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Subsidizing wages or supplementing transfers?

The politics and ambiguity of in-work benefits

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Abstract

In-work benefits (IWB) have become mainstream social policy programmes in modern welfare states. Aimed at employment promotion as well as poverty reduction, their introduction and expansion have been supported by both centre-right and centre-left governments. However, the article argues that policy positions towards IWB are essentially unstable. Political preferences can alter fast, with the same actors advocating IWB growth at one time and containment at another. In part, this is influenced by prevailing socio-economic conditions, but also by the institutional shape of IWBs, their interaction with complementary policies and their inherently ambiguous nature. Characterized by multiple aims, IWBs occasionally offer political opportunities, but often create challenges and even confound policy making. Thus, the understanding of the politics of IWB requires a careful consideration of the particular properties of concrete IWBs and the ways in which they relate to other policy arenas. The article discusses this with reference to relevant debates and reforms in Germany.

Key terms: in-work benefits; wage supplements; labour market policy; German welfare state, Hartz reform

1. Introduction

In a context of deindustrialization and labour market flexibilization, many economically advanced countries have introduced or expanded policies which have accompanied the growth of non-standard employment (Hipp et al., 2015). Aimed at encouraging the take-up of low-wage and part-time jobs, so-called 'make work pay' policies (Marchal and Marx, 2018) have included minimum wages, tax incentives, exemptions from social insurance contributions and also 'in-work benefits' (IWBs), i.e. cash transfers to people in employment. While different in design, the two broad aims of IWBs are the same, i.e. 'alleviating in-work poverty and increasing work incentives for low-income workers' (OECD, 2011: 67).

A considerable amount of evaluative research on the impact of IWBs, or 'employment conditional earnings subsidies' (Kenworthy, 2015), has been conducted, focusing on poverty alleviation (Marx et al, 2012; Vandelanoot and Verbist, 2017), employment rates (Cousins, 2014; Kenworthy, 2015), or labour supply of particular groups such as single mothers (Aaberge and Flood, 2013) or low-skilled workers (Van der Linden, 2016). There are also some analyses into the introduction and reform of IWB programmes, initially focusing on the US (e.g. Howard, 1995; Myles and Pierson, 1997), and more recently on France (Vlandas, 2013; Clegg, 2014) and the United Kingdom (Clegg, 2014, 2015; Grover, 2016). Overall however, research into the policy making of IWB is still rare.

This article aims to contribute to the understanding of the politics of IWB policy. It argues that political positions towards IWBs are unstable and that this is due to the complexity and ambiguity of this policy instrument. Previous research on labour market and social policy reform has identified policy ambiguity as a political resource, facilitating coalitions or agreements between political actors with different interests (e.g. Palier, 2005). Similar claims have been made with respect to wage subsidization policy (e.g. Howard, 1995; Vlandas, 2013). Indeed, relevant reforms have often been supported by broad cross-party political agreement on IWB expansion. However, the article demonstrates that political preferences are structurally unstable and political coalitions fragile. Moreover, depending on design features, multiple policy aims within IWB may or may not be compatible with each other, policy change may produce unintended consequences or present policy makers with trade-offs. Thus, while the ambiguity of IWB may occasionally be politically 'constructive', at other times it can be 'destructive', making policy reform more rather than less difficult.

This argument is developed as follows. The next section reflects on political preferences in relation to IWBs and reviews determinants of relevant policy reforms as identified in earlier research. I will then consider characteristics of IWBs as a potential influence on preference formation and policy change. Empirically this is illustrated with reference to pertinent initiatives and debates in Germany. Hitherto neglected as a case study, the principal German IWB is integrated within a single working-age benefit system and its trajectory aptly demonstrates the complexity and ambiguity of this policy instrument and the ways in which this influences the political dynamics of reform.

2. The Politics of IWB

The origin of wage subsidy programmes in a few countries, such as the US or the UK, can be traced back to the 1970s, but IWB schemes have expanded in scope and spread across many advanced welfare states since the 1990s (Immervoll and Pearson, 2009; OECD, 2018). Politically, both centre-right but also centre-left political parties have been active proponents. This may be explained with reference to the two principal aims of the policy. While the political Left may advocate IWBs as a measure which addresses in-work poverty, the Right may particularly value its role of enhancing work incentives. Cross-party agreements on IWB have also been linked to the policy's focus on supporting people in work. Howard (1995) claims that the introduction of EITC (Earned Income Tax Credit) in the USA, and subsequent waves of its expansion, were supported by both Republicans and Democrats because the policy targeted the 'working poor' (see also Myles and Pierson, 1997). Alternative policy proposals, such as the Family Assistance Plan in the early 1970s, arguably failed to gain sufficient political support because of their focus on low income per se (Steensland, 2008).

