

# Government report reveals growing social inequality in Germany

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At the end of April, the German government presented its first "poverty and wealth report". Until now, governments have always refused to talk about poverty in "wealthy Germany," which they claimed had very good social security provisions. The report shows that Germany—taken as a whole—is a "rich country". But Germany's wealth is very unequally distributed. A small layer of the rich is confronted by a very large number of the poor.

The scientists that produced the report for the government not only prove that the inequality between rich and poor in East Germany is greater than in West Germany, but also that ten years after reunification the East-West divide is wider than ever. Incomes and private wealth in the East are far lower, and unemployment is far higher.

The report points out that, with respect to income, "for all households, including those without wages, receipts from capital etc., inequality clearly increased in West Germany between 1973 and 1998. Rising inequality particular affected the lower layers of the distribution rankings". At the same time, "inequality in East Germany was even higher than in West Germany and rose considerably between 1992 and 1998".

According to income tax statistics from 1995, there were some 13,000 net Deutsch Mark income millionaires at the upper end of the distribution scale. Their median yearly income was 2.7 million Marks. While they only constitute 0.043 percent of all taxpayers, they receive 2.93 percent of the whole country's net income.

But the real extent of social inequality is revealed when looking at the statistics for private wealth in Germany. A study in 1998 showed that private wealth, interest-bearing financial resources and real estate — less property and consumer debt — comprised approximately 8.2 trillion Marks (\$3.7 trillion). Private wealth in West Germany averaged 254,000 Marks per household, and 88,000 Marks in East Germany.

These averages say nothing about how this wealth is distributed. Approximately 42 percent of wealth in West Germany belongs to the richest 10 percent of households, while the lower half of all households can only call 4.5 percent of wealth its own. The highest tenth possessed on average 1.1 million Marks, while the lower half of all households possessed on average 22,000 Marks.

Inequality was even more marked in East Germany. The richest 10 percent of households had 422,000 Marks on average, and thus owned about 48 percent of all privately held wealth in the East, the bottom half possessed on average just 8,000 Marks. At 4.5 percent of privately held wealth, the bottom ten percent of households is the same in both the East and the West. The basis of this wealth (74 percent) is real estate, even more so in the West than in the East.

The figures for social polarisation would be even starker if all the wealthy had been included in the study. "Wealth resembles a shy wild animal", Ernst Ulrich Huster, one of the authors said in another context. And so the few super-rich households with net incomes of more than 420,000 Marks were not even included in the 1998 study. This would also explain how the government report comes to a figure of 8.2 trillion for private wealth, although the *Bundesbank* (Federal Bank) comes to a figure of 14 trillion for the same year, after taking debts into account. One year later, this had increased to 14.6 trillion Marks.

Other organisations have also examined this group. The "German Wealth Report 2000", a study by the consultancy firms Merrill Lynch and Cap Gemini Ernst & Young, states that the number of millionaires had risen constantly. Between 1996 and 1999, the number of those possessing more than 1 million euros (\$882,000), had risen yearly by 5.3 percent to 365,000. Their entire wealth comes to almost 4 trillion DM and also here a wide variation of wealth and incomes exists.

In 1999, some 3,700 super-rich possessed 612 billion Marks. "We expect that the above average growth of the financial resources in the hands of wealthy and very wealthy private investors in Germany will continue", the consultants claim.

This layer of the rich and super-rich confront a growing number of the poor. One third of more than 29 million households receive an income less than half the national average, thus counting as poor.

The unemployment rate—a sure sign of poverty—rose from 1.2 percent in 1973 (in the then West Germany) to 12.3 percent in all-Germany in 1998. The latter figure masks the extent of unemployment in East Germany, where the official jobless rate three years ago was about 19.5 percent.

Long-term unemployment (lasting one year or more) has increased drastically. "Long-term unemployment—as a cause for poverty—played practically no role in 1973," the report states. "The number of long-term jobless as a proportion of all unemployed in the former West Germany was only 8.5 percent. And as a percentage of the working population the figure was only 0.1 percent.

"The problem of long-term unemployment had grown considerably by 1992. The ratio of the long-term jobless to all unemployed rose in the former West Germany to 26.6 percent, or 1.76 percent of the working population [... ] For a section of the jobless, high unemployment has also led to them being excluded from working society."

In the 1990s, the problem of long-term unemployment continued to grow. In 1998 they amounted to nearly four percent of the working population. In the former East Germany, proportionately far more employees were affected by long-term unemployment than in the

West. The long-term unemployed reached 6.7 percent of all employees in 1998, a record high, compared to 3.76 percent in 1992.

Long-term unemployment is also a frequent reason for people relying on welfare benefits. At the end of 1998 in Germany, 2.88 million people living in 1.5 million households were dependent on welfare. In addition, there is an uncounted number who do not claim welfare, either out of ignorance, shame or fear that their relatives'—and above all their children's— incomes or savings may be affected.

