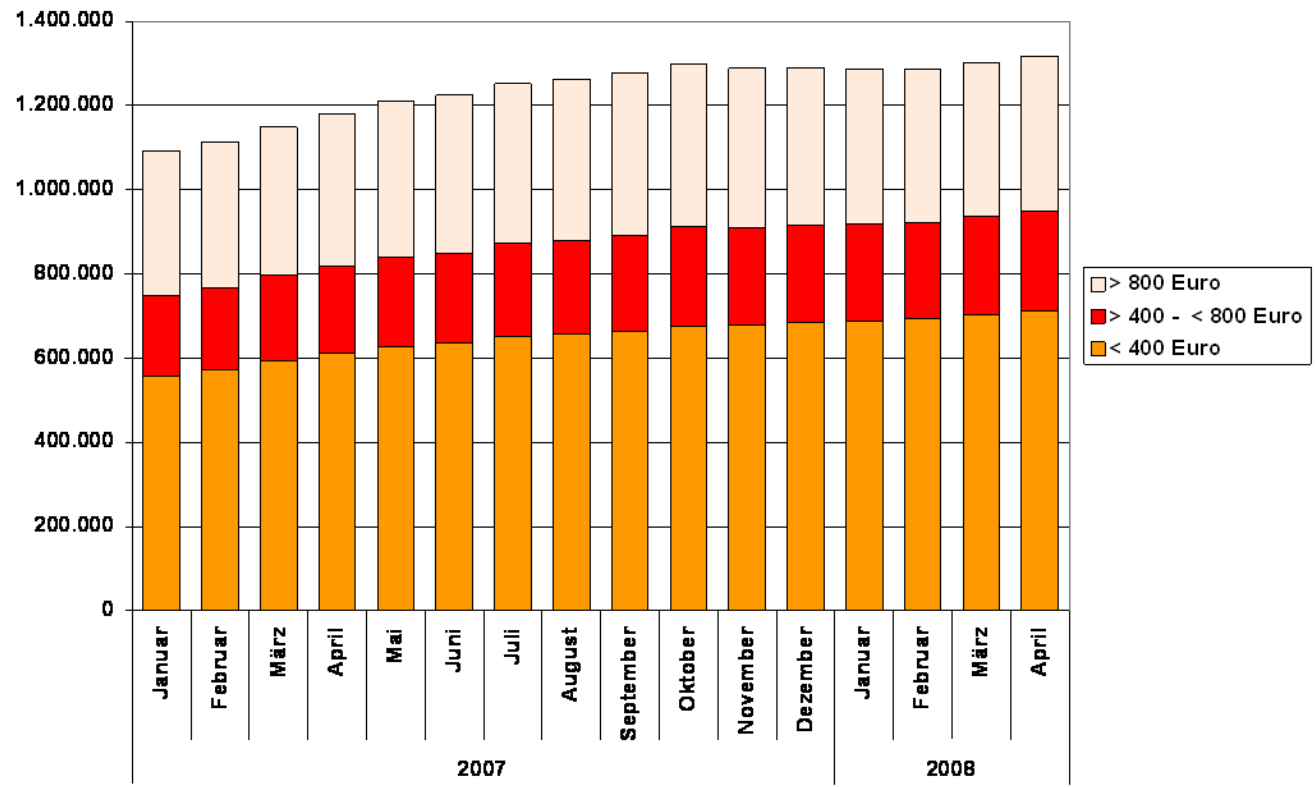
Recalibration and Merging of Benefits



Welfare reform 2005: Introducing two in-work-benefits

Example: couple with two children (one earner)





- 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?