Beyond the party-political arena, employer organisations can be assumed to welcome IWB provision. A possible principled resistance to political interference in wage-setting may be eclipsed by the prospect of reduced outlays for low productivity work and the enhancement of labour flexibilization. It may also be assumed that the growing number of low income workers and claimants of minimum income benefit themselves may have lobbied for improved wage subsidies. However, existing studies indicate that the principal beneficiaries of IWB had little direct influence on policy expansion (Howard, 1995; Vlandas, 2013), which may be a reflection of the heterogeneity and thus weak degree of political mobilisation of those in insecure labour market situations (Bonoli, 2005).

Trade unions have often adopted a critical but also ambivalent position. Reforms of IWB expansion have been regarded with suspicion due to potentially wage-depressing effects. However, a simple rejection of such policies may be politically difficult. As Vlandas (2013) demonstrates, having reluctantly accepted the existence of atypical employment contracts, the French labour movement as a whole did not resist the introduction of the RSA (*Revenu de solidarité active*) in 2008, and most trade unions found it difficult to openly protest against the policy as it was ostensibly aimed at supporting low income workers (see also Clegg, 2014).

Of course, at least to some extent policy preferences are informed by changes in socio-economic contexts and the growth of IWBs has been associated with the flexibilization of national labour markets. At a time of mass unemployment and low employment growth, governments may have simply promoted wage subsidisation as one of several policies aimed at facilitating the attractiveness of low income and part-time work. Cross-party alignment also on other policies aimed at encouraging labour market entry has been noted in several countries (Bonoli, 2013). However, while context matters, there are other aspects which can be expected to have influenced the politics of IWB. One is policy interaction and feedback. Decisions on changing IWB provision are likely to be influenced by the presence or absence of complementary policies, such as family allowances or housing support. Depending on eligibility conditions and rules of entitlement, these may be supplementary to or a substitute for IWB receipt. Reforming one area may affect policy making in another. National minimum wage regulations are particularly relevant here. The expansion of EITC in the late 1980s was arguably politically preferable to a potential increase in the national minimum wage (Howard, 1995; Myles and Pierson, 1997) and the politics of IWB has shown to be intertwined with national minimum wage policy also in other countries (see Clegg, 2014).

Another important factor is policy design. IWBs are transfers to low-income people in paid work. Most, but not all, are means-tested at the individual or, more commonly, household level. Entitlement depends on earnings, on the one hand, and the needs and means of individual claimants and their families, on the other. Over and above these general characteristics, national IWB systems differ considerably (OECD, 2018). Some are paid to any earners, others restricted to those with dependent children. Some are regular social security transfers, others take the form of tax credits. A key reason for the legitimacy of EITC is arguably its character as a refundable tax credit rather than welfare payment (Howard, 1995). Perhaps somewhat half-heartedly, the British Labour government bought into this reasoning when it introduced its principal IWB scheme in the 1990s as a 'tax credit', albeit by name only. While the national tax authority was initially put in charge, the scheme was in fact a regular social security benefit. Other 'micro-

institutional features' (Clegg, 2014: 160) can be assumed to matter politically, such as the generosity of IWB, the rate at which benefits are reduced with rising earnings, and the reach of entitlement up the earnings scale. These parameters suggest potential policy trade-offs. A less targeted IWB for example, i.e. with a wider scope and coverage, will provide income protection for more workers, but also increases cost pressures and may affect work incentives. As will be discussed below, such tensions are typical in this policy area.

2.1. The ambiguity of IWB

Ambiguity implies 'many ways of thinking about the same circumstances or phenomena' (Feldman, 1998:5). In recent instances of social policy change this has been conceptualized as constructive. Rather than aiming to 'resolve' ambiguities by 'shared agreements about what is important and what is unimportant' (Feldman, 1998: 6), political decision-making may be 'facilitated by opaqueness' (Zahariadis, 2003: 3). This applies particularly to 'multipurpose' policy instruments (Lascoumes and Le Gales, 2007). Different goals within the same policy may enable political actors to find sufficient agreement to implement reform. Public child care, for example, has been promoted in recent years by political actors with different motives, such as improving child development, investing in human capital, addressing gender quality or demographic concerns. Palier (2005: 131) argued that transformative change within much of modern French social policy has been achieved with the help of 'ambiguous agreements', understood as actors supporting the implementation of new policy instruments 'for different reasons and with different interests'. Similar arguments have been advanced with respect to IWBs. Vlandas (2013: 119) claims that the introduction of the French RSA scheme 'allowed diverse actors to support the reform for different reasons', and Howard (1995: 408) links the political support base for EITC to its ambiguity as an overlooked 'policy attribute', both with respect to its aims (labour market integration as well as combatting in-work poverty) but also its presentation (welfare payment in the guise of a tax credit).

