

# Germany: The shrinking middle class and the rise of inequality

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A recent study of income distribution carried out by the German Institute for Economic Research (DIW) has unleashed a debate in Germany. The study concludes that the middle class in Germany has shrunk from 62 percent of the population in 2000 to just 54 percent in 2006.

The researchers define the middle class purely from an economic standpoint, according to household income, taking no account of education, occupation or other social indicators. The research data is calculated using the median, which divides incomes into two halves: 50 percent in Germany receive more than this value, 50 percent receive less.

Median income rose from €15,000 in the mid 1990s to nearly €17,000 in 2003. Since then, it has again fallen to somewhat more than €16,000. The researchers define the middle class as those whose income falls between 70 and 150 percent of this median.

Using this definition, the middle class in West Germany in the 1980s encompassed approximately 64 percent of the total population. Following German reunification in 1990, the middle class in West and East Germany were still approximately of the same order. In 1992, it comprised almost 62 percent, corresponding to somewhat more than 49 million individuals. This figure remained largely stable for the next eight years until 2000. Since then, however, this middle-income layer has fallen to approximately 54 percent of the total population in 2006—approximately 44 million people, or some 5 million fewer than six years earlier.

The DIW researchers point out that far more people have fallen below this middle layer than have risen above it. “Available real incomes increased only moderately in Germany since reunification; from 2003 to 2006 they have clearly decreased.” The spread of incomes has increased. In particular, family households comprising parents with children under 16 years have fallen below this middle-income level. Compared with 2000, more than 3 million people in such households in 2006 are no longer counted in this middle layer.

Within the middle layer, the DIW researchers noted that the contraction could be found above all in the group it defined as “average earners,” those with an income of between 90 and 110 percent of the median. This group alone has shrunk in the recent past by around 5 percent. Accordingly, the boundary values of this income distribution curve have gained in significance.

The DIW registered a clear increase of the lowest layers. In 2006, those with an income of less than 70 percent of the median constituted more than a quarter of the entire population. The proportion in this category has risen since 2000 by nearly 7 percent.

In 2006, the proportion of those with an available income of more than 150 percent of the median was over a fifth, approximately 2

percent higher than in 2000. Interestingly, this increase is limited “exclusively to the group of those with the highest incomes (more than 200 percent of the median).” This constituted approximately 9 percent of the total population in 2006.

The incomes of those in the top 50 percent have risen more rapidly than those in the lower half. Income inequality has increased, and this is substantially more pronounced in West Germany than in the former East Germany.

The DIW study also examines so-called “income mobility.” Politicians, and most recently Social Democratic Party (SPD) Chairman Kurt Beck, like to speak about equality of opportunity, by which they mean the possibility for anyone to rise up the ladder socially and financially. But this has become increasingly more difficult, according to the study, which finds there has been a “clear hardening of the income brackets.” “Only at the bottom is it stable,” according to *Spiegel on-line*.

While between 1996 and 2000, “only” approximately 54 percent of all those at risk of poverty could also be found in this group after five years, between 2002 and 2006 this figure had risen to more than 66 percent. “Persistence has also increased considerably at the top boundary of the income hierarchy—by around 5 percent to approximately 69 percent”—i.e., the better-off have both consolidated their incomes in the last years and in many cases seen them grow.

The researchers say unambiguously that it is above all the Hartz welfare reforms that have led to this shrinking of the middle layer: “The risk of unemployment [was] clearly greater, the duration of periods of unemployment longer and the level of compensation for loss of wages clearly lower following the introduction of new welfare payments compared to the previous level of unemployment benefits.”

However, in the longer term, the researchers attribute responsibility for the shrinking middle layers to another development: “the changing structure of employment.” In 2000, almost 64 percent were engaged in a full-time occupation. Six years later, this proportion had shrunk to 55 percent. The numbers working part-time or with marginal employment clearly rose.

So it is hardly surprising that individuals’ perceptions about their future prospects, which were also included in the study, have considerably worsened. In Germany as a whole, the proportion of those who have “no worries” about their future sank from more than 40 percent in the 1980s to approximately 30 percent in the 1990s. In the last two years, only approximately 23 percent have no need to worry about their future. This makes clear that ever-fewer people place any faith in the promises of the government under Angela Merkel (Christian Democratic Union, CDU) that an economic upturn will soon benefit everyone.

