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Germany IV: Understanding the wealth gap and governmental dependence from external financing

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1 Note on concepts and sources

1.1 Introduction

The concepts used in this chapter draw from what has been developed to some extent in the technical version of I/IV/2.1. The question of what concepts and sources one uses is already determining the results which one will likely obtain: the way you define your concepts and select your sources determines what factors you consider as relevant and what factors you will discard as having lesser importance. And for almost all your choices you find research and statistics to prove your assumptions – or you write them up yourself. The complexity of the issue is another reason facilitating this selectivity and all this makes the discussion of inequality so difficult. In order to avoid the critique to be deliberately "picking" and "compiling" data to fit one's own views, this chapter selected for its presentation widely respected sources, mainly from a governmental or intergovernmental background.

1.2 Income-wealth-inequality-poverty

As has been explained in I/IV/2.1, there are important differences between income and wealth: Income is the total amount of money which gives you financial liquidity. German tax law lists seven categories from which income can arise: dependent labour, self-employed labour, capital, business, rent and leasing (including real property), agriculture and forestry and "other sources". Wealth, however, is more than income: 'wealth – including savings, investments and property ownership – tells us about enduring power, stability and security'.[1] The point at hand is also illustrated by the distinction between "Wealthiness" and "Wealthability", the latter being closer to the German word for wealth, namely "Vermögen", suggesting that which one can (or ought to) do with that which one owns and controls. This distinction is also important for the measurement of inequality, since income inequality is normally 0.2 points lower on the Gini scale than wealth inequality.

There is some agreement on the measurement of poverty within Germany and the European Union, building on the concept of the median and medium income. Median income is the amount that divides the income distribution of a population into two equal groups, half having income above that amount, and half having income below that amount. It is to be distinguished from medium (average) income which adds income and distributes it by the number of people. Here, few people with very high income (or many with very low income) can result in a high medium figure, suggesting that the overall situation in this population is not too bad at all. High medium income can be an indicator of great wealth, a low median income signals a large segment of low income, a large discrepancy between median and medium income signals the extent of inequality in a given society.

As a third concept we have to introduce is the equivalised disposable income (*Nettoäquivalenzeinkommen*). This is a complex figure arising from the number of persons (of different age and, accordingly, differences in needs) who have to share in the household income resulting from earnings, minus taxes and plus public transfers, which then is available for actual spending.

The equivalised disposable income is used to define different categories of poverty within the member states of the European Union:

- Less than 70% of the respective national median equivalised disposable income signifies danger of poverty in situations of social risk (*Armutsgefährdung in sozialen Risikosituationen*)
- Less than 60% signifies risk of poverty (*Armutsgefährdung*)
- Less than 50% signifies relative income poverty (*relative Einkommensarmut*)
- Less than 40 % signifies poverty (*Armut*).

Here, once more, emerges the question of words: While some talk of the risk of poverty or relative income poverty, others, e.g. NGOs, talk of the "limit of poverty" (Armutsgefährdung), suggesting that everybody around or below this segment dives into

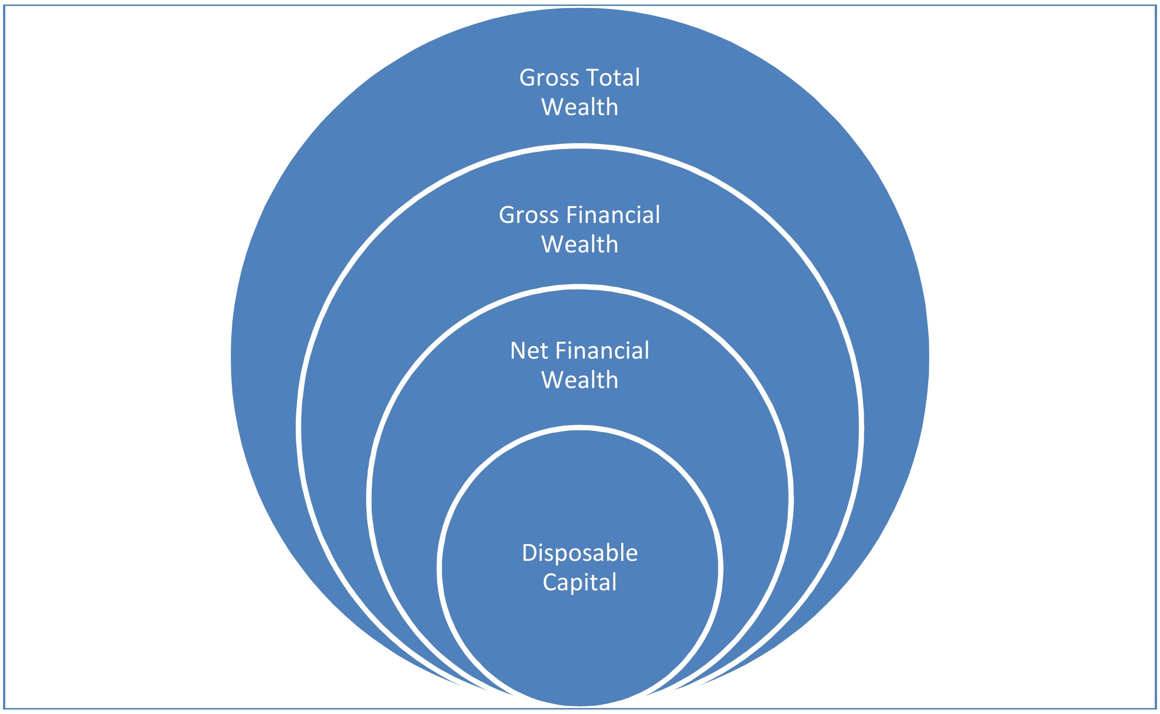
[1] (Collins, 2012, p. 22). More detailed following Hauser: Einkommenserzielungsfunktion, Sicherungsfunktion, Nutzungsfunktion, Wahlfreiheitsfunktion, Machtfunktion, Prestigefunktion, Vererbungsfunktion. Quoted in Footnote 1 of (Beckert, 2013, p. 154)

poverty and outright poverty (Armut) already for those earning less than 50%. (Spannagel, 2015).

It is more difficult to obtain an adequate definition of wealth by using the concept of equivalised disposable income. Those doing it suggest that a person earning 200% or 300% of the national equivalised disposable income of a country could be called “wealthy”. Here, however, this research follows those who argue that these persons may be called prosperous or affluent, but not yet wealthy. Wealth would have to consider not only wages or salaries from labour and transfers, but also income from different sources of wealth and, more importantly, the fact that wealth promises reliable future income and (in case of selling assets) financial gains and enormous social status and power.

Lauterbach proposes to distinguish the following categories when considering wealth:

Graphic 1 Relationship between different quantities of wealth

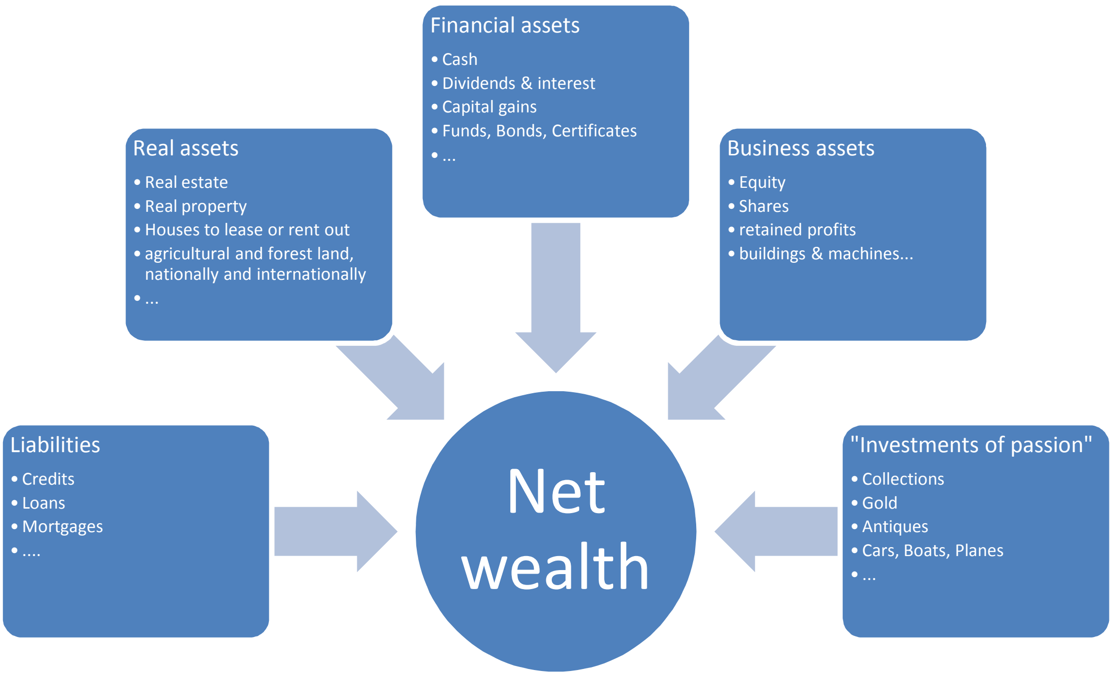


Source 1 (Lauterbach & Kramer, 2009, p. 286)

For pragmatic purposes, Lauterbach starts a first approximation from average equivalised disposable income upwards to being “prosperous” (> than 200% of average equivalised disposable income) or “very prosperous” (> than 300% of average equivalised disposable income), income earnings here still result from work. A qualitative threshold lies with and beyond the category “affluent” (disposable financial assets of EUR 500,000 and more). The characteristic difference between “mere income” and wealth, Lauterbach argues, is that those who are earning money from labour depend from that income, while beginning with the category of the “affluent”, income is also generated from wealth typical assets which enable people to live a comfortable life without having the need to work. This does not automatically imply that those people do not work – they simply do not depend on income from work anymore and the status of affluence and beyond illustrates a degree of freedom. A third threshold Lauterbach sees are billionaires who own so much that their wealth cannot possibly be spent or perish.

Regarding the measurement of wealth, which is not yet "liquidized" into financial assets, this chapter follows those who argue that today's value of wealth expresses the sum of all expected future income from the assets owned (cf. I/IV/2.1.4). This again is dependent on many factors, e.g. on the development of currency rates or the value of shares traded at Stock Exchanges. Taking this into account, annual income arising from wealth is, at the same time, an annual advance upon the sum of all expected future income. If therefore the sum of all future income from wealth assets represents the values of today's wealth, then today's income represents a fraction of today's wealth.

Regarding the categorization of wealth, those discussed so far are not entirely satisfying. For example, in that used by the European Central Bank the question of business and collectible items. The former are important for the extent to which they determine the wealth and influence of the top 1%, the latter because they are hardly in view of tax authority or public, even though at time outrageously prices are paid for collectibles (e.g. paintings, cars or wines) which would merit a higher tax rate than present VAT rates are.



Finally, regarding the measurement of inequality, this research adopts the Gini coefficient. There is some justified critique leveled against Corrado Gini's way to calculate income and wealth inequality, e.g. by Thomas Piketty, especially because the Gini coefficient does not adequately take into account large incomes and fortunes. And: there are alternative coefficients to measure inequality by doing just that, e.g. the Palma coefficient (cf. I/IV/2.1.1). However, given the widespread use of the Gini coefficient in literature and due to the fact that he does offer some guidance on the development of inequality, its use avoids unnecessary confusion. Necessary cautionary notes and qualifications can nevertheless be entered, when called for.

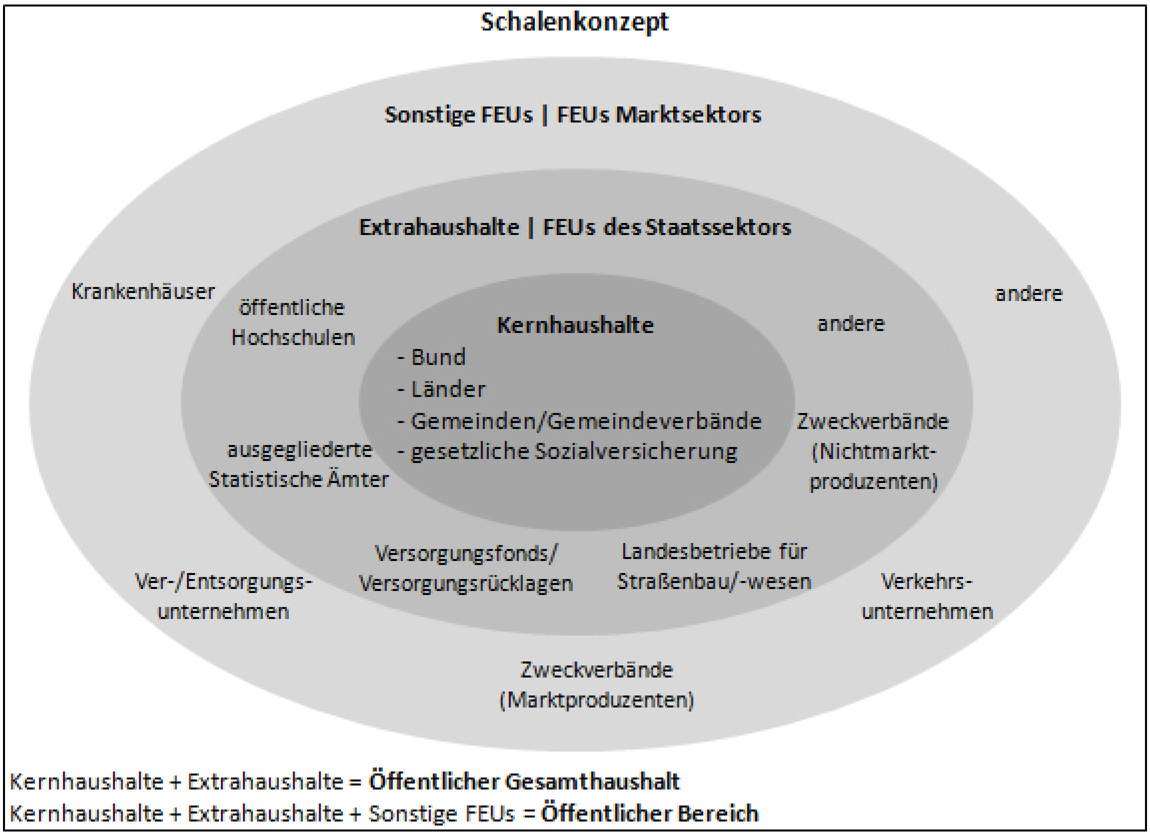
1.3 Governmental dependence on external financing

Regarding "governmental dependence on external financing", this chapter builds on r I/IV/3.1. In short: The expression "external financing" is used by the World Bank when talking about market-raised capital and investment within and between states. This is seen as opposed to "internal financing" which means to income from tax revenue. The expression "governmental dependence on external financing" refers to a situation where a state is structurally and over a long time dependent on external financing and therefore bound or severely restricted in its own spending decisions.