The ambiguity within IWBs is not only predicated upon its two principal objectives: financial support for low-income workers and encouraging participation in employment. As already stated, there may be a trade-off between these two, but tensions may occur even within the same objective. For example, depending on regulations which determine how wages and public transfers interact, IWBs may provide incentives for entering paid work or increasing weekly working hours (work intensity), but not necessarily both at the same time, as will be illustrated below.

There are other tensions and potential policy feedback effects. IWBs expansion may entice, or be seen to entice, employers to hold down wages, as earnings will be 'topped up' with social security transfers in any case. The presence or absence of national minimum wages is likely to play a role here, once again underlining the linkages between the politics of IWB and reforms in related policy arenas. Moreover, IWB provision may be perceived as supporting people content with working part-time. If so, policy makers are likely to be criticized as wasting public resources. A problem here is the considerable heterogeneity of claimants. Recipients of IWB include full-time workers on low pay, large families with a single or more earners, and also those with part-time jobs or other types of atypical employment (e.g. BA, 2018a; Bruckmeier et al., 2015). Thus, from the perspective of individuals and their families, the principal role of IWB is likely to differ. Those for whom earnings are the main source of household resources may regard IWBs essentially as a wage supplement. In contrast, those who may only work a few hours may see it as one element of their regular social security income. In short, some may consider IWB as part of a benefit package supplemented by earnings, others as a wage topped up by a benefit.

The discussion above suggests two preliminary conclusions. First, it seems difficult to attribute stable and consistent IWB policy preferences. Certain conditions, such as high unemployment or a growth of low paid jobs, may facilitate broad cross-party support. However, a change in context may lead to a readjustment of policy priorities and render cross-party coalitions fragile. Second, the complexity and ambiguity of IWBs may occasionally be a political asset for policy reform, but is likely to challenge or even hinder policy making at other times. Thus, while prevailing socio-economic conditions at particular points in time may provide more or less impetus for IWB reform, the outcome of policy change can be expected to be shaped by their institutional design and interaction with complementary policy domains. Both claims will be illustrated with reference to Germany.

3. IWB policy in Germany: contexts, contingency and ambiguity

Analyses of IWB policy have focused on large and dedicated national schemes, such as the American EITC or the British Working Tax Credit. However, while significant in scale, IWB provision in some countries may be integrated in a more general working-age minimum income scheme. In some respect this is not new. Social assistance claimants have long been allowed to receive wages in addition to transfer income. However, earnings tended to be taxed heavily (see MISSOC, 2017), the hours of work restricted or wage subsidies time-limited (e.g. for unemployed claimants). Recent welfare state reforms have changed this

substantially. The yet to be fully rolled-out British Universal Credit system, for example, deliberately blurs the distinction between out-of-work and in-work benefit provision (Clasen and Clegg, 2011). A similarly encompassing and integrated benefit scheme for all employable working-age people has been proposed by the Macron government in France (Le Figaro, 16/10/2018). Preceded by both, an integrated minimum income scheme has been in operation in Germany since 2005, colloquially referred to as Hartz IV.¹

Hartz IV has been subject to considerable scrutiny with respect to its role as income replacement for people out of work (Fleckenstein, 2008; Betzelt and Bothfeld, 2011; Clasen and Goerne, 2011). However, about a quarter of all Hartz IV claimants are in paid employment (BA, 2018a), making it the principal national IWB system in Germany. As will be discussed below, its trajectory aptly illustrates the influence of contextual conditions and contingency, as well as the impact of benefit design and its ambiguity on the politics of IWB reform. Going back to the late 1990s, four periods can be identified. A particular socio-economic context in the late 1990s contributed to cross-party consensus in favour of enhancing wage subsidization. The configuration of IWB in the shape of Hartz IV in 2005 provoked policy adjustment however, and two phases of policy containment and correction demonstrate the relevance of the particular institutional shape and ambiguity of IWB. Nevertheless, the latter can also be politically expedient, as the fourth period demonstrates.

3.1. Context and contingency

In recent years Germany has registered one of the lowest levels of unemployment in the European Union and a record volume of people in employment. This is in stark contrast to the late 1990s when low annual economic growth rates, large public deficits and persistently high levels of unemployment (of more than 10%) contributed to a popular media image of Germany as the ‘sick man of Europe’ (Sinn 2003; Reisenbichler and Morgan 2012). Employer organisations argued that the creation of a low-wage sector for the less qualified was needed but hampered by rigid wage structures, as well as existing minimum income schemes. The perception of a lack of job opportunities for people with few skills and qualifications was shared also between the main political parties (Knuth, 2012). In the late 1990s and early 2000s, both centre-right and centre-left governments introduced deregulatory policies which facilitated the take-up of part-time and temporary work, as well as minor forms of employment, notably ‘mini-jobs’, which are