Since 1973, the number of welfare recipients has risen four-fold in the former West Germany and has doubled in the East since 1991. 2.21 million with German passports and 665,000 with foreign nationality were affected.

This social polarisation is the result of a conscious policy in the interests of the rich and big business. The 25-year period from 1973 to 1998 marks an enormous redistribution in incomes and wealth upwards. Over this quarter-century the (nominal) national income grew by approximately 400 percent, from 720.4 billion Marks in 1973 to over 2.8 trillion Marks.

All these figures reflect a loss of the social position of the working class. Living and working conditions have worsened. The experience of the 1970s—apprenticeship followed by work in an office or factory with a secure job and relatively good income—no longer applies.

Workers and their families are constantly threatened by unemployment and poverty. Moreover, the number of the working poor has increased. From the mid-1980s to 1998, the proportion of “normal” employees enjoying a full-time and secure job has dropped to 58.3 percent of the working population. In parallel, the proportion of those without secure employment (above all part-time workers) has increased from 25.7 to 31.7 percent.

Although the absolute numbers of “normal” employees rose, their relative weight was reduced. As the report points out, even a full-time job no longer guarantees making ends meet, in particular in East Germany. Three-quarters of those of working age receiving social security in the East have been in full-time employment.

Other reports on poverty deal with the working poor in more detail. *Poverty and inequality in Germany*, a study by the Hans Boeckler Foundation, the DGB (trade union association) and a major charity association, has an entire chapter on this topic. This comes to the conclusion, “that today the income from one job alone—even for those in full-time gainful employment—no longer guarantees that poverty and shortages can be avoided”.

The number of workers on temporary contracts, who have no financial security, is also rising. The latest figures from the Federal Office of Statistics show that in 2000 at least 2.7 million people in work (excluding apprentices) were on temporary contracts. This comprises 9 percent of the working population; in 1991 the figure was about 7.5 percent. Temporary contracts are more frequent in East Germany than in the West—13 percent in 2000, up from 11 percent in 1991.

The plans of the Social Democratic government under Chancellor Gerhard Schröder to force the unemployed to work will only fuel this development. The persistence of high unemployment is to be used to establish low wage employment.

The government boasts that it reduced unemployment in its first two years in office by 400,000, which compared with the almost 4 million unemployed is not a great deal. But a report by the Alternative Economic Policy working group finds that the rise in the numbers of the employed by around a few hundred thousand came at a high price. Since the volume of work, that is the total number of working hours

performed “remained nearly unchanged over the same period”, the dismantling of unemployment celebrated by the government is based upon “increasing part-time and lower paid jobs”.

It is not just in this regard that the present government will deepen the gap between rich and poor. They are also determined to shift the burden of taxes in favour of the rich at the expense of ordinary working people.

This picture of the social situation in Germany points towards far reaching political consequences. It is not only the Catholic church's Caritas charity association that has remarked the poverty report shows a rift in German society, which places a “heavy burden on social peace”. Scientists also warn in the government report:

“Despite the positive tendencies in the housing supply over the last years, high unemployment, low income households, the increasing lack of perspectives among young people as well as rising youth unemployment have altered the basic conditions in the cities. Social hot-spots have developed, and their number will increase. Social polarisation in the cities in the United States and also to some extent in Britain and France has led to vehement social clashes.”

It is certain that social polarisation, i.e. a solidification in the upper layers of society, a growing risk that the middle layers will slip downwards and an increasing number of people in poverty, whether with or without a job, will inevitably lead to social and political clashes. “It is to be expected that Germany will lose its relatively exceptional position in the OECD, as a country where inequality of incomes compared with the USA and Britain have only increased slightly”, writes Stephan Leibfried, professor for social policy at the University of Bremen and one of the scientific advisors for the government report. “Most of the mechanisms that contribute to this exceptional position stand in question or are being undermined”.

Even the government has seen the explosiveness of the report. In order to suppress the disputes about their tax handouts for big business and the wealthy, the preface, which was written by the Chancellor's Office, tries to make things look better than they are. The social situation in Germany is not in difficulty, according to the Chancellor's Office, at most it is “fringe groups” such as single parents, refugees and those with few qualifications that are threatened from poverty.

Although the social democrat-Green Party coalition government was voted into office barely three years ago by many in the hope it would finally end the decades of redistribution from below, it has not only gone further than the preceding conservative Kohl government but has stepped up the attack on the welfare state. Their slogan also reads: “Enrich the wealthy!”.

An unbridgeable gulf has opened up between the traditional parties and the mass of the population. The statistics and facts in the poverty report not only document a deeply divided society; they also record a policy that increasingly meets resistance in the population and heralds social conflicts. Thus the conditions are maturing for constructing a new working class political party, one that fights for social equality.



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