This research considers both direct and indirect dependence on external financing. Direct dependence of states exists e.g. via "conditionalities" arising from credits and loans or the need to spend large amounts of their annual budgets for the payment of interests or repayment of credits. Indirect dependence affects states' sovereignty and autonomy even if they are not indebted to external creditors at all. In times of deregulation, financial globalization and integration, there are globally "systemic" and "anonymous" forces at large, normally referred to as "the markets", on whose "benevolence" or "stability" states are dependent. The most current example here is the World Financial and Economic Crisis 2007/2008 and its consequences.

Regarding Germany and in order to avoid unnecessary confusion and debate, three important issues need to be borne in mind: First of all, governmental (public) debt statistics exist for Germany as a whole, but also for each of the three levels of government, namely the federation, the 16 states and municipalities. Secondly, given the federal structure of Germany, governments on each level have income from taxes and levies, but are also entitled to raise external finance at the markets, thus acquiring "own" debt. Finally, when discussing governmental debt one has to make sure that the proper statistics is referred to: One has to distinguish between three categories of households, namely the core household (*Kernhaushalt*), the extra-household (public total household (*Öffentlicher Gesamthaushalt*), including EU shares) and the household of other publicly owned funds, institutions and businesses operating in a market environment, e.g. hospitals or public transport. They are still belonging to the public sphere (*Öffentlicher Bereich*) and are, perhaps, in need of public transfers and subsidies.

Graphic 2 Concentric concepts of public households[2]



1.4 Sources

The first, and largest, category of information used in this chapter consists of reports and statistics compiled by government ministries and other governmental institutions, e.g. the Federal Central Statistical Office. This includes reports and analyses drawing heavily from national government statistics, such as OECD or EU publications.

Another category of information is made of national central banks, most importantly the German Federal Central Bank and, building on their information, the European Central Bank (ECB).

A third body of literature is scholarly/scientific research by widely respected and frequently quoted bodies shaping public discussion, such as the German Institute for Economical Research (*Deutsches Institut für Wirtschaftsforschung, DIW*) with its widely used Socio-Economic Panel (SOEP) household research or academic research.

More specifically, the following needs to be mentioned:

- Macroeconomic Studies, for example the National Income and Expenditure Statistics (*Volkswirtschaftliche Gesamtrechnung, VGN*) is a widespread means to calculate the development of (the share of) income from labour, private and corporate wealth of the nation as such. It does not, however, tell us about the concentration of wealth and, accordingly, influence and power.

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[2] FEU stands for funds, institutions and businesses (Fonds, Einrichtungen, Unternehmen). Retrieved from http://www.haushaltssteuerung.de/lexikon-gesamthaushalt-oeffentlicher.html

- The Microcensus of the Federal Statistical Office is the only mandatory survey of households in Germany. Due to the small number of top income and wealth households, it does not adequately look into this segment of households.
- The Federal Statistical Office also conducts the Income and Consumption Sample (*Einkommens- und Verbraucherstichprobe, EVS*), which is one of the largest of its kind in Europe and widely used for government reports, but it excludes by definition households beyond a monthly net income of EUR 18,000 which leaves out again top income and wealth households.
- The SOEP research tries to respond to the small fraction of top income and wealth households by oversampling them. There, however, is an imbalance too: They include private health and pension insurances as assets, but do not calculate entitlement arising from the public social security system, which gives a strong bias.
- There is hardly any tax data accessible to researchers, which is very helpful for studying accurately developments in the area of income, wealth or poverty. This is different in other states but due to the very strict "tax secret" from which authorities grant exemptions only in exceptional cases, e.g. (Bach, Corneo, & Steiner, 2011).
- Also the European Central Bank realized that their Household Survey offers distorted results because top income and wealth households were not adequately considered due to their small numbers. They, too, commissioned a specific study trying to make up for that lack.
- Contributing to the ECBs effort, there are also figures available by the German Federal Bank, including a follow-up survey 2014.
- Regarding academic studies, there is only one notable effort yet to look into the situation of top income and wealth holders, one reason being the inaccessibility of this segment of German society.
- Special sources of information are "Wealth Reports", wealth rankings and more or less high quality publications by media on top income and wealth holders also in Germany. On the one hand, these need to be taken to be biased by the self-interests of those who publish them, because those banking institutions of course aim to attract this clientele as customers. On the other hand, one needs to ask who knows the wealth situation better than those who earn their money with administrating and multiplying it. This applies even more to those being open about their methods and sources than to those lacking transparency and verifiability.

2 The Wealth Gap

2.1 The Wealth Gap in Germany

2.1.1 Somebody's wealth is somebody's debt

The analysis in I/IV/3.4 + 3.5 provides already some context for the link between somebody's wealth and somebody's debt in the case of the "rescue efforts" of Greece, which not only profits banks, insurances and funds, but also French and German arms manufacturer and Greek billionaires. This link is particularly true for Germany. Not only the case of Greece, also the cases of Ireland and Spain illustrate that public rescue efforts benefitted German private and corporate wealth holder, who owned about 25 % of Irish and Spanish liabilities. Regarding Ireland, one Blogger obtained, for example, the list of creditors of the

Anglo-Irish Bank which went bankrupt: Quite a number of German names are showing: Insurances, TNCs, private and public banks…

This link and its dangers are less known when it comes to Germany's impressive surplus regarding exports and foreign investments. Over the past years, the value of those external assets and savings decreased dramatically, not only during the World Financial and Economic crisis. According to experts, valuation losses are amounting to EUR 1 trillion

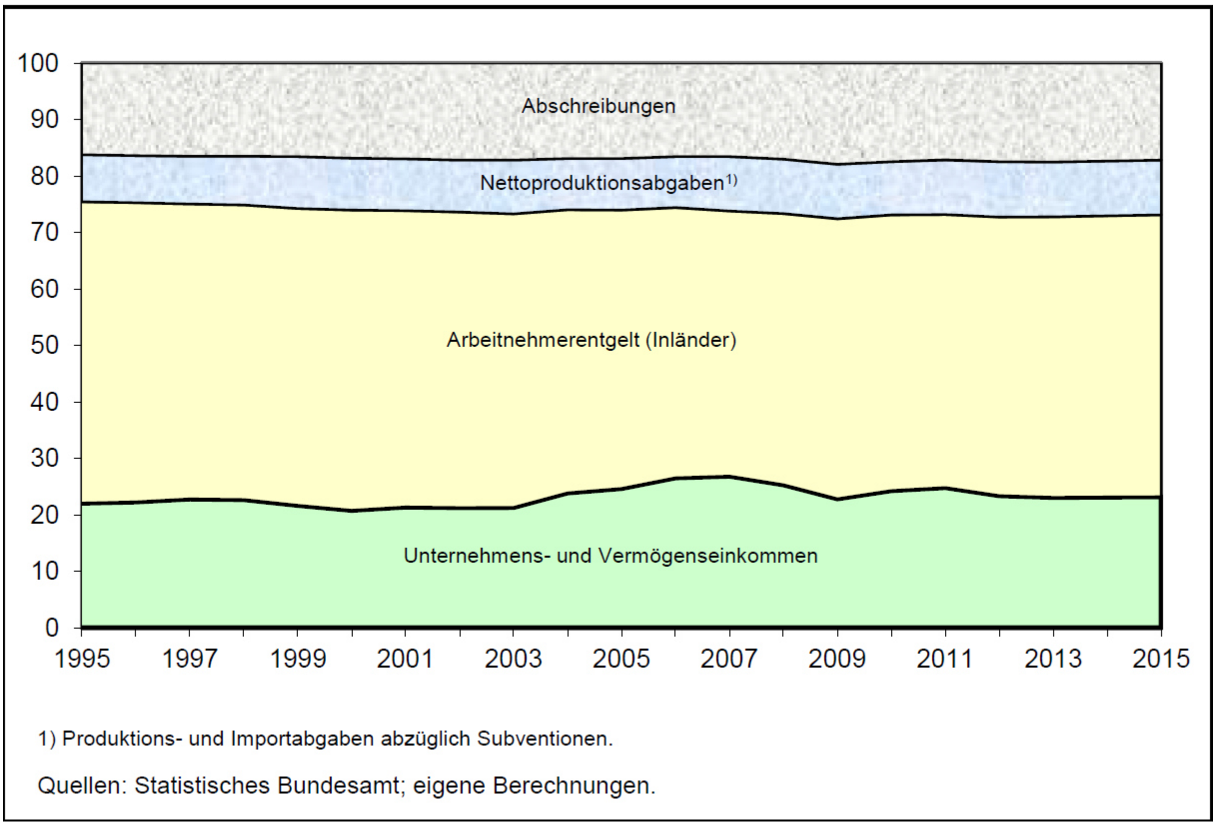
At a closer look, however, there is disbalance: The decreasing share of activa by banks, corporations and private persons 2007-2012, opposed to the increasing share of activa by state and central bank are consequences of "rescue" efforts after the World Financial and Economic Crisis, e.g. the buying of Bad Banks by the state or the withdrawal of banks from crisis states such as Greece, Italy and Portugal: Since 2008, German Banks lowered their engagement there from EUR 570 billion to EUR 260 billion (forcing states even more to intervene and stabilize those states from insolvency and bankruptcy).

In other words: "Assets" bought and held by the state and central banks are not really assets. This is why the public deficit is growing, while private and corporate wealth is still in the positive.

2.1.2 Shift in functional income, stronger increase at the top

Regarding absolute and relative development of national income, income from private and corporate wealth and income from wage, there is a perceivable shift from income from labour to income of private and corporate wealth, suggesting some sort of redistribution from the bottom to the top. This development is mirrored in the area of taxation, perhaps even assisted or facilitated by tax reforms. The next graphic shows the development, confirming the squeeze on labour:

Graphic 3 Changes in the functional income distribution 1995-2015

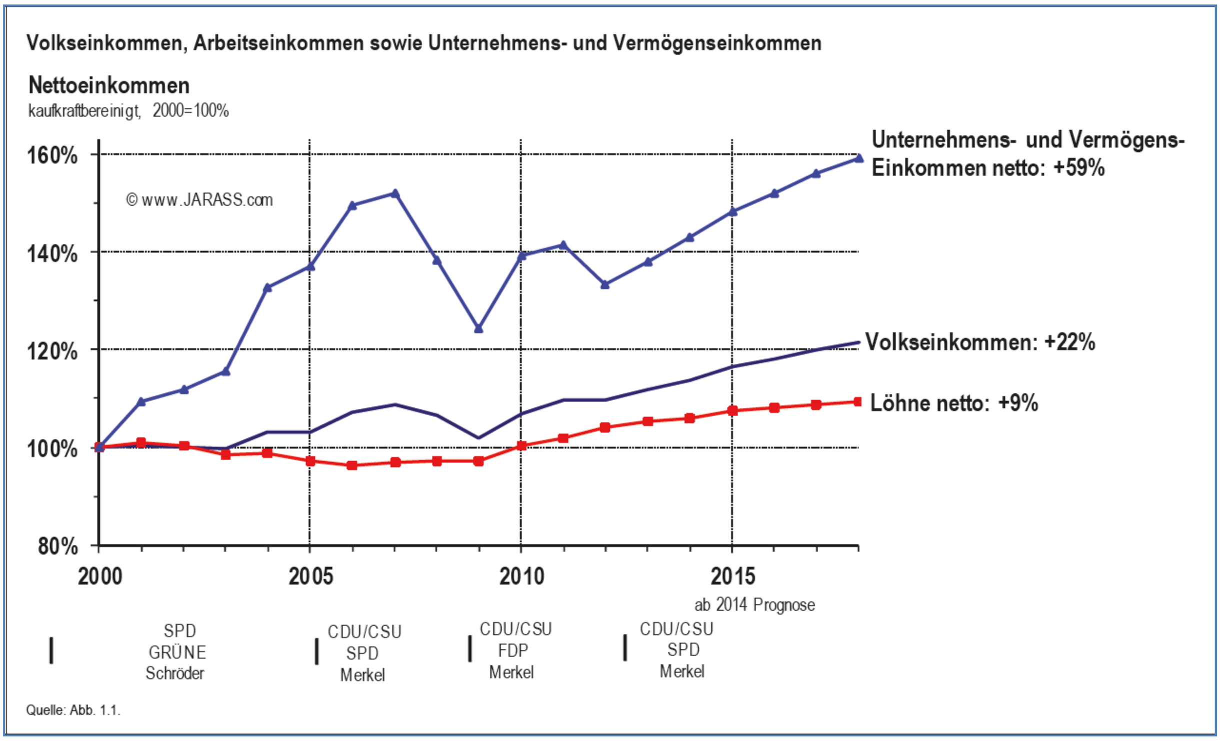


Source 2 (Bach, Beznoska, & Steiner, 2016, p. 30)

Income from labour is squeezed from two sides: Increasing income for private and corporate wealth and developments in the area of "Nettoproduktionsabgaben", a term which summarizes indirect taxes (such as VAT with its increases in 1998 and 2007) and other indirect contributions such as the Renewable Energy Levy. Those two "squeezes", so Bach, resulted in the fact that the share of income from labour in the National Income and Expenditure Calculation shrunk, in spite of overall economic improvements for net- and real wages after the 2007 crisis from 55% in 1990 to 51%/50% in 2014, amounting to a monetary loss in income from labour of EUR 115 billion annually (Bach, 2014a, p. 691), more current (Bach, 2016a)

These findings are confirmed with other researcher, e.g. Jarass: Between 1991 and 2007 income from labour increased by 39%, while private and corporate wealth increased by 86%. This drifting apart of income from labour and income of wealth is also reflected in the development of the wage-quota (*Lohnquote*), i.e. the share which income from labour contributes to the national income: It decreased from 70.8% to 64.7%. (Schwarz, 2008). Looking at income from labour, private wealth and corporate business from 2000-2015 (prognosis), the following development shows:

