

Government wealth distribution report

Germany: The growing gulf between rich and poor

By Dietmar Henning
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Social polarisation in Germany is continuing apace. This is clear from the draft of the third report by the German government on wealth distribution presented by Labour Minister Olaf Scholz (Social Democratic Party, SPD) on Monday, May 19.

Scholz's appearance before the press was not entirely voluntary. As has been the case with similar reports in previous years, the draft report on wealth distribution had been sitting in his ministry for some time where it was due to be revised in order to present its contents in a better light. However, following publication of figures featured in the draft by several newspapers, Scholz decided to go on the offensive.

The report begins with the sentence: "Poverty is a social phenomenon with many faces. On that basis, it is therefore difficult to measure exactly." In line with this statement, Scholz goes on to use a different database than that used in the last two wealth distribution reports, citing the data of the EU-SILC (European Union Statistics on Income and Living conditions) instead of the Socio-Economic Panel (SOEP). Officially, this shift to the EU-SILC database is justified on the basis that it permits a better comparison with other countries.

With the help of this new criterion, Scholz could report that in 2005, 13 percent of the German population, or 10.7 million citizens, were officially regarded as poor. Since 2003, this represents a rise of "only" 1 percent, a rise that Scholz seeks to play down by declaring that the current economic upswing in Germany only began in 2006. According to Scholz, the upswing will benefit all sections of the population, but this is not "reflected" in the figures of the current report.

By employing the new database, Scholz has been able to clearly reduce the threshold for the definition of poverty: from €935 to €781 per month for single citizens. This in turn puts the poverty threshold for families below the subsistence level granted by Germany's current standard unemployment and welfare payment—Hartz IV.

If one proceeds from the old database—which is hidden away in an appendix to the 413-page draft under the chapter "core indicators"—then the poverty ratio is much higher: i.e., 18 percent in 2005 and—despite the economic upswing—18.3 percent in 2006.

The differences in statistics are even more pronounced when it comes to child poverty. According to the SOEP, child poverty in 2005 averaged 26 percent, while the EU SILC statistics put this

figure at 12 percent. According to the SOEP data, child poverty increased by around 3 percent between 2003 and 2005, while the EU data registers a decline over the same period of 3 percent. The latter estimate contradicts all of the latest studies dealing with child poverty, which conclude that one in six children in Germany—i.e., a total of 2 million—are dependent on Hartz IV payments.

A similar picture emerges with regard to single-parent families and low-paid workers in east Germany. According to Scholz's EU statistics, the rate of poverty in east Germany declined between 2003 and 2005 from 19 to 15 percent; according to the SOEP, it rose from 20 to 22 percent. According to Scholz, 24 percent of all single parents are poor, 12 percent (!) lower than two years previously; according to the SOEP, the figure has remained the same for the past seven years—i.e., around 36 percent. Scholz concludes that the ratio of so-called "working poor"—those in work but with an insufficient income—is 6 percent of the population; the SOEP calculates this figure at 12 percent.

Scholz does admit there has been "an increase in the low-wage sector." In 2005, more than a third of all workers were employed in cheap-wage jobs. At the start of the 1990s, this figure was slightly more than one in four.

Scholz's sleight of hand is clearly aimed at diverting attention away from the disastrous consequences of the policies introduced by the former SPD-Green Party government led by Gerhard Schröder (SPD), which opened the way for a massive low-wage sector in the German economy and growing poverty through the introduction of its so-called Agenda 2010 and Hartz IV laws.

Despite all attempts by the government to present the findings of its draft in the best light, the labour minister was unable to hide the fact that the gulf between rich and poor in Germany has widened considerably. "There is an increase of persons at both the lower and top end of the [income] spectrum," the draft concludes, with a corresponding shrinkage of the "middle class."

The wealthy elite who earn at least 200 percent of the middle-income level, or €3,268 net per month, constitute 6.4 percent of the total population. If one includes property and shares (persons with more than €3,418 net per month), this proportion rises to 8.8 percent. This income refers only to single households. A couple with two children under 14 years must receive net incomes of €6,863 to be considered wealthy.