¹ Officially the term is *Arbeitslosengeld II* (unemployment benefit 2), but this is misleading (see later in the text) and as Hartz IV is also most commonly used within public and political debates, I will adopt the term Hartz IV for the remainder of this article.

restricted to monthly earnings up to a certain level and exempt employees from social insurance contributions. These policies have been associated with the considerable growth of atypical jobs in the early 2000s (Eichhorst and Tobsch, 2013) and also the increase in the scope of low wage employment (Kalina and Weinkopf, 2015).²

Within this context, the expansion of wage subsidization was broadly supported by the political right and left. In their 1998 general election manifestos all mainstream political parties suggested improved ways of combining earnings with means-tested transfers. Norbert Blüm (CDU), then Minister for Labour and Social Affairs in a centre-right coalition government (between the CDU/CSU and FDP), advocated a *Kombilohn* (combining wage and benefit receipt) model. Benefit claimants would receive a subsidy for accepting lower paid work, the effect of which would raise the combined income by 20% above unemployment assistance (FAZ, 11/08/1998). This was inspired by an earlier *Kombilohn* proposal from the employer federation (BDA) which would have more than doubled the maximum amount social assistance claimants were allowed to earn before benefits would be withdrawn, complemented by the introduction of wages below those set by existing collective agreements. Trade unions vehemently opposed such suggestions with the argument that those would undermine wages and replace regular with subsidized workers.

The Social Democratic Party (SPD) too perceived the existing means-tested benefit system as an impediment to job creation and argued in favour of improved, albeit temporary, in-work benefits (FAZ, 7/12/1998). Having won the 1998 election and formed a coalition with the Green Party as junior partner, the 'Red-Green' government introduced an experimental regional programme nationwide (the *Mainzer model*). This improved net earnings for claimants of means-tested benefits via a combination of subsidies and tax exemptions. However, the programme had low take-up and was terminated when the IWB issue became embroiled within a broader debate in 2002 about the need for a fundamental re-regulation of labour market policy which gained momentum in the wake of a scandal of official job placement figures, persistently high unemployment and the forthcoming general election.

The causes and consequences of the so-called Hartz reforms (2002-2005) have been widely discussed elsewhere (e.g. Knuth, 2009; Hassel and Schiller, 2010; Fleckenstein, 2012). In the context of this article, the most relevant aspect was the replacement of the means-tested unemployment assistance and social

² To what extent these outcomes may have influenced Germany's subsequent economic recovery and remarkable employment trajectory in the past ten years is contested (Carlin et al., 2014; Streek, 2017).

assistance programmes with Hartz IV as a single income support scheme, officially termed unemployment benefit II (ALGII) or 'basic allowance for jobseekers' (*Grundsicherung für Arbeitsuchende*). Both terms are misleading though as eligibility is neither predicated upon unemployment nor job seeking, but having insufficient income while being 'capable of being gainfully employed' (*erwerbsfähig*). This 'widely misunderstood' (Knuth, 2006) transfer scheme is thus much broader than unemployment protection.³

Introduced in 2005, Hartz IV incorporated much-enhanced opportunities of combining benefits and earnings. For example, recipients of previous assistance schemes had been permitted to be in paid work for no more than 15 hours per week. This restriction no longer applied in Hartz IV. Moreover, financial incentives were improved by raising the level of 'earnings disregard' (i.e. earnings not affecting benefit receipt), lowering marginal tax rates on earnings above this level and increasing the level of earnings before benefits would be fully withdrawn.⁴ According to the government, these features were aimed at encouraging claimants to take up part-time work and making less well-paid jobs more attractive (FAZ, 14/05/2005). This sentiment was fully endorsed by the main opposition parties. Both the CDU/CSU and also the FDP had previously demanded even lower tax rates on earnings for benefit claimants.

In short, the introduction of Hartz IV provided the context and opportunity for enhancing IWB provision, and to do this within a new single minimum income programme for people in and out of work. However, although institutionally innovative, the considerable expansion of IWB occurred somewhat surreptitiously. Other aspects of the Harz reforms were more widely and controversially debated, such as cutbacks to unemployment insurance, the discontinuation of unemployment assistance, and also governance issues (Knuth, 2009). By comparison, the enhancement of wage subsidization had a low public profile, possibly because of its incorporation within general labour market policy reform package but also because of its broad cross-party support.

3.2. Policy adjustment phase 1: the institutional shape of IWB

In 2005 Hartz IV became the principal German IWB programme in all but name, with claimants combining benefits with income from paid work, principally indefinite, and hours spent in employment not curtailed.

³ In fact, the share of claimants who are unemployed steadily declined from about 50% in 2006 to just over 40% ten years later (BA, 2017a).