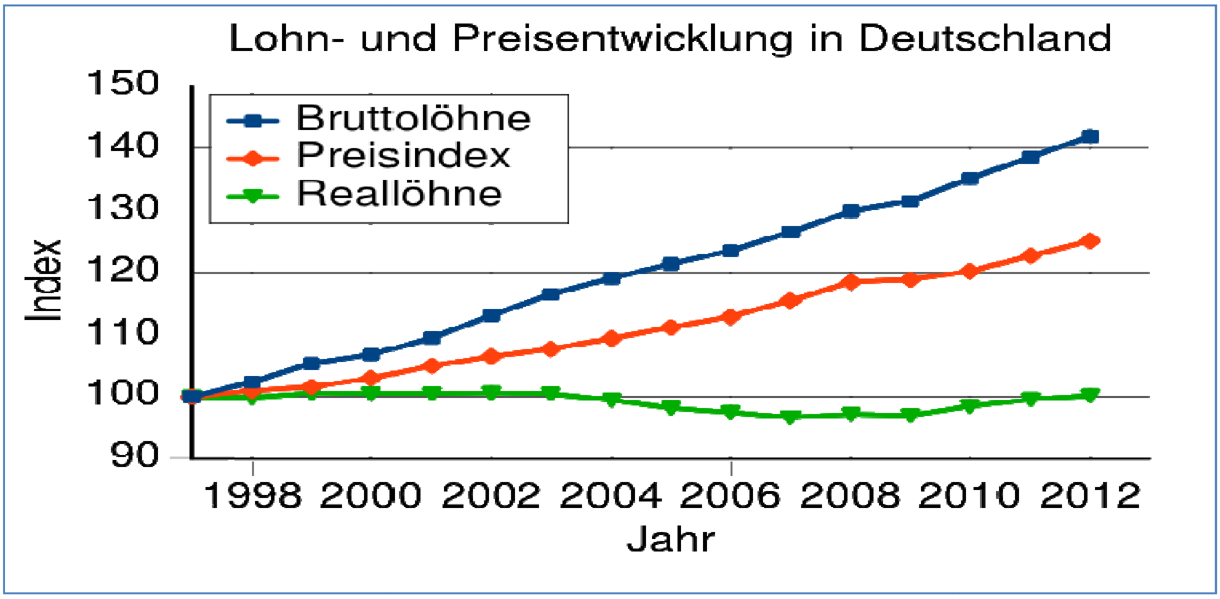
Graphic 4 The development of net income from labour, wealth and business and the GNI 2000-2015



Source 3 (Jarass & Obermair, 2015, p. 19)

The good story within the picture is that there is a real increase of net wage at all, even though it is among the lowest in all EU countries. At the same time, a real increase from income does not tell the entire story: one has also to be mindful of what is possible to purchase from the wage earned. The following graphic distinguishes gross wages from real wages, which is different from net wage since it measures that which somebody can purchase from his net wage (i.e. it composes the relation between net wage and price development).

Graphic 5 Gross and net wages, development of prices[3]



The graphic indicates that in spite of increasing net wages, people were less able to buy goods for that money since prices are increasing. Here we have first indicators that the Wealth Gap is growing in spite of an overall and comparably good economic situation, which is confirmed by other publications, e.g. (Deutscher Gewerkschaftsbund, 2016a). This trend is part of the international development, as Piketty, EU and OECD figures demonstrate.

2.1.3 Redistribution from bottom to top?

When states are in need to borrow money "from the markets" in order to rescue banks and stabilize the economy, because, for example, tax revenue decreased because of tax rebates for private and corporate wealth holder (cf. GER/V/5.4), the money on the market belongs or profits those who own the bodies from which states borrow for good interest because it is them who are buying bonds and obligations. The money used to pay that interest, however is provided by the general tax payer, meaning, the ordinary citizen which makes those on the top even more wealthy – as has been the case, as authors and conversation partners point out, during the unification, e.g. in financing social transfers via social insurance systems, as well as the 2007 World Financial and Economic Crisis and Eurozone crisis. And: Since tax revenue is increasingly collected from indirect taxes and levies instead of direct taxes, low income households are more burdened than wealthy ones. This is also visible in the shift of the so-called "functional income."

The 2016 "Report to the Club of Rome" points out, that here indeed is the first level, where redistribution from the bottom to the top takes place: Since the 1990s, in the wake of deregulation, internationalization and other forms of globalization, private and corporate wealth holder earned because they paid workers less and had them work longer than before. But it did not stop here: When worker wanted to lend money to keep up their living standard the borrowed money – which, in the final analysis came from private and corporate wealth holder once more who then earned again from their payment of interests (Randers & Maxton, 2016, p. 68).

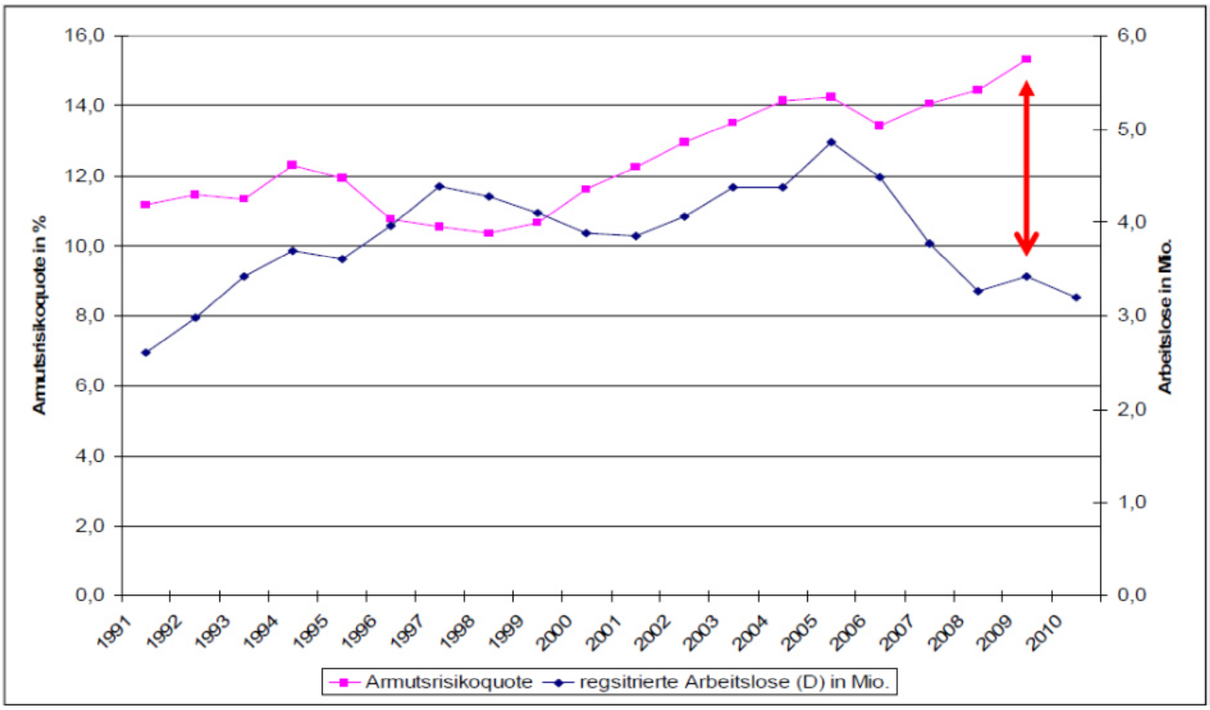
[3] Graphic based upon data from the Federal Statistical Office, retrieved from Wikimedia Commons - http://commons.wikimedia.orGWiki/File:Lohnentwicklung_Deutschland.svg#mediaviewer/File:Lohnentwicklung_Deutschland.svg

2.1.4 Impact of the World Financial and Economic Crisis

Germany was also heavily affected by the 2007 World Financial and Economic Crisis. But different from other countries it was hit much less severely. This is partly due to the infusion of taxpayers' money into the financial and economic sector where Germany did not act differently from other European states (cf. I/IV/3.3.3), but also due to the effect of some tough economic reforms undertaken already in earlier years and being implemented, most importantly, in 2005. This shall be illustrated by just two graphics, illustrating the impact on the two groups at the extreme ends of the social spectrum:

The first graphic illustrates the development of unemployment (blue line) and poverty risk (pink line) in Germany. One can see a dramatic decrease in unemployment since 2005; the trend was not stopped by the World Financial and Economic Crisis. Parallel to this line, however, one sees poverty risk in Germany increasing. This trend is also unbroken since 2005, which seems therefore to be the more crucial date in Germany for assessing major developments in poverty than the World Financial and Economic Crisis.

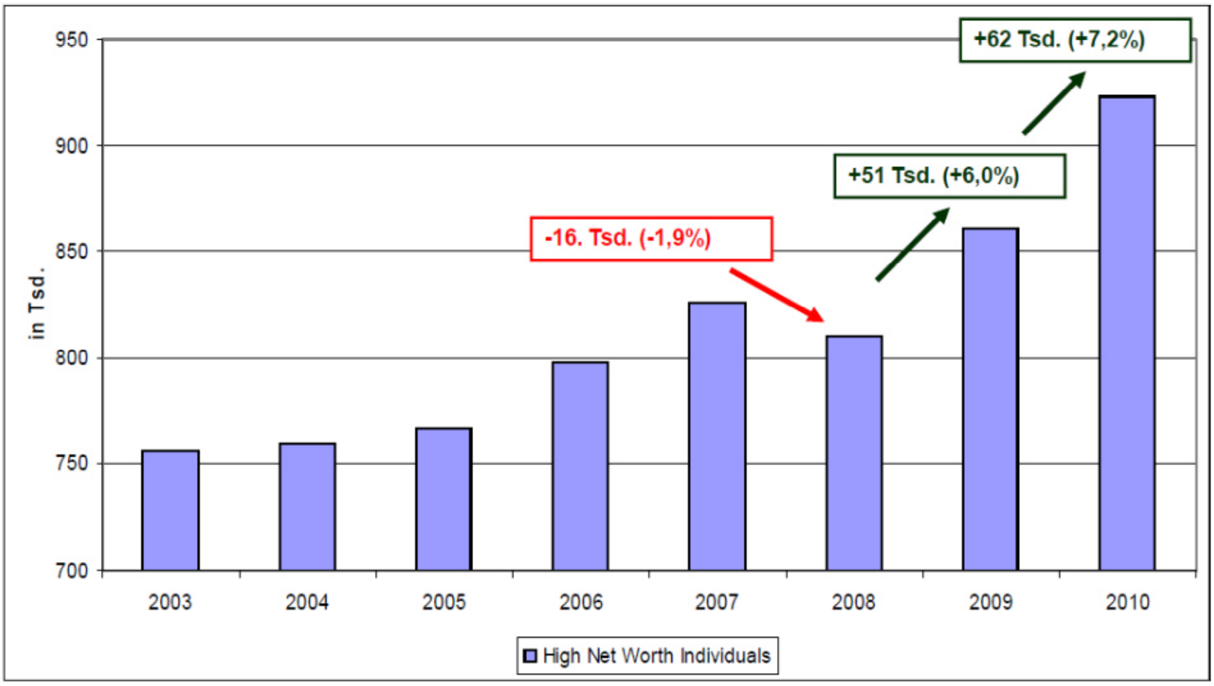
Graphic 6 Unemployment and risk of poverty 1991-2010



Source 4 (Grabka, 2011, p. 23)

Equally the High Net Worth Individuals (HNWIs) in Germany were not affected seriously by the World Financial and Economic Crisis. As one can see in the second graphic, the rise of HNWIs has been hardly interrupted by the crisis and rose ever steeper after the "recovery".

Graphic 7 The development of HNWIs in Germany 2003-2010



Source 5 (Grabka & Westermeier, 2014, p. 42)

Even though admitting that the World Financial and Economic Crisis might have indeed destroyed wealth and sent wealthy people into bankruptcy (which indeed has happened) and that the names of millionaires after the crisis might be different from those before the crisis, those two graphics also illustrate that the wealth gap in Germany is indeed growing at both ends of the social spectrum.

2.1.5 Poverty in spite of "job miracle"

As explained above, the most common measurement in the discussion of poverty in Germany is the "Poverty Risk Quota". Here, the development in Germany is as follows:

Tabelle 1Development of the Poverty Risk Quota in Germany 2008-2014

2008	2010	2012	2013	2014	2015
14.4%	14.5%	15.2%	16.1%	16.1%	16.7%

Source 6 Bundeszentrale f. politische Bildung, Statistisches Bundesamt

Some explanations are needed regarding the diverging development of unemployment and poverty since the common perception is that poverty is linked with unemployment and the need to live from social transfers, benefits and alms. The majority of experts see the reason here in major reforms of the employment and social welfare system, undertaken by the government lead by the Social Democratic Chancellor Gerhard Schroeder in 2005. As elsewhere in the world (cf. I/IV/5.3.6) changes opened the way to the emergence of a large precarious, temporal and low-wage employment segment which previously was not legally possible in Germany due to strict (some say inflexible) labour laws. This segment eventually (and here employers and trade unions agree) now comprises almost one quarter of the German workforce.

There are a number of developments which are widely criticised since the moment of its inception and implementation: For example, that now there is not merely a gap between income from labour and income from capital, but also between fair paid labour (which tends to be “unionized”) and precarious labour: Bargained wages tend to result in an increase of 6.9% while wages of not-organised/unionized labour sank over time. This is a development which is also occurring in other states, worrying even OECD Secretary General Gurria (Gurria, 2014). The development also illustrates why a considerable amount of people are not able to live decently from what they earn and that they need public support topping up what they earn.

Other interesting figures here are in the latest OECD report into inequality. Poverty in Germany is and remains strongly linked to unemployment. But not only that: the share of those being employed in non-standard jobs rose to almost 40% in 2013 and those being employed in those jobs earning on average only 56% of that available to those working in standard employment.[4]

And another general statement seems to be justified: In Germany, up to the present day, there is a payment difference regarding men and women, even though both do the same kind of work. This, too, impacts generally on the poverty and income situation of a (single parent) household, most particularly if there are children around (Deutscher Gewerkschaftsbund, 2016a).