The decline in incomes for the poorest layer of society is made clear by the following statistic: in 2002, 30.4 percent of all net income was shared by the poorest 50 percent of the population. Just three years later, in 2005, this share had shrunk to 28.7 percent. Those to profit from this redistribution are the wealthiest 10 percent. They were the only group to increase their share of social wealth, by around 1.6 percent between 2004 and 2005 alone.

This redistribution went hand in hand with declining wages and salaries. Between 2002 and 2005, wages declined from an average €24,873 to €23,684—i.e., around 4.7 percent—according to the government report.

Net wages also declined under conditions where inflation is increasing—in particular, for food and energy. The report charts that the price for energy alone in Germany rose between 2002 and 2006 by 7.3 percent per year.

The report remains sketchy on the issue of Germany's wealthy elite. It records that the total assets of all private households at the end of 2002 approximated €7.8 trillion. The wealthiest 10 percent control 56 percent of this total, while the poorest 50 percent possess just 2 percent.

The wealth distribution report unleashed a host of political reactions. Politicians and parties have resurrected old demands for cuts in tax and social security contributions for the middle class (Christian Democratic Union, CDU) and tax increases for the rich (the Left Party), as well as calls for the introduction of a minimum wage (SPD, German Trade Union Federation—DGB). But it would be a mistake to conclude that the parties will undertake any measures aimed at the fairer distribution of social wealth based on the findings of the draft. The main parties in the current “grand coalition” government, the SPD and CDU, have so far reacted to any pressure from below with a swing to the right.

In its introduction, the wealth distribution report makes clear that the existing policy of redistributing wealth should be continued: “However the financial room for manoeuvre for investment, and active and preventive measures to avoid poverty, is limited by the indebtedness of the public budget. The federal budget of 2008 has allocated approximately 15 percent of all expenditures (€283 billion) exclusively for interest payments. The continuation of the process of budget consolidation remains necessary as before,” the report declares.

In line with this policy priority, German Finance Minister Peer Steinbrück (SPD) has ruled out any proposals for tax cuts: “If this is meant seriously, it would question the reliability and stability of the coalition government,” he warned.

Any official reactions will be strictly limited to measures of a cosmetic nature under conditions where the governing parties are increasingly aware of the extent of public hostility to their policies. According to a recent poll by the British *Financial Times*, 87 percent of the German population regard the social inequality gap to be unacceptable.

The issue is also addressed—notably for the first time—in the wealth distribution draft. “Social acceptance of wealth strongly depends on the extent to which it is possible to fairly arrange the distribution mechanisms from the standpoint of the citizen,” the report declares. “Should the differences between rich and poor be

perceived as too large and too difficult to surmount, this could place the acceptance of the social free-market economy and democracy in question.”

And further: “A large proportion of the population is of the view that one can only become rich if one has the right connections and initial conditions.” Eighty percent of those asked regarded these as the two most important reasons for becoming rich. Far fewer are of the opinion that “hard work” is an important criterion for acquiring wealth. More important is “dishonesty.” The report warns: “This estimation, however, is incompatible with the general understanding of equal chances for all.”

At the same time, there is a growing chorus of those appealing for the government to ignore and defy popular sentiment. This was clear in connection with reactions to the recently agreed decision to cancel plans for increased salaries for members of the German Bundestag (parliament). Following a storm of popular protest at the plans to increase deputies' salaries by €1,100 per month, the chairmen of the party fractions—Peter Struck for the SPD and Volker Kauder for the CDU—agreed to postpone the measure.

Struck and Kauder were immediately criticised for backing down to “pressure from the streets.” Education Minister Annette Schavan (CDU) told German television: “It has never paid off to back down under pressure.” CDU politician Jürgen Gehb declared that the decision represented a “poor mark for political reliability” and accused the SPD of “populism.” Newspaper commentaries went on to attack the “absence of authority” on the part of the CDU and SPD, together with their “lack of courage,” “clumsiness” and “cowardice.”

Growing mass poverty and social polarisation are seen by the government solely as factors threatening the status quo. It has no qualms about the fate of those affected by its policies. Rather than take any effective measures to deal with poverty, it will inevitably respond by beefing up the apparatus of the state in order to prepare for future mass protests.

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