⁴ The earnings disregard was fixed at €100 per month; the level of earnings before benefits would be fully withdrawn was raised from less than €700 (in social assistance) and €165 (unemployment assistance) to up to €1,200 (€1,500 for parents) in Hartz IV.

During the course of the year the take-up rose steeply to over 1.3 million claimants (see graph 1).⁵ Welcomed by the employer federation (FAZ, 3/01/2006), this increase in recipient numbers was more typically portrayed as an unintended consequence of the recent reform, both in the public debate (e.g. Der Spiegel, 8/5/2006) and within mainstream political parties. In late 2005 the CDU/CSU and the SPD had formed a 'grand coalition' government and both parties began to express concern about Hartz IV as a wage subsidy. The CDU/CSU criticized it as in part supplementing income for those who were arguably content with working few hours. Hartz IV, it was claimed, 'should be for the truly needy rather than those who voluntarily work less and then claim benefits as a compensation for lower wage income' (FAZ, 29/05/2006). The SPD too saw the need for policy adjustment. Franz Müntefering (SPD), the Minister for Labour and Social Affairs, suggested taxing more heavily Hartz IV claimants with low monthly earnings, while improving net earnings of those with more substantial income from paid work (FAZ, 13/10/2006).

In part, these sentiments reflected the scale of the increase in claimant numbers which the government had underestimated for two reasons. First, the number of former social assistance claimants who became defined as 'employable' under Hartz IV was considerably higher than had been expected (Clasen and Goerne, 2011: 799). Second, as the housing element in Hartz IV was more generous than in housing benefit, the number of people in employment and in receipt of the latter declined, from 500,000 in 2004 to about 300,000 a year later, much of this as a result of claimants transferring into Hartz IV (Rudolph 2014). However, the reconsideration of policy positions was not merely due to the number of claimants. Instead, the support for IWB became problematic due to the negative image of Hartz IV. The Hartz reforms had generated strong popular protests and demonstrations, and particularly Hartz IV was widely condemned as a form of welfare cutback (Kemmerling and Bruttel, 2006). This negative portrayal included its role as a wage subsidy. Hartz IV claimants who were in paid work became referred to as *Aufstocker*. Literally the term means people who 'top up' which, in principle, is a neutral depiction and could even be read positively as a form of labour market inclusion. Instead, ever since its first appearance in early 2006, the term was portrayed negatively, i.e. as signifying a growing benefit dependence amongst wage earners. Particularly trade unions, but also *Die Linke* and the Green Party, equated the growth of the number of *Aufstocker* with a rampant expansion of low-wage employment in Germany (Adamy, 2008).

⁵ Prior to the Hartz reforms wage subsidization was more dispersed and existed at a lesser scale. About 470,000 claimants of either social assistance or unemployment assistance (about 12% of all claimants) had some kind of income from paid work in 2004 (BA, 2010). In addition, there were about half a million employed persons in receipt of means-tested housing benefit (Rudolph, 2014).

This created a dilemma for the government. While unemployment had started to decline somewhat, in 2006 it was still at a very high level (over 10%) and much of it consisted of long-term unemployment (see graph 1). The government persisted with its aim of facilitating low wage employment and continued to support IWB policy in principle. However, Hartz IV had proved to be a liability. Müntefering's way out of this was to suggest a distinct IWB scheme. The so-called 'employee supplement' (*Erwerbstätigenzuschuss*) would be directed at claimants with monthly earnings of at least €800. It was hoped that this would serve two objectives: contain the number of people in employment who claimed Hartz IV, and improve incentives to expand weekly working hours. Initially agreeing with this idea, the CDU/CSU raised doubts about the new scheme's financing and its employment effects (*Der Spiegel*, 16/07/2007). Perhaps crucially, the coalition partner vetoed the introduction of a separate IWB scheme targeted at people who were participating more extensively in paid work, as this may have suggested that in-work poverty was caused by insufficient hourly wages (rather than low work intensity, or large family size). Such a rationale may have strengthened calls for the introduction of a national minimum wage, a notion which was vehemently rejected by the CDU/CSU at the time.

The disagreement between the coalition parties was eventually resolved by abandoning the idea of a new and separate IWB scheme in favour of adjusting parameters within existing minimum income policies. Too many working people, the government argued, lived in households who were in need of Hartz IV for no other reason than the inability to cover their housing costs in full, or because of children (*FAZ*, 9/2/2008). Thus, with the intention of transferring working people from Hartz IV to other forms of wage subsidization, housing benefit levels were raised (by more than 50% on average in 2009), and the so-called 'child supplement' benefit (*Kinderzuschlag*) was improved too (Meister, 2009). According to the institutional logic of the German social security system, people who in principle are eligible for Hartz IV are required to apply for any scheme which may remove, shorten or lower the need for support from this safety-net benefit. This includes both housing benefit and the child supplement as 'higher ranked' (*vorrangig*) than Hartz IV.

