

# Study shows growing social divide in Germany

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15 November 2010

Twenty years after reunification, Germany is more deeply divided than ever. However, the basic division no longer runs between East and West but between rich and poor. Low incomes in eastern and western Germany have fallen even further in recent years. Younger people especially face difficulties finding work and a living. Millions live in poverty.

This emerges from a study published by the German Institute for Economic Research (DIW) last week. It is based on the first and only long-term survey of more than 20,000 people in Germany.

The DIW study notes that average incomes in east Germany still lag far behind those of the west. Following reunification, east German household incomes and wages grew at first compared to those in the west. Whereas the income gap in 1992 still averaged 40 percent, in 1997 it was only 28 percent. This figure stagnated till 2002, and then rose from 26 percent (2002) to 30 percent (2007).

But a closer examination of the development of the individual income groups gives a more nuanced picture. The differences are greater, the higher you rise in the income table. While top earners continue to be under-represented in the east, lowering the average income at the upper end of the scale, the lowest incomes are largely the same. The reason for this is the emergence of a huge low-wage sector in the west.

According to the DIW study, the incomes of west Germans in 2007 at the upper end of the income scale (ninth decile) were 37 percent higher than comparable incomes in east Germany. In the middle (fifth decile), they were higher by 28 percent. At the bottom of the income scale, they were the same.

The persistent east-west differences are thus revealed as a social issue. The situation in eastern Germany is

not much different from that in structurally weak regions in northern Germany or in the Ruhr, which saw a massive growth in poverty following the destruction of the shipyards and mining industry.

In 1992, the incomes of the poorest 10 percent in eastern Germany were still 19 percent above those of a comparable group in western Germany, which the researchers attributed to the prevalence of part-time and casual employment in the west. This difference is now gone. In 1992, the average annual income of the poorest tenth was €6,640 in the east and €5,571 in the west. Today, it is €7,629 in both the east and west.

A major reason is the high unemployment in eastern Germany. In particular, women who had often worked full-time in the former German Democratic Republic (GDR) have lost their jobs. The low wage rate in the east has declined significantly, albeit from a very high level. It has fallen since 1992 from 60 percent to a third. Those who receive less than two thirds of the median income count as lower earners.

In western Germany, the low wage ratio has increased sharply during the period under observation, with about a quarter now employed in the low-wage sector. One reason is the increase in female employment, which is now much closer to the level found in the east. It is now the exception rather than the rule that a single salary feeds a family. Women are disproportionately affected by low-wage working; the rate is around 41 percent in both east and west.

“Overall, the East German labour force has been integrated into the western labour market, although facing higher risks in terms of unemployment and lower wages”, the researchers summarise coolly.

The expansion of the low-wage sector was pushed through 10 years ago by the Social Democratic Party-Green government of Chancellor Gerhard Schröder

(SPD).

The impact of this policy was particularly dramatic on the younger generation—in both the east and west. The incomes of young professionals in Germany are falling more and more. “This can no longer be attributed to the fact that people move out of their parents’ home earlier or have longer training periods”, says researcher Jan Goebel. “The decline in regular employment hits the generation of young professionals particularly hard.”

It is not surprising that especially the younger age groups are dissatisfied with their salaries. According to DIW, income satisfaction between younger and older people is drifting apart, especially in eastern Germany.

“Today’s East German pensioners are paid in line with their longer working lives in the GDR, and record equal satisfaction with their incomes, like the elderly in West Germany”, write the authors of the study. (They might have added that this will change in the next two decades. A DIW study commissioned by the German Pension Insurance Fund presented in mid-March forecast that pensions would be at a poverty level of between €500 and €600 per month for those currently unemployed or on low wages.)

Overall, according to the study, the “life satisfaction” of east Germans greatly increased in the years after reunification, even though the survey results never recorded such high values as in west Germany. Today, people of working age were the most dissatisfied—more so in the east than the west. As a result of the economic crisis, discontent in this age group had grown in both parts of the country from 2008. Differences between east and west could no longer be found.

The deteriorating working and living conditions in east Germany—high unemployment and widespread low-wage work—have also led to high levels of emigration. While the population in west Germany during a period of 20 years grew from 63 million to 67 million people, it fell in the east of the country from 16 million to 14 million. The researchers ascribe this to the “dramatic decline in birth rates in the East”. Many moved from east to west in search of jobs and wages.

Summarising the results of the DIW study, the following picture emerges: The low wages in eastern Germany have been used to depress wages in west Germany. The low-wage sector has spread in both the east and west. This has benefited those on upper

incomes, in the west even more than in the east. The collective agreements struck by the trade unions, which still accept lower pay rates for those in the east, are responsible for this.

The policies of the SPD-Green coalition government under Chancellor Gerhard Schröder, and especially the Hartz labour and welfare “reforms”, also accelerated the deterioration of wages and income.

The study concludes: “As those born following reunification reach adulthood, the sweeping differences between East and West are disappearing.” “Disadvantage” would become more focused locally and regionally. In both west and east Germany there would be “islands of prosperity”, but, one must add, amidst a sea of poverty.



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