

PRESS RELEASE

Reforms in the German Tax Transfer System – lower poverty risk through better employment opportunities and stronger employment incentives

- While income inequality in Germany has hardly changed since 2005, the share of the population at risk of poverty has risen.
- Bundling benefits and a lower transfer withdrawal rate can strengthen employment incentives and thus reduce the poverty risk without burdening public budgets.
- Well-developed childcare is central to improving parents' employment opportunities. A reform of the marital splitting system can strengthen the employment incentives of married second earners.

Wiesbaden, 08.11.2023 – Various reform options in the German tax-transfer system can reduce the poverty risk and strengthen employment incentives without putting a strain on public budgets. Bundling benefits in the basic income support system with a lower transfer withdrawal rate compared to the status quo can significantly increase employment incentives for people with low incomes. Depending on the specific design, this may be possible without higher government spending. Combining benefits in the basic child allowance could counteract stigma effects and reduce the poverty risk, especially for children and teenagers.

“If different benefits are bundled in the basic income support system, this can simplify receiving these benefits and increase take-up. A lower transfer withdrawal rate would make it more attractive to take up or expand employment,” says council member Achim Truger.

“This could reduce the poverty risk for many people. Therefore, however, conditions must be created for people to take up gainful employment in the first place - an expansion of the still patchy childcare system is indispensable,” adds Achim Truger.

Since 2005, the net household incomes of the lower income groups have stagnated, while average real incomes have grown noticeably. As a result, the share of the population at risk of poverty has risen further. Single parents, the unemployed, children and teenagers, and people with a migration background are particularly at risk of poverty. Single parents are significantly more often women, and divorced women are more likely to be at risk of poverty than divorced men.

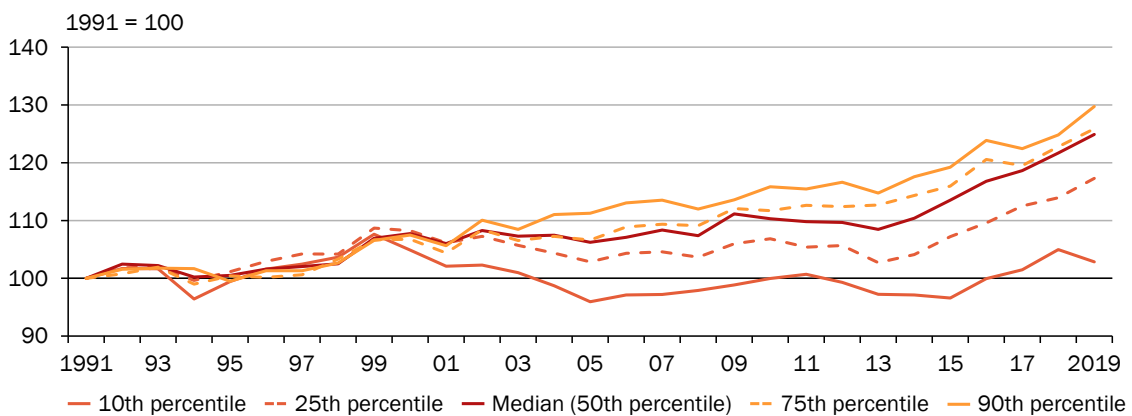
In Germany, poverty risk is associated both with individual difficulties for the persons concerned and with undesirable developments in the overall economy and society. People with a lower income often have poorer health and a shorter life expectancy. Educational opportunities for children are very unevenly distributed in Germany and depend heavily on family background. If the talents of people at risk of poverty remain unused, this can have a negative impact on innovation and growth. Structural improvements in the educational system increase equal opportunities for children at risk of poverty in the long term and thus improve their chances of obtaining well-paid jobs later in their working lives.

The planned basic child allowance can ensure that more eligible families actually take advantage of the benefits and thus reduce the risk of poverty, especially among at-risk-of-poverty households with children and teenagers.

A reform of the marital splitting system can strengthen the employment incentives of second earners, typically women. A nationwide and flexible supply of high-quality childcare is needed to enable parents to expand gainful employment. However, there are still significant childcare gaps for under 3 year-olds, 3-5 year-olds and primary school children. For families at risk of poverty, childcare should be free of charge so that parents can more easily take up gainful employment.

For short-term relief in times of crisis, a nationwide instrument for targeted direct payments to private households is needed. The technical and legal conditions for this should be created as quickly as possible. As a first step, lump-sum climate payments to compensate for the burdens of the price of carbon emission should be implemented.

Real incomes of lower income groups have grown below average since 2000¹



1 – Price-adjusted for the consumer price index (2015 = 100). Household income are equivalised according to the modified OECD scale. Income after taxes and transfer payments and with pensions from statutory pension insurance and civil servants' pensions.

Sources: SOEP v37, own calculations
© Sachverständigenrat | 23-477-01

The German Council of Economic Experts (GCEE) provides support to policymakers and the general public on questions and matters of economic policy. It was founded as an independent body in 1963 and currently consists of the council members: Professor Dr. Veronika Grimm, Prof. Dr. mult. Dr. h.c. Ulrike Malmendier, Professor Dr. Dr. h.c. Monika Schnitzer (chair) Professor Dr. Achim Truger, Professor Dr. Martin Werding. By publishing regular reports, the GCEE aims to help the general public and decision-makers in politics, business and society to form a reasoned opinion on economic policy developments in Germany.

Further information on the German Council of Economic Experts and its publications are available at <http://www.sachverstaendigenrat-wirtschaft.de/en> or follow us on Twitter [@GCEE_en](https://twitter.com/GCEE_en).

Press contact:

Nadine Winkelhaus

Senior media and public relations officer

Phone: +49 611 75-3110

presse@svr-wirtschaft.de