In sum, policy debates and policy change in the immediate aftermath of the Hartz reforms illustrate the impact of institutional design on IWB policy, and the interaction with adjacent policies. The expansion of wage subsidization had politically been facilitated by broad cross-party support, and its inclusion in a wider reform package. However, as the much-maligned Hartz IV became problematic for the continuation of this policy path, institutionally complementary means facilitated an alternative solution and a compromise which helped maintain an, albeit weakening, cross-party political promotion of IWB policy.

3.3. Policy adjustment phase 2 – ambiguity as a problem

The reform above had little effect. If anything, the *Aufstocker* topic became even more debated in subsequent years for two reasons: the scale and associated cost of IWB receipt and the association between Hartz IV and in-work poverty. Unemployment and long-term unemployment had declined markedly by 2009, but the number of *Aufstocker* and their share of all Hartz IV claimants continued to rise (graph 1). Total annual Hartz IV expenditure was therefore also still increasing and almost a third of it was allocated to topping up wages. Trade unions portrayed *Aufstocker* as workers who were dependent on jobs which did not pay enough to live on (SZ, 20/8/2008), and linked this to low-wage employment in Germany which was reaching levels higher than in most other EU countries (Eurostat, 2012).

In this context, the government's policy preference shifted from IWB containment to retrenchment. The general election in 2009 led to the coalition government between the CDU/CSU and the liberal FDP as junior partner. In their coalition agreement, the government announced a major reform of the incentive structure with the aim of encouraging claimants to increase their work intensity, move off benefit and into unsubsidized work or from marginal to more substantial types of work. Data showed that over half of all *Aufstocker* had jobs which paid less than €400 per month, while about a quarter earned more than €800 (Bruckmeier et al. 2010). Arguing that many of the former were content with combining Hartz IV with earnings from marginal employment, the government planned to severely limit, or even abolish, the earnings disregard, effectively imposing higher tax rates on those with lower earnings. At the same time, higher work intensity would be encouraged by substantially lowering the rate of benefit withdrawal for those in receipt of more substantial wage income (FR, 20/9/2010).

However, the actual scale of policy change eventually implemented was miniscule. The earnings disregard remained untouched and benefit withdrawal rates were minimally adjusted. There were two principal reasons for this. First, the decision to raise regular Hartz IV benefit rates only marginally at the time was deeply unpopular and widely criticized by the opposition and the wider press. Cutting the income disregard would have exacerbated this criticism, as it would have reduced rather than raised the net income of claimants who combined Hartz IV with marginal earnings. The second, and arguably more pertinent, reason was the complexity and ambiguity of IWB as a policy instrument. Commissioned by the government after policy plans had been announced, two separate reports identified substantial problems (Bruckmeier et al., 2010). Radically cutting back the earnings disregard would have reduced financial

incentives to move into work for those outside of the labour market. At the same time, lowering the implicit tax rate for claimants with higher earnings, and thus effectively increasing their net income, would have extended the scope of Hartz IV entitlement to those who currently had earnings which kept them just outside of it. Thus, if implemented as planned, the changes would have required considerable additional public resources, created perverse work incentives and potentially increased, rather than limited, the number of *Aufstocker*. All of these were anathema for a government which was not willing to raise spending on Hartz IV in a context where budget consolidation had become a major objective.

Summing up, policy initiatives in the five years since the introduction of Hartz IV demonstrate a turn in policy preferences, from erstwhile IWB support to containment and retrenchment. In some respects, this may be linked to changing circumstances, such as the unexpected scale of the rise in claimant numbers and the gradual improvement in the employment situation. But institutional factors played an arguably more crucial role for the reform outcome. Containment was initially achieved by means of shifting claimants to complementary policy programmes, but retrenchment failed because of unanticipated consequences of planned reforms. What appeared as a straightforward enhancement of incentive structures for some claimants would have created disincentives for others, and widened rather than reduced the scope of IWB coverage. More generally, the integration of IWB within the Hartz IV scheme reinforced a prevailing image of benefit dependence of wage earners rather than labour market inclusion. In other words, the particular ways in which ambiguity matters in concrete cases depends on 'perceptions and context' (Linder and Peters, 1989). In Germany, the latent ambiguity of any IWB provision became politically challenging because of its concrete configuration as a Hartz IV benefit. However, this does not mean that it is invariably a political problem, as the next section shows.

