

# Germany: Young people caught in the debt trap

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9 November 2011

Some 6.4 million Germans, or nearly ten percent of all adults, are insolvent. They cannot pay their bills and have no opportunity to raise the necessary money in the foreseeable future.

This is the conclusion of the latest report from the Creditreform debt atlas for 2011. The average debt of those affected is €33,700—equivalent to a total debt of €216 billion.

Particularly heavily indebted are young and old people. While the total number of indebted adults declined slightly last year, the number of young people affected has increased dramatically. One in four adults in debt is under 30.

The number of 18 and 19-year-olds in debt has risen by 23 percent compared to last year. Since 2004, when the Creditreform debt atlas was first published, the numbers have exploded by 358 percent. There are currently some 243,000 young people trapped in debt.

The main reason is the high level of unemployment amongst young people. The official rate of unemployment in Germany is relatively low compared to other European countries, but this official figure does not include many young people involved in non-paid “pre-vocational activities.”

Another reason for the rapidly rising levels of debt for young people is the spread of insecure forms of employment—temporary jobs with low starting salaries, agency work, and internships that are either paid poorly or not at all. The costs involved in training and further education also contribute to the indebtedness of those young people who are unable to find a good-paying job at the end of their studies.

Another factor is the increasingly common use of sanctions by employment agencies and job centers. These hit young unemployed people especially hard. Frequently missed deadlines and failure to achieve “target agreements” are excuses for the imposition of sanctions.

In response to a question raised in parliament last March by the Left Party, the federal government replied: “The penalty rate among unemployed beneficiaries SGB II (Hartz IV recipients) stood at 3.7 percent in January 2009. The rate for unemployment benefit recipients under 25 was almost 10 percent. These younger beneficiaries are not only more frequently affected by sanctions, they are also affected more drastically: More than a third of the 250,000 sanctioned in one year (2009) lost 100 percent of their payments. Even pregnant women are not protected from sanctions.”

Since the sanctions and punitive measures against the unemployed have been tightened in recent years, it can be assumed that the number of young people affected in the last two years has continued to rise. The consequences are not only indebtedness and social deprivation, but also a noticeable increase in homelessness among under-25-year-olds.

Young unemployed people who sever contact with the relevant authorities and agencies following the implementation of sanctions no longer appear in the official statistics because they no longer receive benefits. The authorities then interpret this lowering of the statistical average as a “success” for their punitive policies.

Also on the rise is the indebtedness of over-70-year-olds. Their share of debt rose by 42 percent since 2004. The head of Creditreform, Helmut Roedl, considers this an indication of a “growing trend of poverty in old age.”

Due to the danger of a sharp economic downturn, the auditors of Creditreform expect that the numbers of those in debt will grow again next year.

In East Germany in 2011, well over one million people were in debt, and 5.4 million in West Germany. The number of indebted women rose by 5.3 percent to 2.3 million last year, while the number of insolvent men rose by 1.2 percent to 4.1 million.

The experts at Creditreform conclude that these latter figures reflect a higher appetite for risk on the part of men. They warn, however, that the number of women in debt is also growing over time.

There are also large regional differences when it comes to the distribution of debt. Most affected is the city-state of Bremen, with a debt rate of 13.5 percent, followed by Berlin (12.3 percent), Saxony-Anhalt (11.5 percent), Saarland (11 percent) and North Rhine-Westphalia (10.8 percent).

Among cities with more than 400,000 inhabitants, Duisburg and Dortmund lead with 14.6 percent and 13.5 percent, followed by Bremen and Berlin and three other major cities in North Rhine Westphalia—Düsseldorf, Essen and Cologne. The Ruhr city of Wuppertal takes second place overall in the list of indebted cities with a debt ratio of 17.9 percent, behind Bremerhaven, with 18 percent.

Even within individual cities, the distribution of debt is very uneven. Thus, in the Ruhr city of Essen the rate of indebtedness in poorer neighbourhoods in the city centre is 25 percent, compared to less than five percent in wealthier neighbourhoods like Bredeney. The situation is similar in many other cities.

The debt trap in Great Britain and the US is far worse. While in Germany one tenth of all adults can no longer pay their bills, this figure rises to one in six in the UK and one in five in the US. Compared with 2004, the ratio of those in debt dropped by 3.7 percent. In the US it increased during the same period by 52 percent and in Great Britain by more than 100 percent.

The authors of the Creditreform report also draw attention to another important statistic: about half of those in the debt trap are permanently affected and have no hope of improving their situation on their own. These figures will undoubtedly increase in the next period, given the economic slowdown and austerity measures introduced in countries all over the world.



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