

“Life is good for the wealthy”

Germany: Social inequality is constantly growing

Dietmar Henning
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A new report has found that the gap between rich and poor in Germany has grown considerably and will continue to do so. The report, published recently by the Economics and Sociological Institute (WSI) of the trade-union financed Hans Böckler Foundation, was titled “Life is good for the wealthy.”

Dr. Claus Schäfer, author of the WSI report, presents various statistics that show the level of social inequality in Germany today, as well as the growth of inequality under the previous Social Democratic Party (SPD)-Green Party coalition government. The policies of the incoming grand coalition of the Christian Democratic Union (CDU) and Social Democrats will further widen the gulf between wage earners and those with property or incomes from business activities.

The overall share of wages as a proportion of income of all types has fallen constantly since 2000, dropping below 70 percent last year, for the first time since 1990. In the first half of 2005, it amounted to only 65.7 percent.

The net wages ratio—the proportion of wages and salaries (after the deduction of social security contributions and payroll taxes) as a share of all income—and which approximates to how much disposable income remains in workers’ pay packets, has followed a similar pattern. It has dropped from 48.1 percent in 1991 to 41.5 percent last year. In the first half of 2005, the net wages ratio sank even further, to under 39 percent. How far workers’ disposable incomes have fallen can be seen by the fact that in 1960 the net wages ratio amounted to 55.8 percent.

While wages and salaries are falling, incomes derived from business profits and wealth are rising. Since the stock market collapse in 2000 and 2001, such incomes have risen strongly, both relatively and absolutely, with a net share of the national income of approximately 32 percent (29.3 percent in 1992, 24.4 percent in 1960).

Taxation levels and public spending policies are the main factors influencing the decline of wages and the rise of incomes derived from profits and wealth. This can be seen by the increase in basic tax levels on wages, which rose from 6.3 percent in 1960 to 16.3 percent in 1991 and 19.5 percent in 1998. The average payroll tax today is 17.7 percent.

Although the SPD-Green Party government’s tax “reforms” implemented a small decrease of 1.8 percent in basic tax levels, at the same time the average level of social insurance contributions has risen: up from 9.4 percent in 1960 to 14.3 percent in 1991 and 16.5 percent last year. The mass of the population has therefore hardly felt any lightening of their overall tax burden.

Things look quite different for those who draw incomes from their business profits and private wealth. After rising slightly in 1998, the burden of taxation on profits and wealth for private households (not for the businesses themselves) has declined. The average tax burden on such incomes in 2004 amounted to only 5.3 percent. By comparison, in 1991

the rate was 8.1 percent and in 1960 it was 20 percent.

Company profits are hardly subject to taxation in Germany today. Some 25 years ago, in 1980, company profits were taxed on average at a rate of 32.7 percent. In 1990, the year of German reunification, this had fallen to around 21 percent. Under the SPD-Green Party government, this fell temporarily to 6.3 percent, with the virtual abolition of corporation taxes in 2001 and 2002. Last year, the rate had risen to 9.2 percent, but is still at a “historically extraordinarily low level,” according to the report’s author, Claus Schäfer. Moreover, it is a well-known fact that for a long time the largest companies, like DaimlerChrysler, have paid no taxes at all.

Schäfer notes that only a few countries have such low levels of corporation tax as Germany: “At 1.3 percent of GDP, this level of corporation tax places Germany in 29th position out of all OECD countries, making it a tax haven—above Iceland or Latvia or Lithuania.”

Schäfer also points out that the repeated lowering of business taxes has had quite a different effect than government propaganda would make out. The result has not been an inflow of new investments and the creation of new jobs, but “a continuous increase in payments to shareholders” as well as the “rising acquisition of financial assets and increasing executive board salaries”—in other words, an enormous redistribution from below to above.

Schäfer deals only briefly with the record gains of companies listed on the German DAX stock exchange, and the corresponding number of jobs being slashed. A recent media report by the news station N24 announced on November 29, “In the third quarter, large companies like chemicals giant BASF, auto concern BMW or sports goods manufacturer Adidas-Salomon have reported excellent profits.” However, “The classical rule that companies with rising profits invest more and create new jobs no longer functions.”

In addition to government taxation policy, rising unemployment has contributed considerably to the redistribution of income. Since the beginning of the year, about 5 million people have officially registered as unemployed. Moreover, the low-wage sector is increasing and wage rises over a long period have only risen minimally.

Although union-agreed wage and salary rates in industry, trade and the credit and insurance sectors have increased by approximately 2 percent, wages as a whole are falling.

Although dressed up in jargon, the report stated that in the last year, low-wage employment has increased considerably. In August 2005, some 6.6 million people were working in so-called “mini jobs,” earning a maximum of €400. In October, there were over 260,000 in so-called “one-euro jobs” (pay of one euro per hour!) and approximately 400,000 in temporary work.

The Federal Employment Office expects a further rise in these numbers. About 600,000 additional low-wage jobs will come into being next year.

However, the number of what Schäfer calls “normal jobs” (i.e., full-time, paid at union rates with associated entitlement to social security benefits) will sink by around half a million.

