Growing income inequality in Germany

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"If developments since the year 2000 are considered, it can be clearly said that the gap between the poorer and richer income layers has grown." This is how the co-author of a current study by the German Institute for Economic Research (DIW), Markus Grabka, summarises its conclusions.

Grabka and two other researchers from DIW analysed the development of wages and capital income between 2000 and 2012, the period during which the hated Hartz IV social welfare reforms took hold. Even though they use data sets that conceal the true extent of inequality and povertyfor example, they use a measure of poverty levels that is more restrictive than that of Federal Office for Statisticsthe study shows the extent to which low and high incomes are drifting apart.

While the top 10 percent of the population, the so-called tenth decile, managed to increase its income by 15 percent, incomes in middle income groups remained almost unchanged over the last decade and a half. The median income for middle-income earners dropped from €20,000 in 2001 to €18,900 in 2005. Despite a subsequent increase, in 2012 it remained below the level of 2000. Half of the population in Germany lives on €20,300 annually or less, equating to €1,691 per month.

The study also found that the income of the bottom 40 percent, more than 30 million people, is four percent lower in real terms than at the turn of the millennium.

The media barely reported the study. Those that did, like the online edition of the *Frankfurter Allgemeine Zeitung* (FAZ), claimed that "the gap is not increasing." According to the study, income inequality grew sharply until 2005, but has shown no significant rise since. However, the division of the data into deciles conceals the vast growth in income of the top one percent.

Grabka explains, "Among the upper income earners, income from capital and business activities plays a central role." In comparison to workers' wages, these have risen sharply. In total, wealth-based income has risen by around 30 percent since 2000, four times more than employee remunerations in the same period.

In real terms, retired workers are suffering pension cuts because pension increases in recent years have not kept pace with inflation. As a result, poverty among the elderly has risen rapidly.

The study observes in a footnote that the stagnation of wages is linked to the growth of irregular employment. According to figures from the trade union-aligned Hans-Böckler Foundation, in 2013, "43.3 percent of all labour relationships were mini-jobs, part-time jobs or temporary work."

Although, based on official statistics, more people have a job today than ever before, work often no longer protects against poverty. Millions of full-time workers have to "top up" their low wages with Hartz IV welfare payments.

Grabka demonstrates this with data from eastern Germany. "Between February 2005 and May 2015 the percentage of unemployed in eastern Germany has dropped by nearly 60 percent." Despite this, the "risk of poverty in eastern Germany (persists) at 20 percent." People "at risk of poverty" are defined as those with less than 60 percent of the median income. This is linked to the fact that a large percentage of the newly created jobs have emerged in the low-wage sector.

Between 2005 and 2015, poverty in Germany rose from 10 to 15 percent of the population, according to DIW.

Those most at risk of poverty are young adults, single parents and older people. The risk of poverty for young people living alone increased by 12 percent between 2000 and 2012, to almost 40 percent. Although the percentage of those employed over 65 has risen since 2000, the risk of poverty within this group has increased dramatically.

Alongside the established definition of poverty, the report's authors also considered other material and financial factors. For example, whoever is unable to purchase three of nine essential daily goods is considered poor according to the European Social Report. Anyone who has no savings, cannot afford a short holiday or go out to eat with friends is also categorised as poor. In 2001, this figure stood at 12.9 percent of all households. By 2013, it stood at 16.1 percent, when almost 6.5 million private households were affected by poverty.

A large percentage of the population lives from one pay cheque to the next. In 2001, it was impossible for 36 percent of households to build up any monthly savings. This percentage grew slightly by 2013.

According to a study by the Bertelsmann Foundation conducted with Prognos AG, social inequality will continue to rise. Although workers' incomes are expected to increase by 2020, according to the study, "there will however be a parallel rise in wage inequality, because low earners, professionals in social services, service employees and households with children profit significantly less," the foundation wrote.

Several studies show that this development is not restricted to Germany. According to a report by the charity Oxfam, the richest one percent of the global population will have accumulated more wealth than the remaining 99 percent by next year. The combined wealth of the more than 2,000 global billionaires amounted to $7.3 trillion in 2014, according to a report by UBS bank, an increase of 12 percent from the previous year.

Growing social inequality is a fundamental tendency of the capitalist system. Karl Marx noted 150 years ago that "Accumulation of wealth at one pole, therefore, is at the same time accumulation of misery, agony of toil, slavery, ignorance, brutality, mental degradation at the opposite pole."