3.3. Ambiguity as a political asset

In accordance with earlier research (e.g. Howard, 1995; Vlandas, 2013), the final section illustrates that, at times, the ambiguity of IWBs can facilitate agreement between political actors with different interests. However, rather than wage subsidization policy itself, it may aid cross-party alignment in adjacent areas, such as minimum wage policy. Concretely, the IWB issue facilitated a cross-party agreement over the introduction of the national minimum wage in 2015. Prior to that date, wage setting in Germany had been left to social partners, and extensive collective bargaining had practically functioned as a wage floor. The ongoing decline of unionization, employment deregulation, the spread of low-paid employment (Kalina

and Weinkopf, 2015) and the 'loss of self-regulatory capacity by employers and unions' (Mabbett, 2016: 1241) were key factors which led to the introduction of initially sectoral and eventually a national minimum wage (see also Dostal, 2012; Marx and Starke, 2017).

The reform was implemented by the second 'grand coalition' government between the CDU/CSU and the SPD (2013-2017). Prior to the 2013 election the SPD advocated a national minimum wage, whereas the CDU/CSU opposed such a policy. The debate about *Aufstocker* and Hartz IV became tightly linked with this controversy. In opposition, the SPD had started to side with trade unions by adopting a notion of Hartz IV as tax payers having to subsidize poverty-inducing employment while encouraging employers to engage in 'wage dumping' (FAZ, 13/8/2010). Both the SPD and the trade unions pointed to the increase in the number of *Aufstocker* with full-time jobs as evidence of some employers paying 'poverty wages' (SZ, 2/5/2011). As a response to this, a universal national minimum wage should be adopted as this would reduce the need to subsidize wages via Hartz IV.

In contrast, employers, in particular, claimed that the need for Hartz IV was, in the majority of cases, not caused by low wages, but by part-time work or claimants with large families (SZ, 19/7/2013). This was also a key reason why the CDU/CSU rejected a minimum wage. And yet, in the preamble of the 'coalition contract' in 2013 the government referred to the need to shift the balance away from state support of low-paid work towards employers, and remove the potential for employers to compete with each other on the basis of ever decreasing wages (BMAS, 2014). Chancellor Merkel stated that 350,000 people in full-time work were 'in need of state support, which is 350,000 too many and that is why we are talking about the minimum wage' (Die Zeit, 2/11/2013).

Such a justification for the minimum wage is questionable. Official data suggested that about three quarters of the 1.3 million claimants worked part-time and that the proportion of single people in full-time work was fairly small (BA, 2010). A statistical revision in early 2014 lowered the number of those who were expected to be able to leave the *Aufstocker* status because of the proposed minimum wage to about 65,000, or about 5% of all IWB claimants (FAZ, 16/4/2014). Subsequent analyses suggest that considerably fewer *Aufstocker* than expected left Hartz IV in 2015 (Bruckmeier and Wiemers, 2016), and possibly no more than 20,000 as a direct consequence of the introduction of the national minimum wage (FAZ, 31/7/2016). Thus, in contrast to what the government had publicly claimed, the association between IWB provision and the need for a national minimum wage was rather tenuous (see also Luchtmeier and Ziemendorff, 2007). Nevertheless, it seems safe to argue that the portrayal of Hartz IV as a policy concern aided the formation of a coalition government and thereby influenced a broader policy agenda. The

framing of IWB in the shape of Hartz IV as an indicator of the scale of low wage employment was useful for reaching, and justifying, a political consensus between the coalition parties over the minimum wage, demonstrating that, given certain circumstances, the ambiguity of IWB can indeed be exploited for political and policy goals outside of IWB policy per se.

Conclusion

The recent expansion of IWB policies across many countries has been linked to structural labour market change. Similar to other 'make-work-pay' policies, IWBs can be considered as a response to, or support of, the growth of low-wage jobs and atypical types of employment. Such a reading may help explain broad cross-party support for IWB policy in several welfare states. Moreover, the twin aims of preventing poverty for low-income workers and enhancing work incentives seem to offer opportunities for 'ambiguous agreements' across party political lines over IWB policy promotion.

However, attributing IWB reforms solely to prevailing socio-economic environment seems unduly functionalistic and the review of policy debates and changes over a longer period of time shows that the politics of IWB is somewhat more complex, policy preferences unstable and party political agreements all but solid. In Germany, the broad support behind IWB expansion deteriorated fairly quickly and transformed into preferences for policy containment and retrenchment. To some extent this had to do with economic and labour market conditions. Improved employment prospects and reduced unemployment levels may have made IWB and similar policies less pressing. However, the particular design of IWBs and the interaction with adjacent or complementary policies matters too. As shown, they may offer opportunities for grappling with policy challenges, here containing the scale of IWB while maintaining wage subsidization with other means and in complementary areas, such as housing allowances. They may also facilitate policy making in related areas, such as minimum wage policy. However, the discussion has also demonstrated that policy tensions and ambiguities within IWB provision can be politically counterproductive and may even lead to policy failure. In other words, policy ambiguity can equally be politically 'destructive', constraining rather than facilitating policy reform.

