

# Germany: report bares widening gap between rich and poor

## SPD-Greens preside over social polarisation

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The gulf between rich and poor in Germany has continued to grow since the SPD (German Social Democratic Party)-Green Party government took office six years ago. Contrary to all their election promises, they have presided over an unrestrained redistribution of wealth in favour of the wealthy and at the expense of the broad majority of society.

Under the headline “Whoever has, will receive more,” the magazine *Der Spiegel* published an article at the end of November disclosing initial figures from the report by the federal government on “living conditions in Germany.” The figures were drawn from the second report on wealth and poverty, which has yet to be published by the government. The first report of 2001 had already confirmed the increasing social polarisation in Germany.

*Der Spiegel* quotes from the first part of the report: “Social inequality is a fact and in some areas has increased over the past few years.” Currently, every seventh of Germany’s total of 29 million households lives in poverty. The proportion of households afflicted by poverty—based on the European Union (EU) standard—rose from 12.1 percent in 1998 to 13.5 percent today. The EU regards households as poor when they receive less than 60 percent of the average net income. Government subsidies are included in this figure. For a family of four, according to *Der Spiegel*, this sum amounts to 1,550 euros per month.

Increasing poverty is inevitably accompanied by the growth of private indebtedness. The number of insolvent households in Germany increased by 13 percent to a total of 3.13 million in 2002. The federal ministry for families defines insolvency as follows: “A private household is insolvent when its income, over a prolonged period after the deduction of cost-of-living expenses and despite a reduction of its standard of living, is not sufficient for debt repayment within the prescribed period.”

The unpublished report states that a third of all poor households are not able to free themselves from a difficult financial situation even after a period of years. Rising unemployment in particular is responsible for condemning increasing numbers of people to social marginalisation.

Children and young people under 18 are especially affected when they live in a household with only one parent (usually a mother) or in families with several brothers and sisters. More than 40 percent of one-parent families live in poverty. According to the federal government report, children and young people in households dependent upon social security are by far the largest group affected, and more than 1 million children are dependent on state aid.

It is almost impossible for children and young people to escape from the vicious cycle of poverty in Germany. Good educational qualifications are the prerequisite for a job with an adequate wage later in life. The attainment of such qualifications, however, is made more difficult or even impossible for children from poor families. Figures in the poverty report confirm this. “The chances for a child from a parents’ house with an elevated social status to receive a recommendation for Gymnasium education [after the fourth year of secondary school], are approximately 2.7 times as high as the chances for the child from a skilled worker’s household.” This inequality increases once again up to the point of graduation. Children with wealthy parents have a 7.4 times greater chance than children from a poor household of going to university.

The figures published recently from the so-called Pisa report on educational standards demonstrate that the gap between high- and low-performing pupils has once again increased in Germany. Klaus Klemm, professor of educational science at the University of Duisburg-Essen, explained in an initial statement on the new Pisa report that many of its findings still require closer investigation. “What is clear, however, is that the persistently low performance level of secondary school pupils is bound up with the social selectivity of German schools,” Klemm states. “As was the case with the first Pisa study, the report reveals a close relationship between the choice of school and social origin, even when pupils with the same cognitive abilities but different social origin are compared with one another.”

Pupils from immigrant families are disproportionately affected by the social selection that takes place in the German education system. They end up mainly in secondary schools, and such schools, according to Klemm, “develop into preparatory schools for unemployment and lack of training.”

Not everyone is affected by growing poverty. Those at the top of the income pyramid have registered a further increase in their wealth.

The wealth of the richest layers in Germany now amounts to 5 trillion euros, according to the authors of the report. Irrespective of the fact that a large proportion of private financial resources had been neglected in the last poverty report of 2001, the figure quoted in the latest report represents an increase of 17 percent compared to when the SPD and the Green Party first took office. In purely statistical terms, each household has an income of more than 133,000 euros. Of course, this fortune is unequally distributed. A tenth of households possess 47 percent of the wealth. In 1998, these households possessed “just” 45 percent of the smaller total sum of assets.

In addition, wealth is passed from one generation of the wealthy to

the next. This was demonstrated by the German Institute for Economic Research in a 2003 study titled “Representative analysis of the living conditions of wealthier households”: “Households with high incomes not only receive inheritances or donations more frequently, they also inherit on average higher sums.”