It would require a lot of care and work to examine closer in what economic sectors what kind of professions are afflicted. An important distinction is, however, the one between dependently employed, (solo) self-employed, fake-self-employed and illegally employed:

Dependently employed have at least some sort of contract by an employer and, therefore, some sort of security. The situation is worse for certain groups within the diverse category of self employed which contains not only doctors and lawyers, but also craftsmen who offer themselves to whoever is paying them: It is them who at mercy of employer for payment and insurance whenever they are looking for work. Berger gives some figures for this category of self-employment:

- 1.1 of them works below the legally prescribed minimum wage, which makes it a larger number than those dependently employed and earning less than the legally prescribed minimum wage
- 130,000 of those need to apply for additional Hartz IV for a decent life
- 180,000 privately insured are delayed with rate payment
- Number of Solo-Selbstständige (those employing family members) rose from 1.8 (2000) to 2.6 million (2011)
- Growth is largest among professional groups of Ausbaugewerbe with more than 10%, but also more exotic groups such as cosmeticians 6%[5]

[4] Of course, one would also have to look closer whether here people are counted who chose to work less (and accordingly with less pay) because they do not want to work fulltime.

[5] ‚Neben den künstlerischen Berufen zählen auch zahlreiche Dienstleistungen aus dem Gesundheits- und Pflegebereich zu den »Gewinnern« dieses Strukturwandels. Bei den Pflegeberufen beträgt das durchschnittliche jährliche Wachstum der Solo-Selbstständigen durchschnittlich 6,3 Prozent, bei den Kosmetikern 6,0 Prozent und bei den Masseuren 2,3 Prozent. Als dritte Wachstumsgruppe sind Berufsgruppen aus dem Handwerk auszumachen: So stehen beispielsweise die sogenannten Ausbauberufe wie Fliesenleger oder

Here is also a large area for cheating and a gradual transition into the shadow or even illegal economy.

Not surprisingly, the complex motivation behind the 2005 reforms and the way developments are leading ever since are assessed and judged differently. Employer, business owner and their interest groups judge the reform not only to be necessary, but helpful to bring low-qualified and long-time unemployed into employment. Different from them, trade union representatives and welfare organizations criticize the outcome and state the emergence of a class of working poor in Europe’s most wealthy country. Even worse, those organizations state: It seems as if the development of poverty/the working poor is disconnected from the overall increase in national wealth and, most importantly, private and corporate wealth. It also seems as if economic growth merely favours the employment of well qualified labour, while all those in the low wage segment are likely to remain unaffected (Paritätischer Wohlfahrtsverband, 2016a, p. 14+16). All this yet another proof that the “Trickle Down” Theory no longer keeps its promise (cf. below 2.8.2)

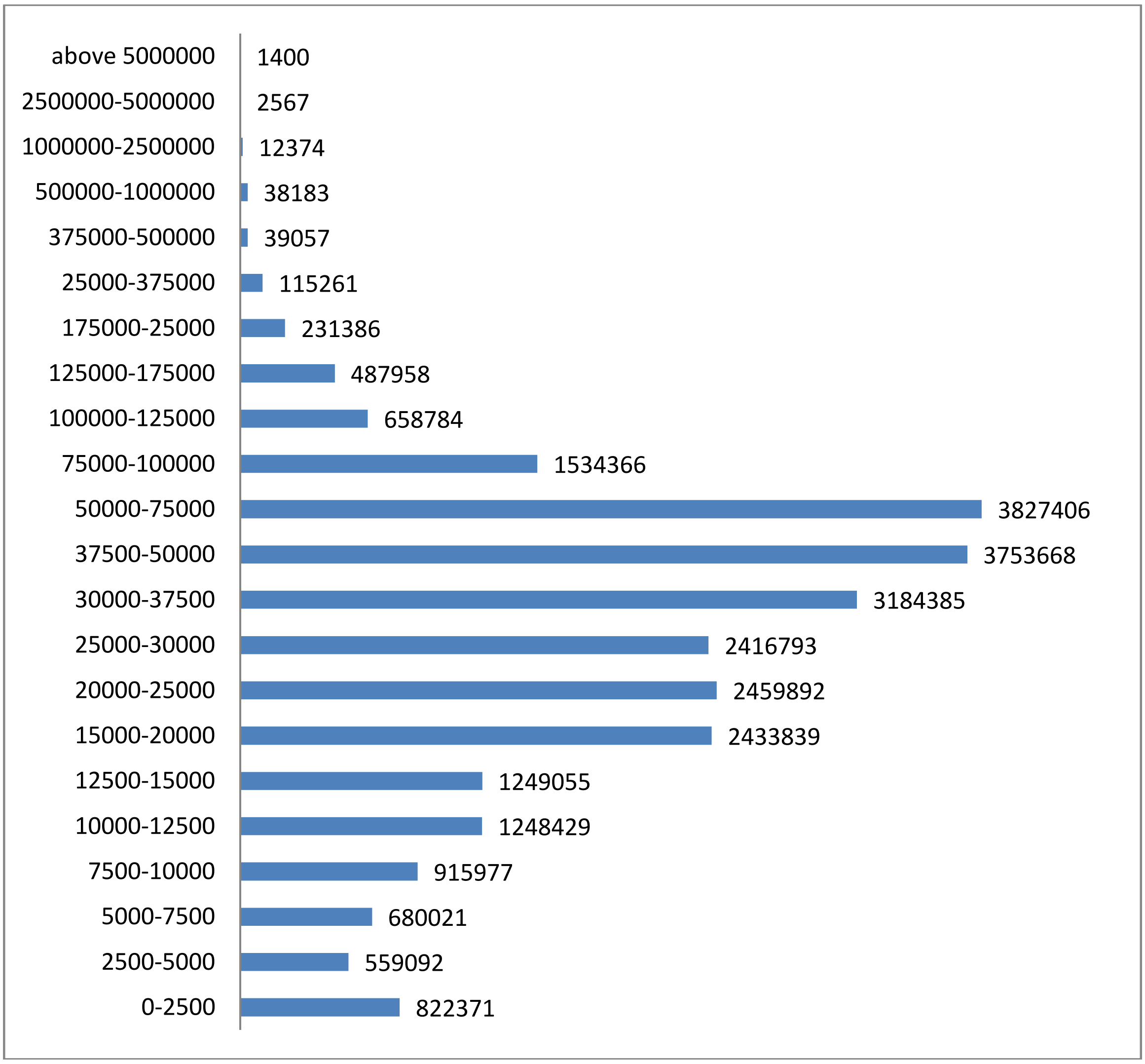
The OECD therefore recommends to German policy maker to improve the quality of education for children and training programs for unemployment youths as a main way to obtain better employment in quality jobs. In order to finance those programs, a better taxation of the wealthy is recommended. (OECD, 2015b).

2.1.6 Income inequality

This leads to the question how income inequality developed in Germany over the past years. Measured is the sum of income, i.e. the added income from various sources of income. At present, the distribution of annual income in 2010 is as follows:

Graphic 8 Distribution of the annual sum of income in Germany, number of earner, in Euro (2011)

Monteure an der Spitze mit einem jährlichen Wachstum von fast 10 Prozent.‘ Chap. 9, sub-chapter Boom der Solo-Selbständigkeit (Berger, 2014)

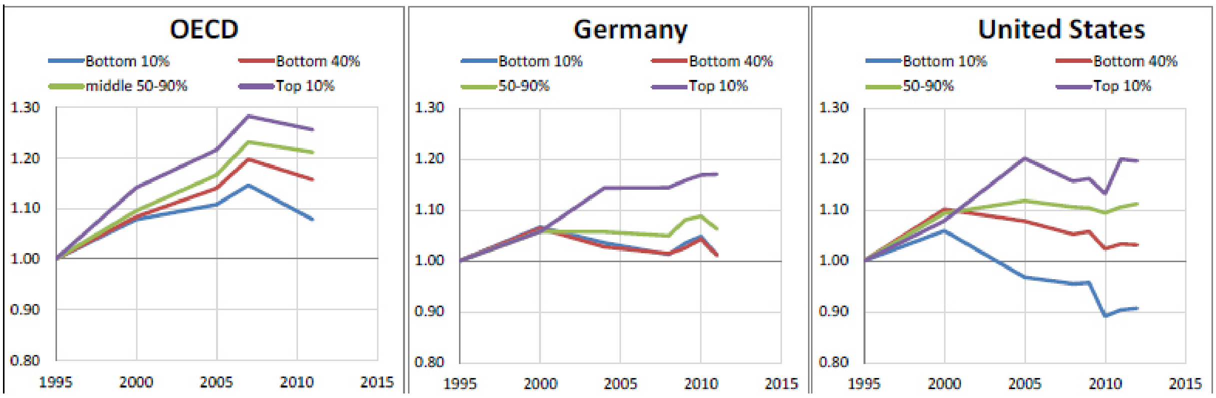


Source 7 (Federal Statistical Office, 2015a)

Nevertheless: An examination of development regarding real household income between 1985 and more recently reveals, that there is only one group profiting even in the times after the World Financial and Economical crisis: The top 10 percent. Even more worrying: With that, Germany and the US are against the trend in other OECD states, where also income of top income groups has declined since 2007.

Graphic 9 Development of income between 1985 and 2014[6]

[6] Taken from p. 9 of Levy, Horatio: Income and wealth distribution in OECD countries. PPT presentation, privately obtained. Levy works at the OECD Social Policy Department.



Having mentioned already that a constant danger is to underestimate the importance of the top 0.1%, here an example why this is indeed important for any discussion surrounding the “justification” of high income: When it was published in 2011 that VW boss Winterkorn earned EUR 17.5 million, people were stunned, but divided: On the one hand, this is 350 times higher than the average worker’s wage on VW’s production line, on the other hand, even trade unionists conceded that Winterkorn is worth his money, that he is even underpaid when comparing his salary to that awarded to some soccer stars. Later, in 2015, the VW “Exhaust-Scandal” broke, when it was published that VW manipulated the CO2 contained in exhaust, so that they could be able to sell more environmental friendly cars than they actually were. The manipulations took place when Winterkorn was Germanys best-paid CEO. He had to leave his post, asserted, however, that he was not aware of those manipulations. Nevertheless, Winterkorn will leave with a double-digit Million Euro compensation package and a double-digit million package for old age pension – in spite of all public protest.[7]

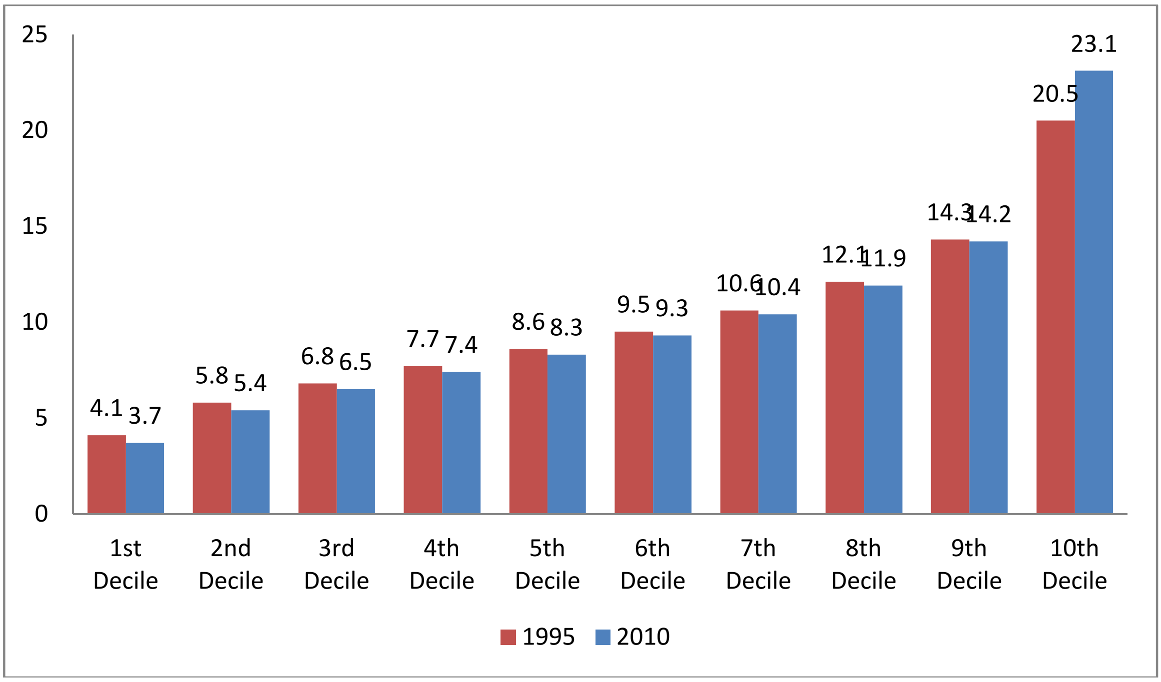
According to some, German CEOs earn “merely” 147 times more than the average income. While the latter brings home on average EUR 60.000 each year, CEO pay is on average EUR 6 million (Lange, 2014). According to others, the ratio lies at 167:1 in to top-segment of supersalaries. (Deutscher Gewerkschaftsbund, 2016a, p. 43).

Income share in all deciles is sinking – except the highest tenth decile, as the following graphic shows:

Graphic 10 Income share distribution of net equivalised income, in deciles and percent, 1995 and 2010[8]

[7] Abfindung plus Altersvorsorge: Winterkorn bleibt Millionen Rente. 2015 (September 24) In: ntw. Retrieved from http://www.n-tv.de/wirtschaft/Winterkorn-bleibt-Millionen-Rente-article15999246.html

[8] Die soziale Situation in Deutschland: Einkommensverteilung (2013, September 27). Bundeszentrale für Politische Bildung, Retrieved from: http://www.bpb.de/nachschlagen/zahlen-und-fakten/soziale-situation-in-deutschland/61769/einkommensverteilung



The previous data was taken from the SOEP survey vs. 28 of private households. Other surveys result into a higher share, especially in the later years, for example, the SOEP vs. 29 for 2012 puts the share at 23.9%. [9]The PHF survey of the German Federal Central Bank puts the net-income concentration among the top 10% for 2014 at 36.8% (German Federal Central Bank, 2016a, p. 67), Niehues/Schroeder put it for 2012 at 35.3%.[10]

A major improvement here was legislation passed by the present government to introduce a mandatory minimum wage of EUR 8.50 (gross) for most categories of jobs in the low-paid sector. It is still disputed in which labour market segment what exception will be possible, but there is already talk of re-assessment and "reform". Equally worrying are first reports of cheating by forcing people to work more and non-documented hours for the paid wage.