Schäfer also briefly examines the limited statistics available providing a comparison of earnings in east and west Germany. Some 15 years after the German Democratic Republic was swallowed up by West Germany, wage rates remain unequal. The effective full-time wage rate in the east of Germany is still only 70.7 percent of that paid in the west for the same work. “This level is still easily under that which had already been reached in 1998 or 1996,” writes Schäfer. “Thus East Germany remains a German low-wage sector.”

The redistribution of social wealth is also clear in the figures for state spending. Increasingly, this is financed by the taxes of those in work or through indirect consumer taxation. In 2004, payroll and consumer taxes accounted for 76.5 percent of all tax revenues. Taxes on business (dividend taxes, corporation tax, excise tax, interest income tax, etc.) only constitute 15.1 percent of the total tax revenue. By comparison, in 1960, payroll/consumer and business taxes contributed almost equally to financing public expenditure.

In the meantime, a large part of state expenditure goes towards interest payments and repayment of the national debt. In part, tax breaks for big business and the wealthy have been financed through taking on higher national debt. In the 15 years since reunification, the total indebtedness of the municipalities, regional states and the federal state has trebled to €1.5 trillion. The level of state debt in comparison to GDP has risen from 41 to 66 percent. The federal state now spends approximately 18 percent of its tax receipts on interest repayments, with the regional states spending approximately 14 percent.

The spending cuts contained in the coalition agreement between the CDU and SPD will lead to a further rise in poverty in Germany. This applies not only to cuts in social expenditure, directly affecting the unemployed, the sick or pensioners, but also indirectly through other austerity measures.

For example, savings by the federal state on public transport will be passed on to the customer. Fare increases or the abandonment of whole routes—like the increase in value-added tax—will above all be to the detriment of low- and average-wage earners. The wealthy do not need a welfare state or public services.

According to the government, approximately 13.5 percent of all Germans already count as poor. Schäfer puts this number even higher, since it is calculated on the basis of positive incomes. Some 8 percent of the population who are considered highly indebted are not taken into consideration. Although their income lies over the poverty line, their debts mean they struggle to survive, making the real level of poverty somewhere between 13.5 and 21.5 percent.

The credit agency Schufa recently pointed out that serious personal debt is increasing drastically. They note that some 10 percent of the 62 million people for whom they have records—approximately 6 million—experienced financial difficulties in the past three years. Approximately 2.6 million people are registered with Schufa under the “red” risk level, and cannot receive a cent in credit because they have already initiated private insolvency proceedings or have declared bankruptcy.

When the SPD-Green Party government came to office in 1998, it initiated an accelerating downward social spiral: the public purse “becomes impoverished” because of one-sided tax breaks for the wealthy and big business. The empty public coffers and rising national debt then serve as the reason for a new round of savings and a more unequal distribution of fiscal charges. The grand coalition under Angela Merkel (CDU) has set itself the task of increasing the rate of this downward spiral and breaking any resistance to it.

For this reason, a word should also be said regarding the conclusions that the report draws. Schäfer, who was employed by the trade-union-

financed Hans Böckler Foundation, suggests a national solution for the problems of rising poverty and social polarisation: the strengthening of domestic demand. According to this argument, it is only necessary to reverse the redistribution process—e.g., by “reviving wealth tax, increasing the taxes on inheritance, businesses and those with high private incomes, while lowering the tax burden for employees,” etc.

Schäfer expressly rejects the significance of international factors: “It is not ‘uncontrollable’ external forces such as globalisation that are responsible for the lack of German growth and the job market misery, but a counterproductive national policy that has weakened the domestic demand of private households and the public sector,” he concludes.

This is absurd, as can be seen from the fact that there is not a single government worldwide—either social democratic, liberal or conservative—that follows the prescriptions suggested by Schäfer. The globalisation of production, trade and the financial markets has undermined the mechanisms which in the past ameliorated social contradictions within the national framework. More and more, a powerful international finance oligarchy, which does not accept any restrictions on increasing the rate of profit, determines policy in each individual country. It would react to higher taxes and state spending by withdrawing its capital, throwing the economy into a deep crisis.

A comment in the *Frankfurter Rundschau* referred only recently to the enormous concentration and agglomeration of economic power: “The mergers and acquisitions carousel is revolving ever faster in Germany and world-wide.... Everyone is buying up, merging, in order not to be taken over, stripped to the bone and swallowed up by someone even more powerful. In the meantime, the process of concentration in all industries—media, energy, automobile, trade, telecommunications—has acquired an enormous force. Everywhere, it is only a few or just one company that controls the field. Just as Karl Marx wrote—i.e., one capitalist puts many others out of business. And just like Marx argued, in the meantime the industrial leaders also argue: We cannot do any different, the worldwide competition forces us, only by achieving even more growth can we survive.”

Schäfer’s call for a strengthening of domestic demand is powerless against this development. At most, it serves to throw sand in the eyes of the working class. The increasing social polarisation and the international concentration of capital allow only one conclusion, that already drawn by Karl Marx 150 years ago when he analysed and foresaw this development: Modern, global, social production is incompatible with the private ownership of the means of production, with the drive for private profit. The working class must unite internationally and fight for a socialist programme that places production in the service of society and its needs.



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