The German Mini-Job Reform: Intended and Unintended

Consequences for Low-Earnings’ Workers

Gabriela Galassi

European University Institute

August 31, 2015

Abstract

This paper provides an empirical analysis of the effects of a welfare-to-work policy on earnings and

employment prospects of workers. I exploit the expansion of tax exemptions and subsidies to low-paid

employment (the so-called “mini” and “midi” jobs) introduced by the German “Mini-Job Reform” in

2003, which aimed to decrease unemployment by promoting work in the low-wage sector. Although a

(mildly) positive effect on labor market participation has been documented in the literature, questions

about the side effects such as in-work poverty and lock-in into low quality jobs have stirred controversy

in the media. However, they have been largely absent in the academic discussion. Using data from the

German Socio-Economic Panel for 2000-2007, I estimate the effects of the expansion of tax benefits on

earnings and employment prospects of workers. To mitigate potential bias from selection into mini and

midi-jobs, I construct counterfactuals both exploiting target groups (women, younger workers, single

parents, secondary workers and low-educated) and using a matching strategy. The findings suggest

that low-paid workers reduce the hours worked while net hourly and monthly earnings do not increase

despite the lower tax burden. On the other hand, inactive and unemployed people improve their chances

to transit to employment with higher earnings by taking transitorily a low-paid job. Hence, while the

German design of tax incentives for low-earnings’ jobs does not appear successful as an antipoverty

policy, typical goal of welfare-to-work policies, it might help jobless people to smoothly transit to better

paid employment. It seems also effective for activating women and increasing labor participation and

earnings of young people. However, low educated and single parents see their earnings reduced.