More important than the development of sum of income is, however, (1) what in the end is left for spending, the disposable income, which can be used for spending, consumption and investment and (2) the Gini coefficient building on those figures. Here, for Germany, the development is, based on EU SILC data, as follows:

Table 2 Development of the equivalised disposable income Germany 2008-2014[11]

	2008	2009	2010	2011	2012	2013	2014
Median equivalised disposable income	18 309	18 586	18 797	19 043	19 595	19 582	19 733

[9] Bach, St. (2014, May 10) Parteianhänger: Unterschiede zwischen Arm und Reich? Retrieved from http://www.diw.de/documents/vortragsdokumente/220/diw_01.c.465109.de/2014-05-10_lndw_bach_pr%C3%A4sentation.pdf

[10] Niehues, J./ Schröder, Chr. Einkommens- und Vermögensverteilung: zwischen Wahrnehmung und Wirklichkeit. In: Wirtschaftsdienst 2014/10, pp. 700-703. Graphic from p. 702.

[11]Retrieved from the Website of the Federal Statistical Office, https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/EinkommenKonsumLebensbedingungen/LebensbedingungenArmutsgefaehrdung/Tablen/Einkommensverteilung_SILC.html and, regarding SILC data: http://appsso.eurostat.ec.europa.eu/nui/show.do

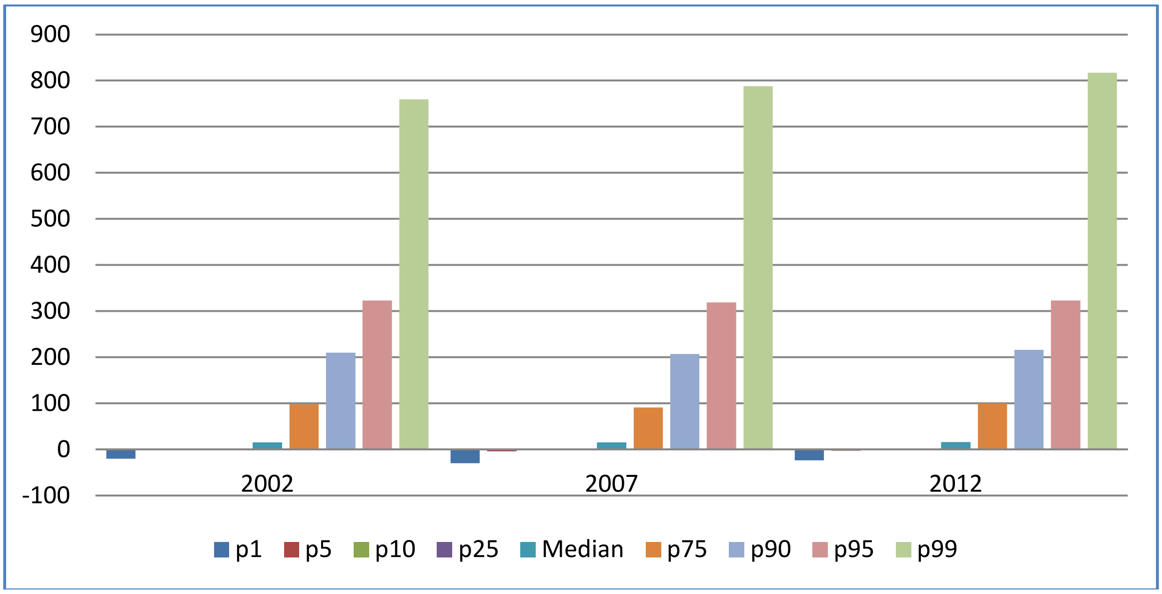
Medium equivalised disposable income	21 086	21 223	21 470	21 549	22 022	22 471	22 537
Gini Coefficient	30.2	29.1	29.3	29.7	28.3	29.7	30.7

According to this, income inequality is on the increase again, which is also confirmed by other studies, e.g. the one by the Wirtschafts- und Sozialwissenschaftliche Institut (WSI), whose database is the SOEP. They state that income inequality is edging once more close to the peak which it had in 2005. But here, as always, it is important to look carefully at the sources on which calculations are based, i.e. what data is available and what data is missing or omitted. Here, for example the WSI argues that the income gap is perhaps even larger than estimated since all relevant databases lack adequate information on top-earner due to their relative small number (Spannagel, 2015, p. 3). It will be also interesting to see the impact of the legal minimum wage on income inequality, but this will only be detectable when 2015 is evaluated.

2.1.7 Wealth inequality

One of the most quoted is the research of the DIW based on its SOEP surveys: While 28% of the population have negative wealth indicators (debts!), private net wealth in 2012 was up to EUR 6.3 trillion and as distributed/concentrated as follows:

Graphic 11 Distribution of net wealth per person, selected percentiles, in EUR 1000



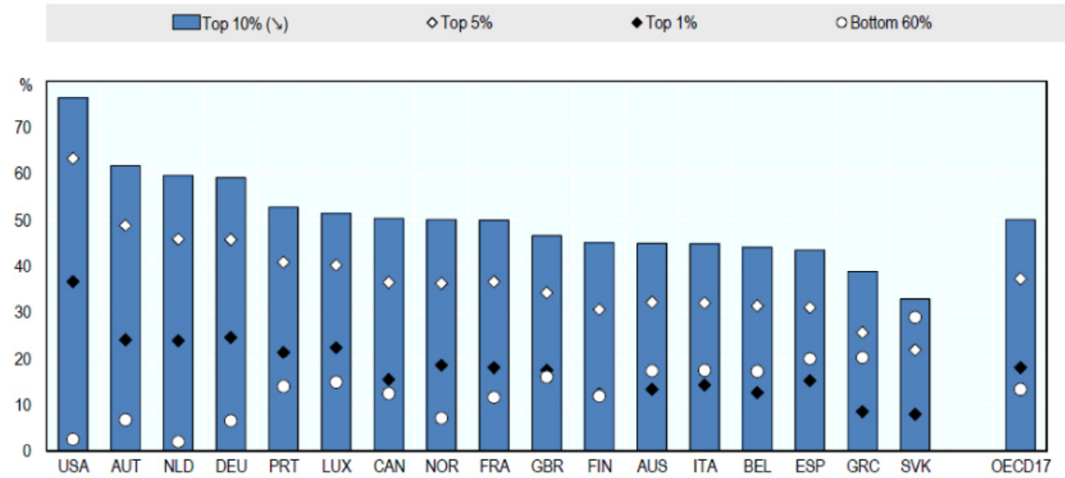
Source 8 (Grabka & Westermeier, 2014, p. 153)

Here, clearly, the Gini coefficient is considerably higher than when looking at income only. Regarding wealth, the German Gini is 0.78 (2002), 0.8 (2007) and 0.78 (2012). According to Grabka/Westermeier, Germany ranks first within the Eurozone, ahead of all other member states, within the OECD Germany is only behind the USA with a wealth Gini of 0.87 (2010) (Grabka & Westermeier, 2014, p. 156). Slightly, but not totally, different are findings of the OECD which puts Germany behind the US, Austria and the Netherlands:

Graphic 12Wealth shares of top percentiles in international comparison

Figure 6.7. Wealth shares of top percentiles of the net wealth distribution

2010 or last available year



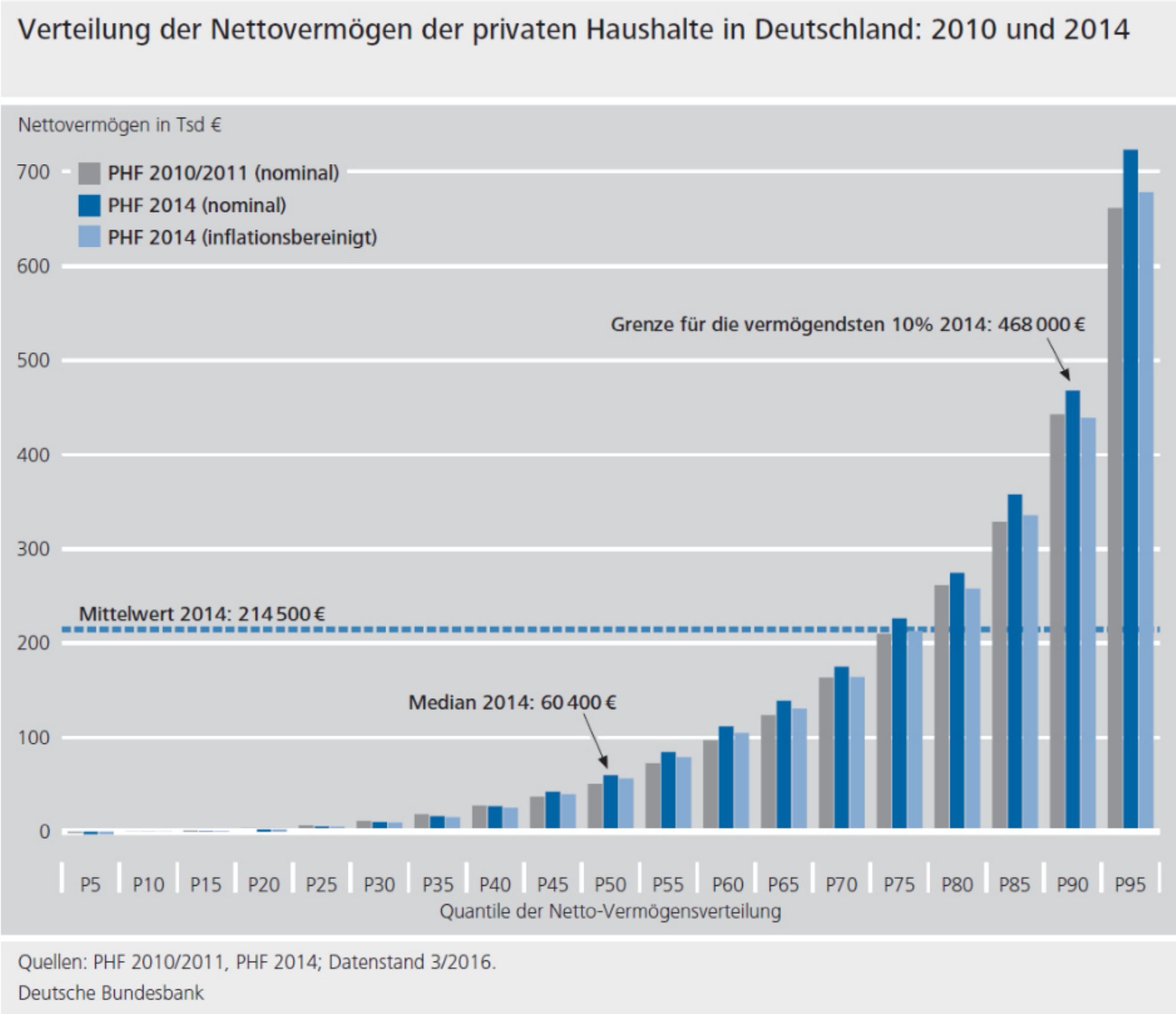
Note: The bottom 60% refers to the share of quintiles I, II and III in the total wealth.

Source: *OECD Wealth Distribution Database.*

Source 9 (OECD, 2015a, p. 250)

Finally, there is the follow-up survey by the Federal Central Bank, i.e. the 2014 PHF, which shows the following:

Graphic 13 Distribution of median and medium net wealth in Germany



Source 10 (German Federal Central Bank, 2016a, p. 65)

The PHF also distinguishes between the medium and media wealth, which is as follows (German Federal Central Bank, 2016a, p. 62):

Table 3 Medium and median wealth according to the PHF 2014

	Gross	Net
Medium	240,200 Euro	214,500 Euro
Median	77,200 Euro	60,400 Euro

The Central Bank also states that the large discrepancy between medium and median value is indicative for high inequality, resulting in a wealth Gini for Germany of 76% which is comparatively high (e.g. Italy= 61%, the Euroarea average=69%), only being topped by the US which in 2013 was 80% (German Federal Central Bank, 2016a, p. 62).

Current reports suggest that wealth inequality is increasing, as will be dealt with in more detail in the In-Depth treatment of German wealth.

2.1.8 Disparate development of income and wealth

As has been indicated already above, income in Germany is indeed rising for most, but for some it is rising faster than for others. Accordingly, income inequality is not as alarming/grows not as fast as wealth inequality.

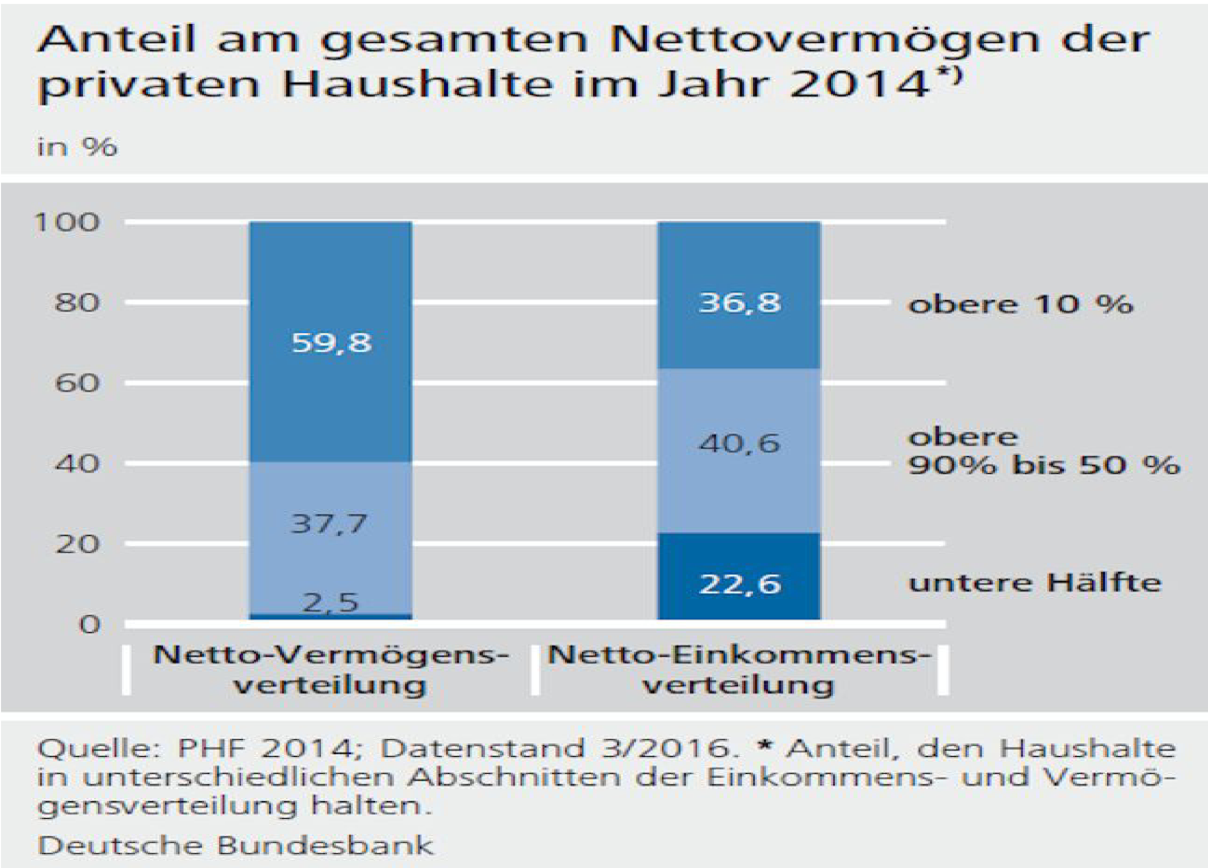
The difference in income and wealth inequality is illustrated by the following graphic:

