Germany: Gulf between rich and poor is rapidly widening

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A report from the Hans Böckler Foundation shows that the share of profits for private wealth-holders has reached a new high. Income from profits and assets accruing to company chiefs and the relatively small number of those who own capital has risen in both net and gross terms in 2008. Such income comprised 34 percent of all net income in 2007; in the first six months of 2008 this figure had risen to 35.8 percent.

Almost 50 years ago, in 1960, this figure stood at 24.4 percent. In the 30 years leading up to 1990, this figure grew to 30 percent. It had reached 32 percent in 2005. "Business profits have risen considerably," a press statement from the foundation notes.

Gains by those at the top mean losses for the majority of wage earners. The share of wages and salaries as a percentage of national income, after the deduction of payroll taxes and social and health insurance contributions, rose slightly in 2007 compared to the previous year. However, this figure then fell in the first six months of 2008 to 39.3 percent, below the 2006 level.

Before 1990, this figure regularly exceeded 50 percent (e.g., in 1960 it was almost 56 percent).

The researchers point out that the current decline in the share of wages and salaries, compared to income from business profits and assets, is largely a result of the tax and social contributions policies introduced by the Christian Democratic-Social Democratic grand coalition under Chancellor Angela Merkel. In making this claim, the spokesperson for the Hans Böckler Foundation, which is funded by the trade unions, ignores the fact that for the last 10 years both the labour and social affairs ministries have been headed by Social Democrats. It is their decisions that have contributed considerably to the growth of social inequality.

Cuts in taxes on profits and income derived from assets mean the rich now contribute just one fifth of all taxation. At the beginning of the 1960s, their share was about one third. From 1998 onwards, the Social Democratic Party (SPD)-Green Party government under Gerhard Schröder (SPD) brought about a redistribution of social wealth on a scale never previously seen. The introduction of welfare and labour reforms meant the welfare state was cut back drastically, while taxes for business and the rich were lowered. The SPD now continues this policy as part of the grand coalition government.

The share of taxes from business and profits on capital is declining due to recent changes in business, inheritance and other taxes, meaning businesses and the wealthy are paying even less, according to the researchers.

The widening gulf between profits and assets on the one side—and wages and salaries on the other—evidences a massive growth in social inequality.

The International Labour Organization (ILO) recently presented its annual global report on wages. The report shows growing inequalities in Germany for incomes derived from wages and salaries, with those at the top and those at the bottom drifting further apart between 2001 and 2007. Among industrialized countries, only Poland has seen a wider growth of wage differences.

Wages in Germany have risen only very slightly in recent years. Between 2001 and 2007, average wages rose by just 0.51 percent, similar to the growth of wages in France.

The ILO report compares wages in 10 different income groups. The wages of the top 10 percent of German earners was around 3.26 times that of those in the bottom decile. This difference rises considerably when comparing the wages of the top 1 percent of earners with those at the very bottom of the scale.

(These figures take into account wage earnings only, and not bonuses, stock dividends, capital gains, etc.)

While top managers and high earners are raking in the money, the numbers employed in the low-wage sector are growing. According to the report from the Hans Böckler Foundation, the main cause for the widening wages gap is the “clear growth of the low-wage sector in Germany over the last years.” So-called “mini jobs,” part-time working and the increase of contract labour are responsible for the rapid growth in wage inequality in Germany.

According to German Trade Union Federation (DGB) contract expert Reinhard Dombre, the number of people engaged in “precarious employment” accounts for 30 percent of all those working. Well over 1.5 million now work in jobs that pay less than the legally established minimum required to ensure a person’s survival, and are forced to claim additional welfare benefits to “top up” their wages.

The numbers of those dependent on social welfare “top ups” has risen sharply over the past years, despite the expansion of the economy, according to the *Süddeutsche Zeitung*. Under the grand coalition government from 2005 to 2007, the number of those with a gross monthly wage of between €400 and €800 requiring “top ups” increased by more than 40 percent, with a 40 percent rise in those with a gross monthly wage of over €800. So-called wage dumping—whereby employers pay foreign workers less than the minimum wage fixed in union-negotiated agreements—is being promoted by the state, the report concludes.

In view of the financial and economic crisis, the ILO forecasts that workers will face “painful cuts” in their real wages in the coming years and warns of growing social tensions, particularly in the industrialized countries.