The German TV magazine *Monitor*, which also has had access to the wealth and poverty report, reported that in 1997 there were 510,000 wealthy citizens in Germany with a fortune of more than a million euros. Five years later, under the SPD-Green Federal Government, this number had increased to 775,000. In the *Monitor* broadcast, professor Dieter Eissel, an author of the report, declared: “In 1998 we already had a substantial difference between poor and rich. However, one must state that this difference between rich and poor has increased under this government. That is first of all because of a tax policy that favours the wealthy, those with fortunes and profit earners, while the burden for consumers and tax payers has remained the same or even increased.”

The SPD and Green Party’s politics of redistribution to the rich is also evident in an investigation carried out by the DGB institute for economics and sociology (WSI) on income distribution in Germany.

The ratio of wages and salaries to gross domestic income has been constantly declining over a long period. In 1960, the so-called net wage ratio was still about 55.8 percent of net income. Now, the net wage ratio has hit an “all-time low,” writes WSI author Claus Schäfer, currently amounting to less than 40 percent. It dropped especially sharply last year. On the other hand, the proportion going to capital has risen strongly, to 32.8 percent of gross domestic income.

The WSI points out in its distribution report how tax policy works to effect this redistribution. In 1991, German finance companies paid approximately 22 billion euros in direct taxes from their total profits of approximately 185 billion euros. In 2003, the same enterprises racked up approximately 300 billion euros in profit, but paid only 16 billion euros in taxes.

In addition, the federal government has milked workers and their families with its reforms of the health, pensions, unemployment and social security systems. Ordinary workers and the insured are being called upon to relieve big business with their contributions.

At the same time, the pay policy of the trade unions is responsible for declining wages and salaries. According to the Federal Statistical Office in the third quarter of 2004, wages and salaries sank in Germany by 0.6 percent compared to the previous year. Over the same period, corporate income rose by 10.3 percent. This is due in part to the spread of low-wage and part-time jobs, and in part to the elimination of special payments, such as Christmas bonuses and holiday pay. Meanwhile, sections of the union bureaucracy, such as the union representing auto workers, have negotiated takeaway agreements.

When the federal government submitted its first report on wealth and poverty nearly four years ago, it made a number of attempts to cover up the increasing social polarisation already developing at that time. This time around, the government has once again sought to prettify the figures. Federal Social Minister Ulla Schmidt (SPD) explored the possibility of linking the poverty ratio to the prevailing economic situation.

“In the final analysis,” *Der Spiegel* writes, “the SPD-Green Federal Government cannot be held responsible for high oil prices or the unfavourable world economic situation.” The attempt to juggle the figures was dropped, however, after it became clear that the general business climate did not have any effect on the poverty ratio.

Minister Schmidt intended to hold back the report at least until the middle of next year, after state elections important for the SPD take place in North Rhine-Westphalia. The government banned reproduction of the report and its circulation by e-mail. The report’s authors were to receive only the specific chapters on which they had cooperated as scientific experts. They were to be prevented from seeing the report in its totality.

Although some media outlets have had access, it still remains unclear when the report finally will be published.

Only one thing is certain. For the vast majority, the situation will dramatically worsen in the coming year. The report signals further cuts for pensioners. In opposition to the general trend, the poverty ratio amongst those over 65 actually sank from 13.3 percent in 1998 to 11.4 percent in 2003. Just 1.3 percent of pensioners are dependent on social welfare assistance. The government therefore sees an opportunity to make further cuts at the expense of this section of the population. Under the slogan “justice for generations,” the federal government report ominously warns: “Excessive demands should not be made of young people.”

The introduction at the start of the coming year of the government’s so-called Hartz IV regulations aimed at amalgamating unemployment and social welfare assistance will have much more far-reaching effects. An estimated one and a half million people will probably lose their unemployment relief and very quickly join the ranks of the poor. Once again, children will be hardest hit. Welfare organisations estimate that the number of children dependent upon social welfare assistance will rise to 1.5 million. The president of the German Association for the Protection of Children, Heinz Hilgers, correctly called Hartz IV a “disaster for children.”

For their part, the wealthy can look forward to a steady increase in their fortunes due to planned tax cuts. Beginning next month, the basic tax rate will fall from 16 to 15 percent, while the highest tax rate will fall by a total of three points—from 45 to 42 percent. In 1998, this highest rate stood at 53 percent. An income millionaire—providing he pays any taxes at all—stands to receive an extra 30,000 euros next year, or 2,500 euros per month. Most workers can only dream of receiving such a sum as their monthly wage.



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