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Poverty and Wealth (April 21, 2005)

The gap between rich and poor has been growing in Germany since 2000. The author of this piece rejects simple causalities, however. He argues that wage shares, profit shares, and the distribution of income among households must be taken into account. Long-term unemployment, according to the author, takes a terrible toll. Nonetheless, Germany is still among those European countries with a low poverty rate.

Inequality in Germany
Four Trillion Euros in Assets

In the debate on poverty and wealth, one thing is undisputed: Germans are getting richer and richer. At the end of 2004, the assets of private households (that is, not including real estate property) exceeded the four-billion-Euro mark. But this figure does not answer the question of who earns what and how that wealth is distributed.

Whoever speaks today of shameless capitalism is looking primarily at the spectacular business profits. The annual surplus of the thirty DAX companies was almost 75 percent higher in 2004 than in the previous year, while the number of unemployed reached a record high in the same time period. But major corporations do not stand for the entire economy. Greater insight into the outcome of the distribution struggle is gained by separating the national income into the wage share (wages and salaries), on the one hand, and the profit share (income from business activities and assets), on the other.

The wage share in 2004 was 70.1 percent, and the profit share was 29.9 percent. The wage share had never been so low and the profit share had never been so high since 1991. A glance at the period before unification shows, however, that the wage share was even much lower at times (1960: 60.1 percent). These figures therefore do not prove that the distribution of income has continually changed to the detriment of workers.

On the other hand, the income disparity clearly increases if one looks at the distribution of income among households. The trend toward income inequality has recently intensified. Up to about 2000, the rich got richer, but the number of people in the lowest income groups did not grow. Now the opposite is true; the gap between poor and rich has started growing again in recent years. The German Institute for Economic Research [*Deutsches Institut für Wirtschaftsforschung* or DIW] put it bluntly: “More poverty on account of rising unemployment.”

In Germany, the low-income group includes anyone who earns less than 938 Euros per month, including all state benefits (such as pensions, child allowances, unemployment benefits). That is 60 percent of the overall mean. The risk of sliding below this level has grown – despite or because of Red-Green social policies. According to the federal government’s report on poverty and wealth, the share of people below the poverty line rose from 12.1 to 13.5 percent between 1998 and 2003. But poverty does not need to be a permanent situation. Experience has shown that after two years, one-third manages to move back up above the poverty line. Of all the EU countries, only Sweden and Denmark have a lower share of poor people than Germany.

Senior citizens are the only group in which poverty has clearly declined. The income situation of the elderly, according to the DIW, has “significantly improved over the past twenty years.” The highest asset bases can be found today among 60 to 70 year-olds. But there is much evidence supporting the idea that inequality among the elderly is becoming more pronounced. Many of today’s long-term unemployed will start collecting pensions in the coming years and will have to make do with low incomes.

Source: Klaus-Peter Schmid, “Ungleichheit in Deutschland” [“Inequality in Germany”], *Die Zeit*, no. 17 (April 21, 2005).

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