

Herbsttagung der Sektion „Soziale Ungleichheit und Sozialstrukturanalyse“ der Deutschen Gesellschaft für Soziologie (DGS) und des Instituts für Arbeitsmarkt- und Berufsforschung (IAB) am 19./20. Oktober 2007 in Nürnberg zum Thema „Arbeitslosigkeit“

## **The negative causal effect of in-work benefits on perceived reciprocity**

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### **Abstract**

This paper examines whether a combination of income sources, low wage paid by the firm and in-work benefit by the state (Kombilohn), is valued less than the same amount of regular wage, i.e. income fully paid by the firm.

German social policy experienced a shift from “welfare” with its focus on status protection towards “workfare” that focuses on integration into employment, even if this is accompanied by loss of status or specifically loss of income. By granting a financial benefit to unemployed who take up low paid jobs, in-work benefits are an instrument of active labour market policy that tries to combine the “employment first” strategy of workfare with a certain amount of status protection. However, its effectiveness in activating and permanently reintegrating the unemployed into employment depends (among other things) on the assumption that people value the combination of low market wage and financial benefit as high as a regular wage of the same amount. This is not necessarily the case.

Receiving an in-work benefit might be interpreted by the employee as a signal that firms are not willing to behave according to the norm of reciprocity and pay fair wage so that the state has to supplement that wage with a financial benefit. Because this perceived violation of reciprocity can lead to several undesired effects (e.g. reduction of work effort, withdrawal behaviour, and returning to unemployment status) it reduces the effectiveness or at least the efficiency of in-work benefit in achieving its goal.

The hypothesis of a negative effect of in-work benefit on perceived reciprocity is tested using a survey of in-work benefit recipients and of non recipients as a comparison group (n=1000). The method of propensity score matching is applied to eliminate all compositional differences between benefit recipients and non recipients except for the source of their income. It is shown that receiving one's income as a combination of in-work benefit and low market wage reduces perceived reciprocity (measured as income satisfaction) by 14 percentage points. Further analysis using ordered probit analysis on the matched sample come to the conclusion that the perceived violation of reciprocity depends only on the fact of receiving an in-work benefit and is independent of its relative as well as the absolute amount.

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