The DIW study confirms what is evident to anyone without ideological blinkers. In recent years, there have been numerous studies showing a rise in the inequality of incomes, a lowering of real wages for most employees, the impoverishment of an ever-growing section of the population—17 percent of Germans now count as poor—as well as an enormous enrichment at the upper end of society.

The middle layer as defined purely economically by the DIW researchers comprises skilled workers, mid-level white-collar employees and most university graduates. The former white-collar employees at Deutsche Telekom, the railways, and the post office and in the auto, engineering, steel, mining and chemical industries form the core social group defined as middle class in the DIW study.

It is among such layers that there have been the greatest changes in recent years. Industrial jobs have been destroyed by the thousands or have been converted into contract labour. Many of the former skilled workers from large corporations must now work as cheap wage labour.

According to a report by the Institute for Work and Qualification (IAQ) at the University of Duisburg, in 2006, approximately 6.5 million people were working in the low-wage sector: “The proportion of those who have completed an apprenticeship but are now employed in the low-wage sector rose from 58.6 percent (1995) to 67.5 percent (2006).” In the social sphere, which has been hardest hit by the cuts in recent years, monthly salaries of under €1,500 for university graduates are not uncommon.

Germany’s large enterprises announce mass redundancies non-stop, while at the same time reporting record profits. Only recently, the *Frankfurter Rundschau* analysed the balance sheets of the 30 corporations listed on Germany’s DAX share index. “For the fifth year in a row, the profits of the DAX-listed enterprises rose by double digits,” the newspaper wrote. After deducting taxes, they recorded €73.8 billion in profit last year, €14 billion or 23.2 percent more than 2006.

Many companies paid fewer taxes in 2007 despite having higher profits than the previous year. Deutsche Bank paid less, despite increasing its profits by €100 million. This is largely due to the corporation tax reforms of Finance Minister Peer Steinbrück (SPD).

Some €30.5 billion was paid to shareholders this year in the form of dividends. Deutsche Telekom paid out even more than it recorded in profit! Not to mention the fact that top executives have seen their pay packets rise by around 15 percent. In 2007, the chairman of the board of a DAX-listed company earned on average €10,000 a day!

The decline of the middle class has set alarm bells ringing in political circles. In a footnote, the DIW experts report that the shrinking of this middle layer could already be observed in the 1980s in the US and Britain. “There were also increases in real incomes for the middle layers, whereas in Germany, the middle layer has seen its real income fall since 2003.”

Thus within a few years, Germany has undergone a development that took decades in the US and Britain, where the incomes of the middle layers have also declined.

This has far-reaching political implications. *Spiegel on-line* was the first to report on the study, introducing its article with the warning: “One of the main pillars of the social free-market economy has begun to wobble. It is the middle class, which has characterised postwar Germany like no other social group, that is now suffering acutely.”

The entire social fabric is falling apart. In an interview about the study, DIW expert Joachim Frick said, “People must be clear that the ‘golden years’ are over,” indicating they should just accept this

situation. The daily experience of millions is that one of the core ideological tenets of postwar Germany no longer applies—that a growing economy also provides for increasing wages and salaries. Today, the opposite is the case.

But how are people to secure their incomes and that of their family? Through additional work? Actual work times have already risen in recent years, without having any positive influence on incomes. Also, the growth in the number of women in the job market has not led to an improvement in family incomes. More training? Even a university degree no longer guarantees a sufficient income. Borrow money? The level of general indebtedness is already rising dramatically.

At present, many workers are beginning to take up the method that been used in the past to resist worsening working and living conditions—industrial struggle. The swelling strike movement in recent weeks is a clear sign of this. The DIW experts refer expressly to this in the conclusion of their study: “The current demands for a clear improvement in [workers’] contracts come against a background of the losses in real incomes of the last years, as well as the subjectively felt discontent with the level of incomes and an increasing uncertainty—in particular among the middle layer.”

At the same time, the DIW researchers warn against high wage settlements, which they claim increase the risk of unemployment. This is a typical argument used by the employers, which the trade unions signed up to years ago, and which is responsible for the financial decline faced by those in the middle-income brackets.

The current and coming labour disputes will also show that, in addition to individual methods to defend one’s standard of living, the traditional method of union struggle has also failed. Working people will be forced to turn to a social and political struggle against the capitalist system. These political implications reveal the true explosiveness of the DIW study.



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