Table 4 Distribution of individual net wealth regarding deciles (share of total net-wealth in percent)[12]

	Nach Vermögensdezilen			Nach Einkommensdezilen		
Dezile	2002	2007	2012	2002	2007	2012
1	-1,1	-1,4	-1,4	1,9	1,5	1,5
2	0,0	0,0	0,0	3,0	3,0	2,7
3	0,0	0,0	0,0	4,3	3,7	4,6
4	0,4	0,4	0,4	5,3	4,2	5,2
5	1,3	1,2	1,3	6,3	6,6	6,8
6	3,3	2,7	3,3	7,1	6,6	7,6
7	6,7	5,9	6,9	9,4	8,7	8,9
8	11,6	11,0	11,9	11,6	11,5	13,4
9	19,4	18,6	19,5	15,0	15,0	14,0
10	58,4	61,6	58,1	36,1	39,3	35,3

The table illustrates that there is some improvement/levelling off in both inequality categories after the 2007 crisis. In 2014, there was not much change to that:

Graphic 14 Concentration of income, concentration of wealth among deciles

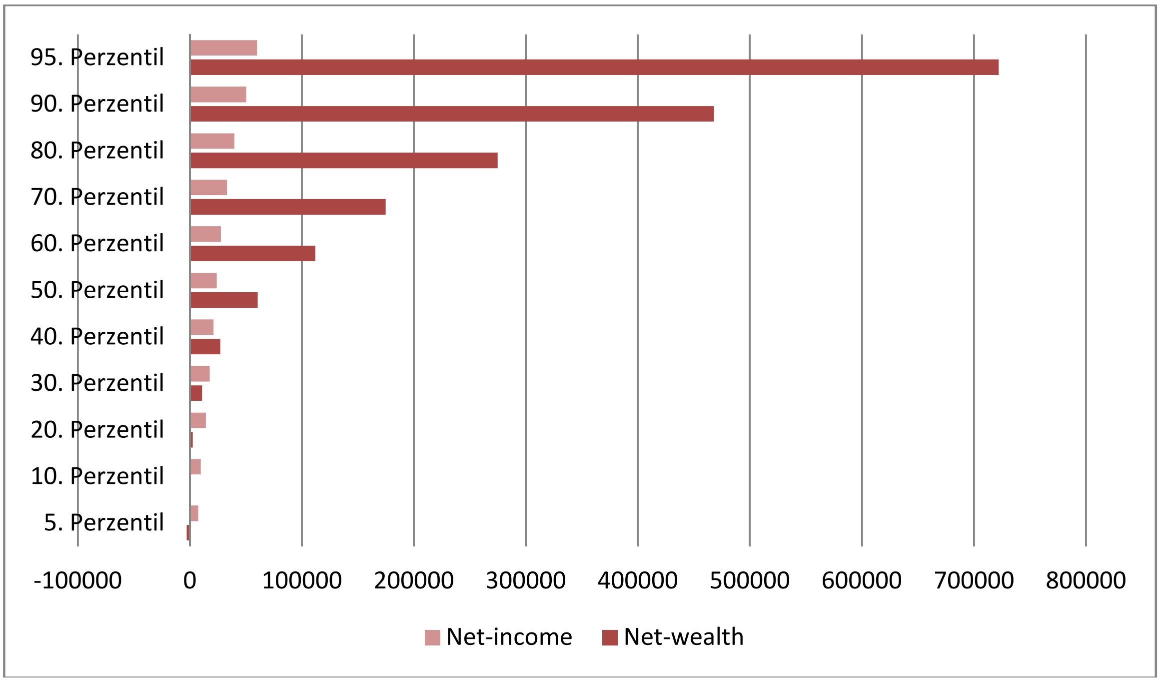


Source 11 (German Federal Central Bank, 2016a, p. 67)

[12] Niehues, J./ Schröder, Chr. Einkommens- und Vermögensverteilung: zwischen Wahrnehmung und Wirklichkeit. In: Wirtschaftsdienst 2014/10, pp. 700-703. Graphic from p. 702.

The disbalance between net-income and net wealth is also illustrated with the following graphic, one should also note the amount of "negative wealth" (debt) among the bottom 20%:

Graphic 15 Distribution of Net-wealth and Net-Income in Germany 2014



Source 12 (German Federal Central Bank, 2016a, p. 76)

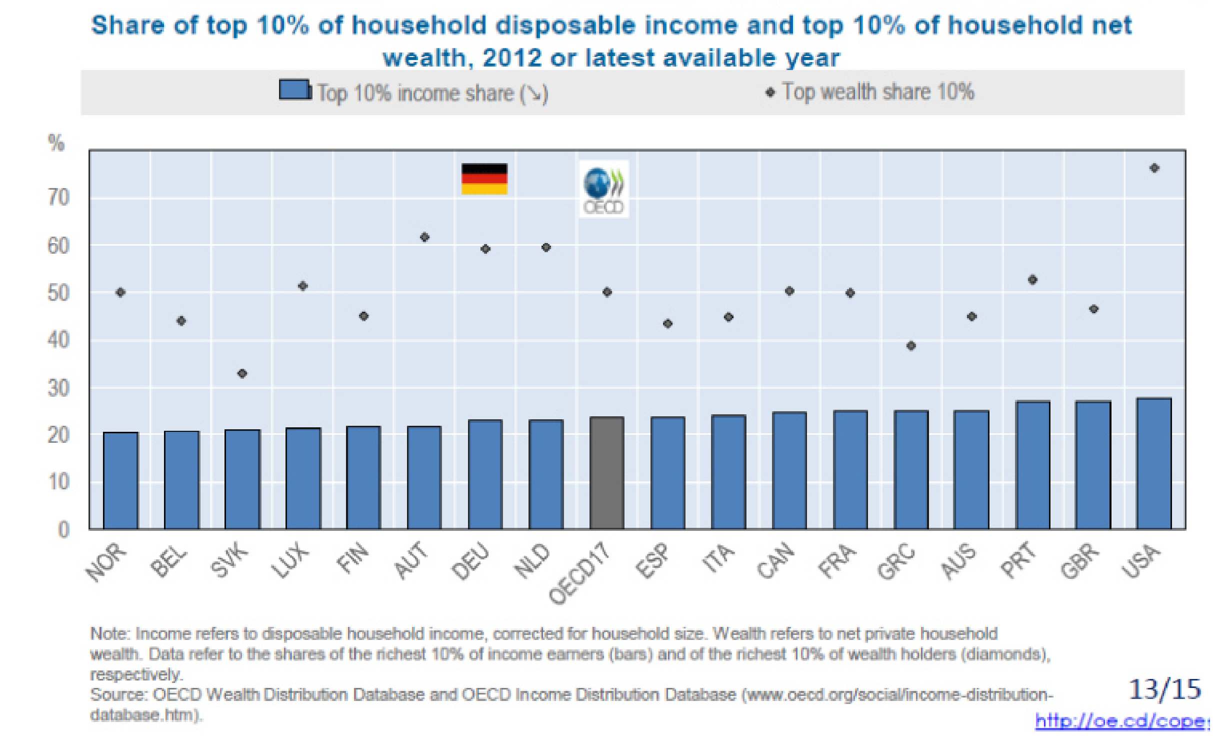
However: Even if the situation is not too alarming at the moment, researchers argue that it will be in the foreseeable future, especially due to non-standard employment and payment situations which will result in an increase of poverty among the retired old (Bach, 2016a). More on the concentration of wealth at the top will be treated in GW/I(Introduction)#

2.1.9 International Comparison

2.1.9.1 OECD data

There are numerous comparisons of income and wealth inequality around. For example by the OECD, drawn from their extensive Wealth and Income Distribution Database. The graphic illustrates that income inequality indeed is not too bad in Germany, as opposed to wealth inequality.

Graphic 16 Share of top 10% household disposable income and net wealth[13]



And, as OECD data shows: The income of the top 1% is also rising in Germany, even though the share of top 1% income in total pre-tax is already among the highest in OECD countries:

[13] Taken from p. 9 of Levy, Horatio: Income and wealth distribution in OECD countries. PPT presentation, privately obtained. Levy works at the OECD Social Policy Department.

Graphic 17 Growing share of total earning for top earners

Source 13 (Keely, 2015, p. 56)

At the same time, caution is recommended whenever comparisons are drawn, which shall be illustrated by commenting on one of the more extensive research done within the Eurozone-States:

2.1.9.2 Limits to international comparisons

As mentioned in 1.1, the assessment of wealth inequality differs in accordance with criteria and resources which a person selects to prove one's case. It is even more difficult if one compares wealth inequality which developed in different cultural and historic contexts.

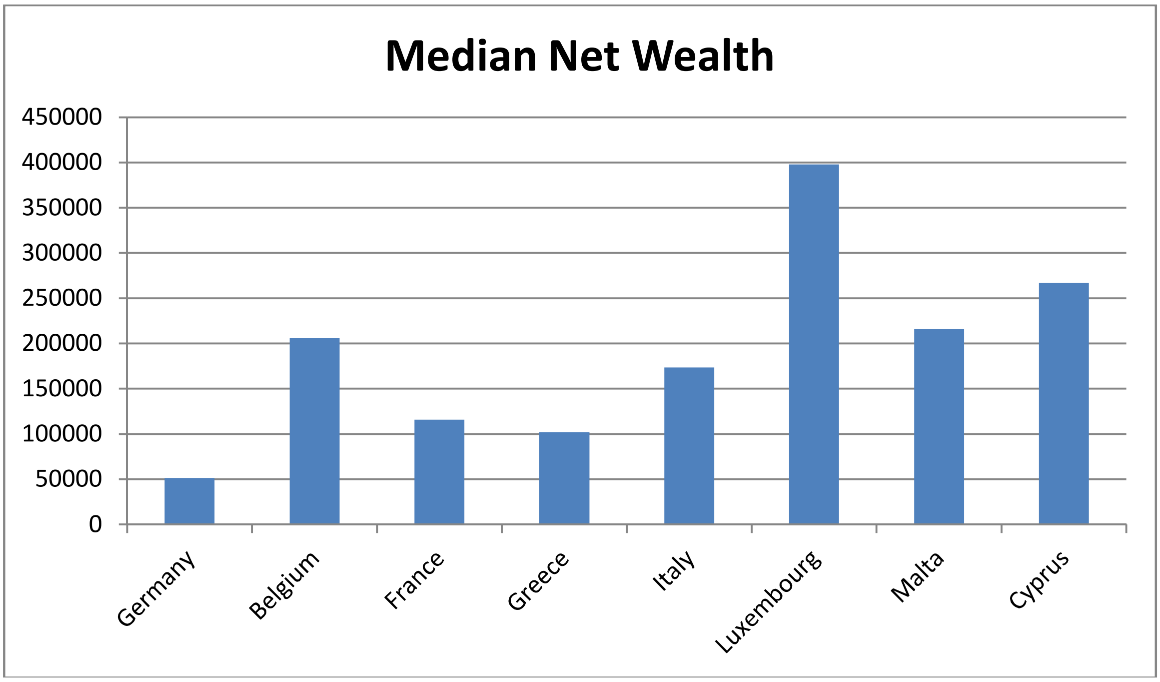
One major attempt to compare the situation of different states within the Euro Area was undertaken by the European Central Bank in 2013. In the aftermath of the Eurozone Crisis the need arose to compare the financial situation of households across the member states of the Euro Area. For this purpose, the "Household Finance and Consumption Survey" (HFCS) was launched: National central banks conducted a household survey based on comparable methods and data collection which was first evaluated on the national level, subsequently on the level of the Euro Area by staff of the European Central Bank. This survey focused upon three categories: "Financial Assets", "Real Assets" (especially real estate, houses, businesses, cars, jewellery...) and "Debt" in order to come to an overall assessment both of developments and current situation.

The report was published on 10 April 2013 and roused a lot of media and public interest in Germany for its perceived assertion that households in poor countries of the Eurozone are comparatively wealthier than those in rich countries of the Eurozone. It was only in the aftermath of a first wave of publication and quotation, that a more differentiated discussion of the findings followed, and the underlying assumptions (and therefore the conclusions) became clearer and better understood.

