Gap between rich and poor in Germany larger than previously thought

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On July 14, the German news programme "Monitor" reported new numbers on top income earners in Germany. The report based itself on data from top earners at more than 1,300 businesses collected by the Kienbaum consultancy firm.

According to the study, from 1997 to 2014 the income of CEOs increased by an average of 42 percent, the income of managers by 59 percent and the income of company board members with DAX companies by 186 percent. During the same period, the income for average earners increased by just 15 percent.

The Kienbaum study estimates the average gross income of company management in 2013 at approximately €500,000. That is more than double the amount arrived at for this year by the socioeconomic panel SOEP. They estimated that the average gross income of the top percent of top earners in 2013 at only €200,000.

The numbers of the SEOP are used in several other investigations into wealth and poverty in Germany. They constitute an important basis for the German government's report on wealth and poverty and represent an extreme misrepresentation of the gap between rich and poor.

That the numbers on the income of top earners were inaccurate was already understood. For the most part, they consisted of appraisals arrived at through the surveys and extrapolations of the SOEP. What is new is the size of the gap between high and average incomes.

In a press release, "Monitor" writes that the new data on the richest Germans reveals, "The gap between poor and rich is clearly much larger than official statistics have shown."

The "Monitor" piece itself points out from the beginning that there is a large amount of data on the poorer part of the population: "The rich, however—statisticallyspeaking—aresomewhatunknown creatures." What the top earners actually make and what they pay in taxes, even in the official statistics, is often only vague speculation.

Professor Wolfgang Lauterbach, a wealth researcher who contributed to the "Monitor" piece, says of the top percentage point of income recipients: "This 1 percent is actually a group about whom we are feeling around in the fog. … Who are they? What, ultimately, do we know about the amount of taxes paid by each person? What do we know about their assets? What we know, to be frank, is nothing. That is a little like a black box."

The report uses two examples to demonstrate how income levels have grown apart. A shop owner must earn a gross annual income of €30,000 to make ends meet. While the shop owner's work in recent years has grown, his or her income, however, has not. With €150,000 in annual income, the CEO of a company belongs statistically to the top 1 percent of income earners in Germany.

According to the relevant statistics, says the report, "since the end of the 1990s, the average income has increased demonstrably slower than the income of the top 1 percent. The average has only increased by 8.4 percent, the highest incomes by 31.5 percent. Inequality has also increased."

One must say, however, that the cited example of a shop owner with €30,000 and a CEO with €150,000 in annual income presents only a small section of income inequality. Many company directors, at DAX companies in particular, receive annual incomes of several million euros and earn far more than shown in the example.

The World Wealth Report 2016, recently published by the consultancy firm Capgemini, has already documented the increase in millionaires worldwide and provides a sense of the enormous concentration of wealth at the top of society. Last year, the number of millionaires worldwide (calculated in US dollars) grew to 15.4 million and in Germany to almost 1.2 million. In the last year alone, 58,000 people became millionaires in Germany. (See “The number of German millionaires increases”).

A striking redistribution of social wealth from the bottom to the top has been taking place for a long time. This process intensified with the outbreak of the international financial and economic crisis of 2008. According to the World Wealth Report 2016, the assets of the world’s super-rich have quadrupled in the last 20 years despite the financial crisis.

In Germany, especially since the SPD-Green government of Gerhard Schröder and Joschka Fischer from 1998 to 2005 and the governments that followed, austerity measures against the working and poor population have greatly intensified. The wealth tax was abolished in 1997, followed by the lowering of the peak tax rate from 53 to 42 percent and additional benefits for the wealthy and top earners.

With the Hartz IV welfare laws, an immense low-wage sector was created and the conditions placed on social assistance in case of unemployment and other emergency situations were tightened and severely restricted. Millions of people forced to work in this low-wage sector cannot make ends meet even though they are employed and must rely on Hartz IV supplements, a time-consuming and stressful affair.

While wealth is concentrated at the top of society, poverty and social hardship is on the rise in large sections of the population. According to the latest government report on wealth and poverty, the top 10 percent possess more than half (51.9 percent) of all wealth. The poorer half possesses just 1 percent. And even these figures will have grown farther apart in recent months in light of new statistics on income trends among the wealthy.

Poverty in a rich country like Germany has already reached devastating proportions. Since 2014, 15.4 percent of the population, or one in six people, are considered poor, as reported by the Parity Association. One in seven children under the age of 15 is considered poor and dependent on Hartz IV, as shown in statistics of the Federal Labour Office for 2015. In cities like Bremen and Berlin and several cities in the Ruhr, almost one in three children grow up in poverty.