Social inequality on the increase in Germany and Europe

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The new year brought renewed evidence of the spread of poverty across Europe at the same time as global finance houses were handing out astronomical year-end bonuses to their leading employees. Now, some more-farsighted political commentators are warning that the increasing gulf between the poor and the rich could have revolutionary implications.

At the beginning of December, the European study titled “Life in Europe” established increasing levels of social polarisation in Germany. According to the study, 13 percent of all Germans, or nearly one eighth of the population, live in poverty. Over 10 million people must survive on a monthly income of less than €856. Especially affected are young people, children, workers over 50 and pensioners, as well as single parents and east Germans. One third of all single-parent families live in poverty, while in eastern Germany one fifth of those between 16 and 24 and those between 50 and 64 are assessed to be poor.

The report details a number of limitations imposed on the everyday life of the poor. Their dwellings are more frequently damp (22 percent as opposed to the average of 14 percent for the rest of the population), 14 percent must save on heating costs, and a quarter of the poor are forced to limit what they eat. Unexpected problems—e.g., a defective washing machine—pose insurmountable difficulties for the poor.

Conditions of life also badly affect the health of this segment of the population. Although the poor assess their medical condition to be significantly worse than average, they are less likely to go to a doctor. One fifth of those questioned said the main factors discouraging them from seeking proper medical treatment were the doctors’ fees and increased costs for medicines introduced by Germany’s former Social Democratic Party-Green Party coalition government.

In their report, the European poverty researchers also estimated that approximately 1.6 million persons in Germany are poor despite having work, and therefore belong to the growing group of so-called “working poor.”

The figures are a clear indication of the increase in social inequality not only in Germany, but throughout Europe—and this despite the fact that the report is based upon statistics and assumptions that very likely underestimate real levels of poverty. Figures in the report for Germany are drawn from the year 2004—i.e., prior to the introduction of the draconian Hartz IV welfare reforms that have had an immediate and detrimental affect on the incomes of millions of unemployed.

If one corrects the statistics based on more-current figures, the poverty rate in Germany tops 17.3 percent for the year 2005. One of the hardest hit groups is children: since the inauguration of Hartz IV in January 2005, the number of children forced to exist on social welfare has doubled to 2.5 million. One sixth of all German children under 15 live in poverty. In some cities, this figure rises to one third.

Such poverty levels are a direct consequence of the policies of Germany’s SPD-Green coalition that governed between 1998 and 2005, and the same policies are now being intensified by the SPD in a new coalition with the country’s conservative parties (Christian Democratic Union/Christian Social Union). The same governments have also ensured huge boosts in income for the rich and super-rich through tax cuts and special depreciation measures for big businesses and major banks and investors.

The growth of income polarisation in Germany assumed unprecedented levels under the leadership of Gerhard Schröder (SPD) and Joschka Fischer (Greens), and, according to a recent press release by the German Institute for Economic Research (DIW), income differences in a reunited Germany are bigger than ever.

While the fortunes of the rich cannot be categorically assessed, it is estimated that household assets in Germany totalled at least €4.1 trillion in 2005, dramatically skewed in favour of the wealthy. Researchers estimate that this figure could be as high as €10 trillion. However, even the lower figure is around 35 percent higher than the total for 1998, when the SPD and Greens took over government. This total is also very unequally divided, with the richest 10 percent of households possessing approximately half of total wealth, while the bottom 50 percent control just 4 percent of national wealth.

In October, the *Manager Magazine* published its annual list of the richest Germans. It showed that 107 individuals or families possess fortunes in excess of more than €1 billion—the biggest total of German billionaires ever. Topping the list are the two Albrecht brothers, who control the Aldi supermarket chain and have headed the list for years. Each brother has assets exceeding €16 billion.

A number of political commentators became nervous when figures were released at the end of December revealing astronomical year-end payments and bonuses to investment bankers in New York, London and Frankfurt. An estimated €23.9 billion was paid out in bonuses to Wall Street banks in 2006, according to *Spiegel-Online*. In the case of one investment house—Goldman Sachs—a total of €16.5 billion was paid out to bankers and brokers. Such payments are unprecedented for a financial company in Manhattan.

The investment bankers at the Frankfurt stock exchange were somewhat more reserved. Tim Zühlke, from the advisory company Smith & Jessen, estimated that Frankfurt bonuses were perhaps 15 percent higher than the year before.

According to Zühlke, top bankers at Goldman, Merrill Lynch or Lehman Brothers received bonus payments of €20-€30 million. “The banks have to offer optimal conditions to these stars, and that includes top payments,” he told *Spiegel Online*. No mention was made in these reports of the jobs lost and wage cuts suffered by many ordinary banking staff. Insurance companies such as the Allianz and banks, including Deutsche Bank, are currently involved in implementing large-scale redundancies and cuts.

A number of more thoughtful commentators and representatives of the ruling class have warned of the consequences of such shameless levels of wealth under conditions in which poverty is on the increase. Trade unions and welfare organisations regularly warn of “Parisian” or “French” conditions, referring to the rebellions in Paris suburbs in recent years by young people protesting their conditions.

According to Theo Sommer, the long-time editor and publisher of Germany’s widely read *Die Zeit* weekly, the growing gap between rich and poor was the most important trend identified in the outgoing year. In a column published shortly before Christmas entitled “Cry for Justice,” he briefly refers to the growth of social inequality and ends with the words: “Only pigheaded free market liberals refuse to believe that people will not revolt against this trend at some point.... Even in our part of the world nobody can absolutely guarantee that there will not be a revolution in the future.”

Sommer’s answer: “civilise capitalism”! His warning to the ruling elite is clear: do not go too far with the process of social polarisation, otherwise everything could be lost in a revolution.

However, any such “civilising of capitalism” is impossible. The globalisation of production has resulted in the ascendancy of a tiny financial elite, which has been able to acquire fabulous wealth at the expense of the population as a whole. This same elite is represented by an equally unscrupulous layer of politicians dedicated to defend such plundering of society’s wealth. Those, such as Sommer, who wag a warning finger put forward a model of capitalist economy that has become unviable under conditions of globalisation. Their appeals for a few extra crumbs for the broad masses, in order to save capitalism as whole, are doomed to failure.