Most important are the implications arising also in this report from the distinction between median and medium net wealth (cf. 1.2):

According to the **median,** 50% of Cypriot households possess more, 50% of Cypriot households possess less than EUR 266,000 net wealth or – analogously – 50% of German households possess more, 50% of German Households possess less than EUR 51,400 net wealth:

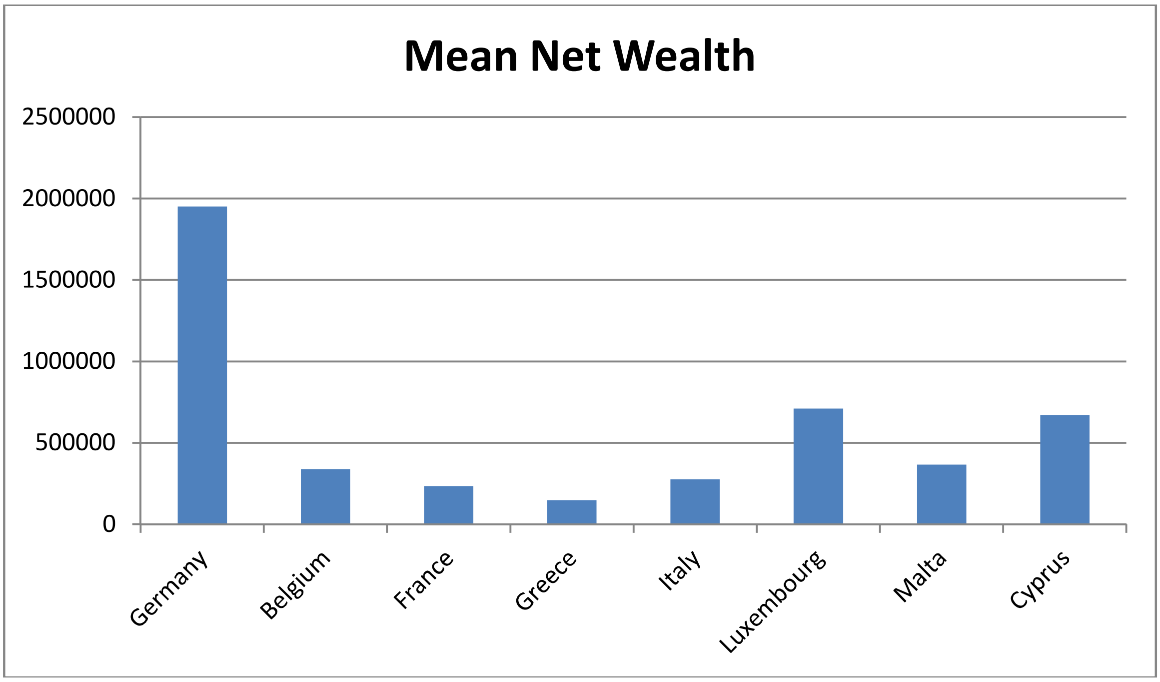
Graphic 18 Median wealth of households in selected EU countries, in Euro



Source 14 ECB Household Survey

In the case of **medium** net wealth, the figures are different – suddenly, and not surprisingly, German households were best off:

Graphic 19 Mean net wealth of households in selected EU countries, in Euro



Source 15 ECB Household Survey

Even though such a calculation brings Germany higher up in the ranking, it is still mysterious to understand why households in poor countries are seemingly so much better off than households in wealthy Germany. For this, the following explanations are given:

- The survey does not distinguish properly between resident nationals and non-nationals. For that reason Luxembourg, Cyprus and Malta with their big banking sectors and numerous non-national residents are far ahead of big territorial states such as Germany and France.
- In southern countries, ownership of real estate property and houses is more widespread than in northern countries, especially Germany, Austria and Switzerland, where many people rent their home.
- The survey did not itself assess property at market value, but asked property owners to assess their property themselves, which most likely led to over- and undervaluation.
- Differences arise from pension provisions, since private provisions in Greece enter the statistics, public-legal pension provisions as in Germany, do not.
- The household size matters in this kind of survey, i.e. larger families appear to be wealthier than single households which are a considerable entity in Germany.

It should be noted that even the authors of the Household Survey call to attention, ‘that the survey focuses on one particular type of wealth, i.e. wealth of private households. This is an important part but certainly not an encompassing indicator for the overall economic wealth of a country. Here, other types of wealth, like net positions of the corporate sector, the quality of the public infrastructure or net foreign asset positions, also have to be taken into account.’ (European Central Bank, 2013, p. 87).

An observation relevant to research comes from Paul de Grauwe and Yumei Ji[14], who conduct their own evaluation of the data and point to the fact that the

> comparison of the median and mean wealth reveals something about the distribution of wealth in each country. If the largest difference is between the mean and the median, the greater is the inequality in the distribution of wealth. It now appears that the difference is highest in Germany. … In Germany the mean household wealth is almost four times larger than the median. In most other countries this ratio is between 1.5 and 2. Thus household wealth in Germany is more concentrated in the richest households than in the other Eurozone countries. Put differently, there is a lot of household wealth in Germany but this is to be found mostly on the top of the wealth distribution.

De Grauwe and Ji come to the conclusion that 'Germany has the most unequal distribution of wealth in the Eurozone' – which are findings concurring both with Piketty and other surveys.

2.1.9.3 ECB findings regarding top wealth-holders

Eventually, new study was needed when it became apparent that the original "Household Finance and Consumption Survey" (HFCS) had a major deficit: Even though the share of wealthy households in this survey was higher than in other samples, it did not adequately cover the "Super Wealthy": the HFCS classifies wealthy households in three categories, namely wealth above EUR 500,000, above EUR 1 million and above EUR 2 million. Of the latter category, 85 households have been surveyed in the HFCS (p.11), two of which declared wealth above EUR 2 million, the wealthiest household declaring wealth of EUR 76 million. This, however, are "peanuts" for two reasons: There are 52 German billionaires on the Forbes ranking, whose "poorest" representative owns EUR 818 million, while the wealthiest German is thought to possess more than EUR 18 billion.

Table 5 The wealth gap between the HFCS sample and Forbes ranking

	Maximum wealth SCF/HFCS	Minimum wealth Forbes
US	806	737
Germany	76	818
France	153	810
Italy	26	893
Spain	409	780
Netherlands	5	958
Belgium	8	1920
Portugal	27	1110
Austria	22	1560
Finland	15	958

Source: own calculations based on Forbes World's Billionaires, SCF and HFCS. Maximum is over all five implicates.

Source 16 (Vermeulen, 2014, p. 14)

Consequently, the follow-up study conducted by Vermeulen tries to make up for those deficits by oversampling the wealthy, thus gaining a better insight into the extent and composition of wealth at the top tail of society. For Germany, however, there is the problem that no publicly accessible tax data is available which would assist and guide the selection –

[14] De Grauwe, P./Ji Y (2013, April 16) Are the Germans really poorer than Spaniards, Italians and Greeks? In: VoxEU. Retrieved from http://www.voxeu.org/article/are-germans-really-poorer-spaniards-italians-and-greeks

here he had to confine his work with information about the geographic distribution of taxable income (p. 9f.).

Doing the best he can do in correcting blind spots, Vermeulen concludes, that the wealthiest few control even more wealth than previously thought. The following table compares findings of the HFCS and of Vermeulen, regarding the wealth share of the top 1%:

Table 6 Wealth share held by the top 1% of society

Percentage wealth share of top 1 percent of households when tail is replaced by estimated Pareto distribution

		Pseudo max.likelihood			Regression method					
					excluding Forbes			including Forbes		
	data	$\geq$ 2M	$\geq$ 1M	$\geq$ 500T	$\geq$ 2M	$\geq$ 1M	$\geq$ 500T	$\geq$ 2M	$\geq$ 1M	$\geq$ 500T
USA	34	50	55	93	34	36	41	35	35	37
	1	4	5	3	1	1	1	0	0	0
Germany	24	30	31	26	26	28	27	32	33	33
	3	18	9	4	14	6	3	1	1	1
France	18	18	17	17	18	18	18	20	19	19
	2	2	1	1	2	1	1	1	1	1
Italy	14	15	16	16	15	16	16	21	21	20
	1	1	2	1	2	2	1	1	0	0
Spain	15	15	13	14	15	15	15	16	16	15
	1	3	1	1	1	1	1	1	1	1
Netherlands	9	9	8	9	7	9	10	12	17	17
	1	1	1	1	122	1	1	4	2	1
Belgium	12	14	17	16	14	16	17	17	17	17
	1	1	2	2	2	2	1	1	1	1
Austria	23	30	41	35	31	39	40	33	34	36
	7	19	35	31	23	36	21	4	6	8
Finland	12	13	12	13	13	13	13	15	14	13
	1	1	1	1	1	1	1	1	1	1
Portugal	21	26	19	22	42	24	24	26	26	25
	3	55	2	3	158	5	3	2	2	2

Notes: Mean estimate using all five implicates. Standard errors below mean estimate.

Source 17 (Vermeulen, 2014, p. 29)

Equally, Vermeulen finds, the share of wealth owned by the top 5% is higher than the estimate given by the HFCS: In Germany, the share would rise from 47% to 51-53%, the latter number being the wealth share for the top 10% in other surveys (cf. 2.1.7 and 2.1.8.).

Table 7Wealth share owned by the top 5% of society

Percentage wealth share of top 5 percent of households when tail is replaced by estimated Pareto distribution										
		Pseudo max.likelihood			Regression method					
					excluding Forbes			including Forbes		
	data	≥ 2M	≥ 1M	≥ 500T	≥ 2M	≥ 1M	≥ 500T	≥ 2M	≥ 1M	≥ 500T
USA	61	70	73	96	59	59	61	60	59	58
	1	3	3	2	1	1	1	1	1	1
Germany	46	50	50	47	47	48	47	51	52	53
	3	13	7	3	10	5	3	2	1	1
France	37	37	36	36	37	36	36	38	38	37
	1	1	1	1	2	1	1	1	1	1
Italy	32	33	33	34	33	33	34	37	38	38
	1	1	2	1	2	2	1	1	1	1
Spain	31	31	29	30	31	31	31	32	32	32
	1	2	1	1	1	1	1	1	1	1
Netherlands	26	26	26	26	25	26	26	28	32	35
	1	1	1	1	99	1	2	3	2	1
Belgium	31	32	34	34	32	33	34	34	34	34
	1	1	2	2	1	2	2	1	1	1
Austria	48	52	59	55	53	57	58	55	54	55
	8	14	25	21	17	25	16	5	6	7
Finland	31	31	30	31	31	31	31	32	32	31
	1	1	1	1	1	1	1	1	1	1
Portugal	41	45	39	41	56	43	42	44	45	44
	2	41	2	2	118	4	3	2	1	2

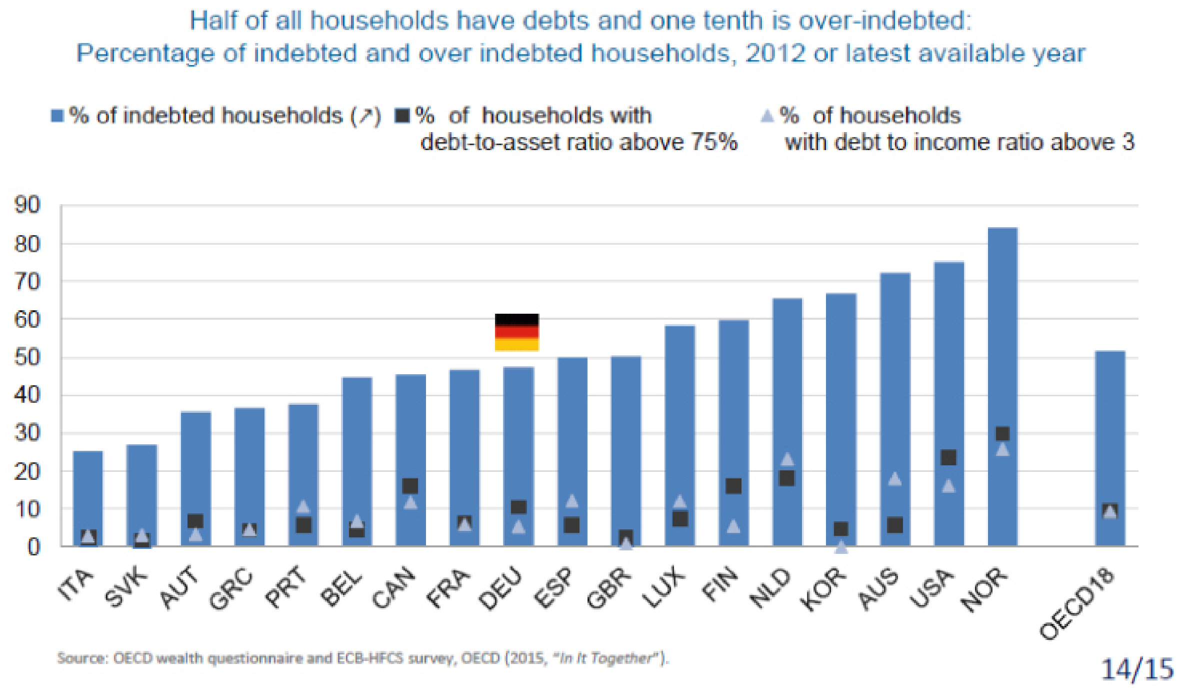
Notes: Mean estimate using all five implicates. Standard errors below mean estimate.

Source 18 (Vermeulen, 2014, p. 30)

2.1.10 Household debt

Another point which needs to be considered is the amount of debt and the development of debt for private households and the ability of households to cope with their debt. As has been demonstrated elsewhere, the development of income and wealth in some segments of the German population is negative, meaning, that there is a growing amount of debt which also threatens to eat up income. The situation in Germany is not as bad as elsewhere:

Graphic 20 Private household debt[15]

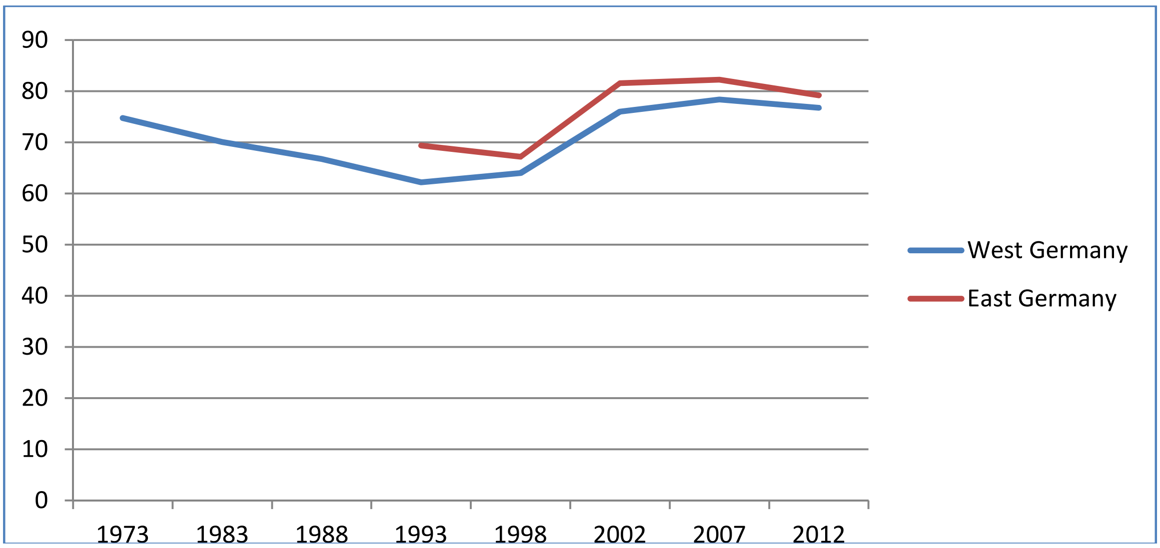


At the same time, it is getting an increasingly serious problem and needs to be considered alongside with other developments.