More broadly, the incorporation of IWB within the general minimum income support scheme proved politically problematic. Whether a different institutional choice, i.e. a separate IWB as suggested by the SPD, would have led to a different policy path is a moot point. But it raises the more general question as to whether integrated IWB provision lacks political legitimacy compared with separate and dedicated

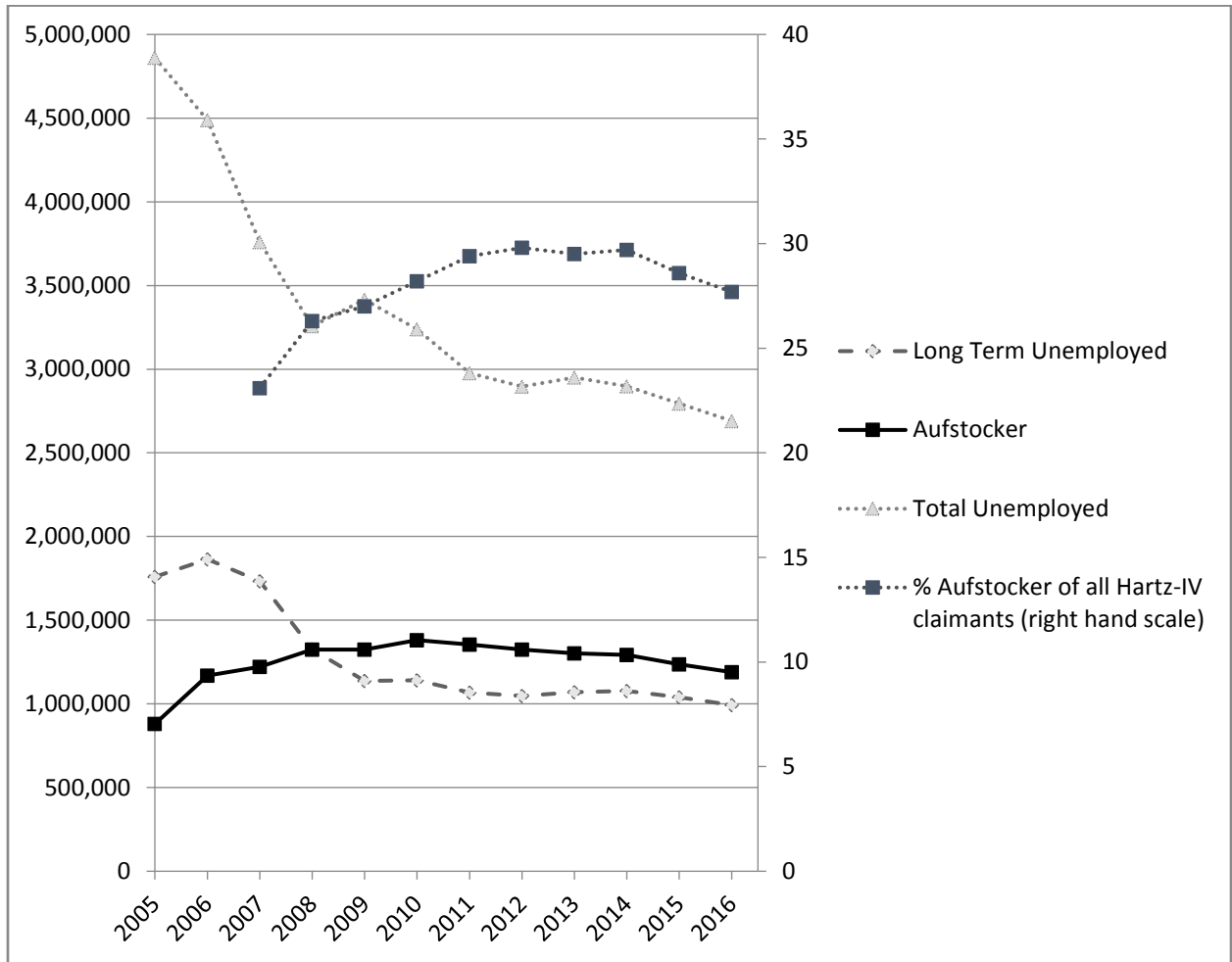
wage subsidy systems. The German case may suggest this, but it is also possible that the concrete association with the highly controversial and widely criticized Hartz IV scheme is the problematic aspect here rather than the amalgamation of in-work and out-of-work support per se. In any case, given the current political interest in single working age benefit arrangements the analysis of IWB policy is bound to become increasingly important in the context of readjusting work and welfare in contemporary welfare states.

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Graph 1:

Aufstocker; unemployment; long-term unemployment; share of *Aufstocker* *



*share of *Aufstocker* relative to all Hartz IV claimants capable of being in gainful employment

Sources: BA (2017b); BA (2018b; and earlier editions); BA (2018a; and earlier editions); BA (2018c)

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