

Middle-income layers shrinking in Germany

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The gap between rich and poor in Germany is widening, while the group of those on middle incomes is shrinking. This is the key finding reached in a new study by the German Institute of Economic Research (DIW) on income distribution in Germany. The DIW researchers regard their study mainly as a warning of the dangers this presents for social stability.

The study clearly shows that for about 10 years the number of the poor has grown strongly, while the layer of wealthy citizens has increased steadily, albeit more slowly. The poor become continually poorer, while the rich become even richer. These two tendencies are at the expense of the middle-income stratum. "Some from this group have risen into the upper income group while many more have descended into the lower income group," the study finds.

According to the study, only 60 percent of Germans remain in the middle layer bracket with a monthly net income of €860-€1,844 (single households). In 2000, this figure was more than 66 percent. Above all, the number of those on low incomes has risen strongly, from 18 percent in 2000 to almost 22 percent in 2009. An even greater increase in this group is recorded in east Germany, from around 24 percent in 2000 to 31 percent last year.

In 2000, those on low incomes received an average of €680 per month; in 2008 this was only €645. However, the median earnings of those in the higher income group have increased from €2,400 to €2,700. A detailed analysis shows that the increase at the top of society is concentrated in "just the richest 5 percent of the population," DIW researcher Mark Grabka told the *Frankfurter Rundschau*. "The gap between rich and poor has widened dramatically," according to the DIW.

This middle layer, as defined solely by income, includes much of the working class, whose incomes are derived solely through employment. Generally, this layer has no major possessions, and certainly does not

own any capital. Therefore, it is the labour market and labour market policies that are crucial for this development: "If the number of employees declines, the number of people in the lower income groups increases."

Short-time working and other schemes mean that the 2009 economic crisis has not yet had a major impact on income distribution. But even with falling joblessness and rising employment, this development would not be reversed. "We see here a long-term, relatively steady trend," said Jan Goebel, one of the authors of the study.

However, the content of the study is not entirely surprising. As early as 2006, the DIW had warned of the erosion of the middle layers. The DIW researchers and other institutes regularly publish figures showing that poverty is growing, while those at the upper end of society have seen their riches increase.

Fourteen percent of the German population live in poverty, having less than 60 percent of median income. In comparison to west Germany (13 percent), the higher poverty rate in east Germany (19 percent) is primarily due to the persistently high unemployment to be found there.

Figures were published recently showing that the super-rich will emerge from the current crisis even richer. Last year in Germany, there were 430,000 dollar millionaires, the highest number ever. The number of millionaire households grew last year alone by 23 percent.

The reasons are well known: The Social Democratic Party-Green Party government of Gerhard Schröder (SPD) and Joschka Fischer (Greens) was responsible for a massive redistribution in wealth and incomes after 1998. The SPD-Green government lowered the top rate for income tax from 53 to 42 percent; gave tax breaks to big business and the owners of capital, and with the introduction of the Hartz welfare and labour "reforms," created the conditions for a massive low-wage sector,

in which almost 7 million people are now working.

The grand coalition of the Christian Democratic Union (CDU) and SPD under Chancellor Merkel (CDU) continued this course from 2005.

The trade unions have contributed to this development by supporting government policy for years, agreeing to only small wage increases, which mean real wages are falling. Real wages are now back at the level they were 25 years ago in the mid-1980s.

The current federal government of the Christian Democratic Union/Christian Social Union and Free Democratic Party has adopted austerity measures that will speed up this development. While the rich and the employers remain unscathed, billions are to be recouped from the unemployed, poor families, workers and pensioners. For this reason, DIW economist Jan Goebel criticised the government's proposed austerity measures: "The specific proposals only affect those on lower incomes. But the share of the rich is growing steadily, and the rich earn more and more. This raises the question of whether this group should also make a contribution to [government] savings."

It is clear that the DIW researchers regard their study mainly as a warning to the government. They see the growing polarisation of society as "deeply worrying". They fear that the developments uncovered in their report will unsettle the middle layers. "A strong middle class is important for maintaining social stability", they note. Their study specifically refers to the stabilising effect of the middle-income layers on German society since World War II: "Securing the middle is regarded as an important condition for the stability of democratic governance."



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