2.1.11 Regional differences

When talking about inequality in Germany, one needs to start with the diverging situation between the western and eastern parts. Assessing the development of inequality and wealth in Germany is complicated by the fact that Germany consisted of two very different countries, with different social, economical and political systems until 1992 and, due to unification, also statistical methods changed. Taking all this into account and using the Gini coefficient as yardstick, the development of wealth inequality is as follows:

Graphic 21 Wealth inequality in West and East Germany 1973-2012



[15] Taken from p. 9 of Levy, Horatio: Income and wealth distribution in OECD countries. PPT presentation, privately obtained. Levy works at the OECD Social Policy Department.

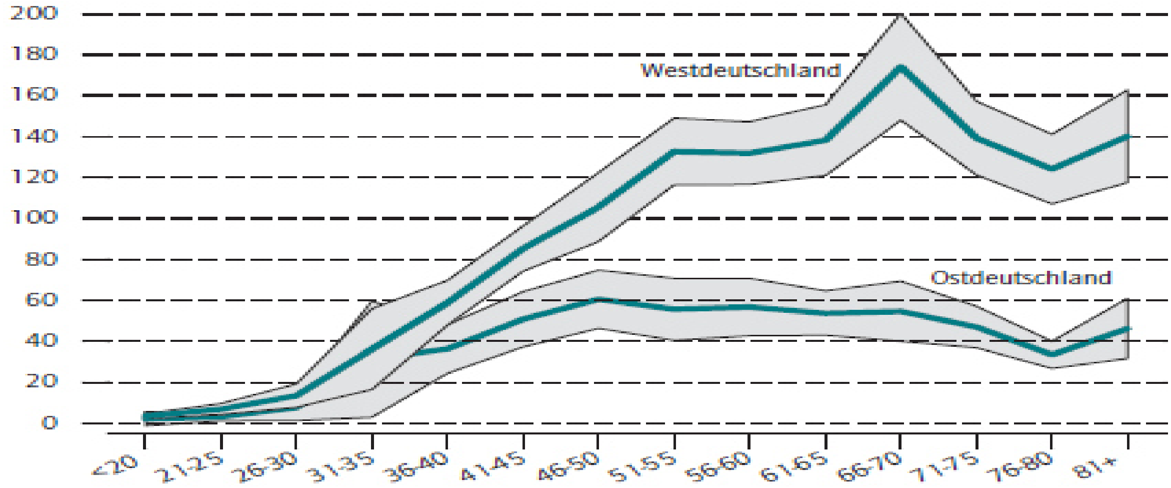
Source 19 (Hauser, 2003) (Grabka & Westermeier, 2014)

Three interesting observations can be made:

1. Until unification, in West Germany wealth inequality was sinking, i.e. the society became less unequal.
2. Inequality started rising considerably after unification in 1992, parallel to the worldwide and national implementation of neoliberal economics.
3. Inequality, up to the present day, is much larger in East Germany than it is in West Germany.

So far, nothing has succeeded to counterbalance this divide. Looking at the spread of wealth over a lifetime, it does still make a difference whether a person lives and works in the western or the eastern part:

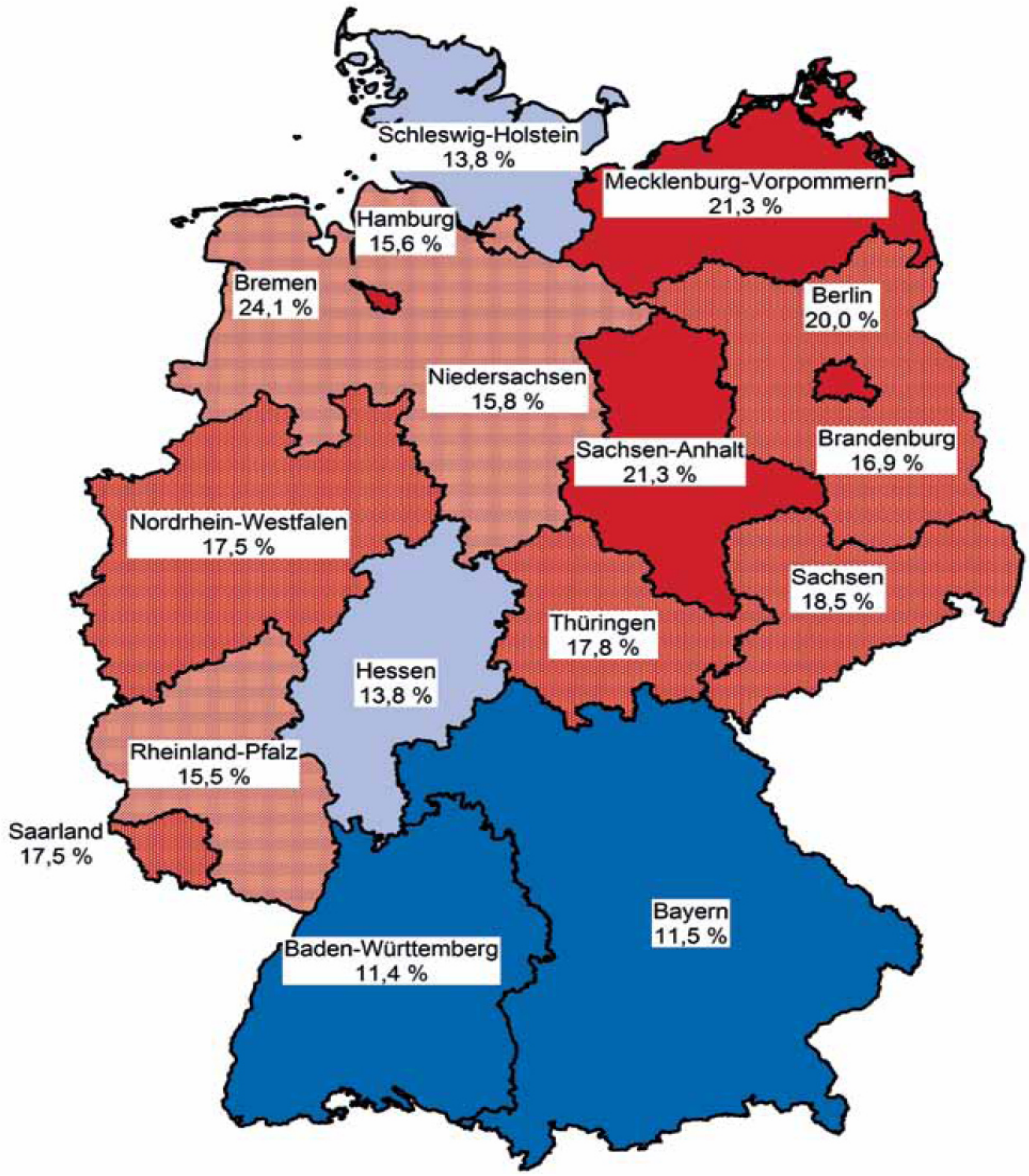
Graphic 22 Net wealth per individual in 2012, depending on age and place of residence, in EUR 1,000



Source 20 (Grabka & Westermeier, 2014, p. 160)

Regarding inequality, however, there is also a north-south divide. A recurrent updated overview is contained in the Poverty Report of the Welfare Organizations:

Graphic 23 Regional differences in the intensity of poverty



Source 21 (Paritätischer Wohlfahrtsverband, 2016a, p. 15)

Due to historic developments and changes in economic cycles and due to the federal makeup of Germany, southern states are generally much more prosperous than other parts of Germany (cf. 2.5.).

2.1.12 Conclusion

Wealth gap in Germany one of the largest worldwide and within the Euro Area. International comparison difficult because of the inclusion or non-inclusion of assets, for Germany most importantly old age provisions or generally the question of self-used owned or rented real property. This, however, would change the international comparison and international ranking. It does not afflict the domestic situation and the extent of the domestic wealth gap.

2.2 The Wealth Gap in Bavaria

Given the federal makeup of Germany, the considerable scope states have in regulating their economic and fiscal framework and the impact those policies might have on income and wealth distribution: it is important to pay attention to the situation of those states as well and, accordingly, to municipalities located within those states. For that reason, this research project focuses on Bavaria and Nuremberg.

Bavaria is, together with Baden-Wuerttemberg, one of the two southernmost of Germany's 16 *Bundesländer*. It is one of the largest German states both in terms of covered territory (70,551 km^2) and population (about 12,500,000), tendency rising. At the same time, Bavaria and Baden-Wuerttemberg are the most prosperous and wealthy German states.

2.2.1 Reporting and analysis up to 2010

Similar to the federal government, also the Bavarian government has a reporting on poverty and wealth. The government's Second Report Concerning Social Conditions (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2009), based upon data starting from 2001 up to 2005/2006/2007, reflects the self-awareness of being a prosperous state. It starts with the statement 'Bavaria is, in national and international comparison, a very wealthy state' (p. 10). Income, employment situation, risk of poverty: All is very well and with the payment of social transfers the poverty risk quota is lowered from 21.3% (before payment of transfers) to 10.9% (after payment) which is very satisfactory (pp. 12f.+111).

And yet, this report also admits that there are problems in Bavaria: For example a growing low-wage sector, increasing poverty risk in families with children and among the elderly (pp. 13f.+134ff.). Churches, welfare organisations and trade unions add that there are wide differences among the regions within Bavaria (e.g. that there is a divide between the poorer north and the wealthy south) and that there are problems in the educational sector. With that, the situation of German states within the federal republic is mirrored by the situation of the districts within Bavaria.

Following the publication of this 2009 report, a commission was formed between the Bavarian Government and civil society actors (individuals, churches, NGOs...) in order to think about ways and means to create and achieve a more socially just Bavaria and more comparable, if not equal, life conditions in the country. After concluding its work, the commission handed over the report 2010 to the Prime Minister for further consideration.

2.2.2 Third report on social conditions 2012

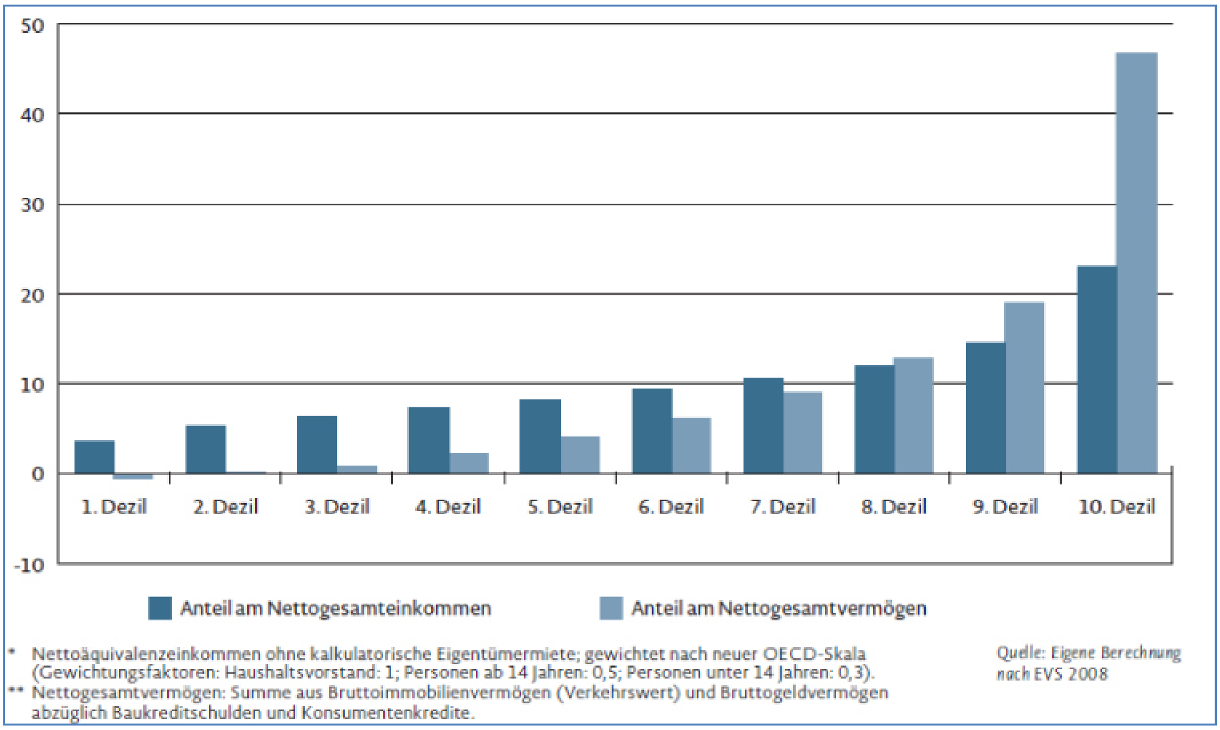
Just ahead of the parliamentary summer break 2012, the Bavarian government published its Third Report Concerning Social Conditions (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2012) and was immediately surrounded by criticism: Welfare Organisations doubted that the Minister in charge was able to include all data provided by civil society in the 2010 Commission Report properly. Additional anger was raised by the fact that the imminent summer break made a careful reception and public discussion impossible.

The report itself starts once more with a statement of self-confidence, though more subdued than in the Second Report. Now it says only: 'Bavaria is a socially and economically successful state', but it does not abandon its claim to be at the forefront of not just Germany, but Europe: 'In 2010, mean wealth in Bavaria was about 7% higher than in Germany. … Bavaria held the eighth place in Europe (behind Norway, Luxemburg, Switzerland, Denmark, Finland, Austria and Netherlands; Germany ranked 12th).' (p. 24).

In chapter 2 the report goes into details regarding developments in income, wealth, poverty and debt, based upon macroeconomic aggregates from the National Income and Expenditure Statistics (VGR) and samples taken in the Microcensus and the Income and Consumption Sample (*Einkommens- und Verbrauchsstichprobe, EVS*).

The data base of the Third Report includes developments of the World Financial and Economic Crisis and states a “dip” in income and wealth in the course and aftermath of the crisis, but also a quick recovery – at least for some: While the share of income from dependent labour at the national income is decreasing, income from companies and private wealth was seen to be “over proportionally on the increase” in 2010. Equally, the prognosis is that income from dependent labour will increase nominally by 10% (facing an increase in prices of 5.4%) from 2009 to 2012, while income from wealth will increase by 13% (p. 193f.). The following graphics demonstrates the different shares in income and wealth in Bavaria:

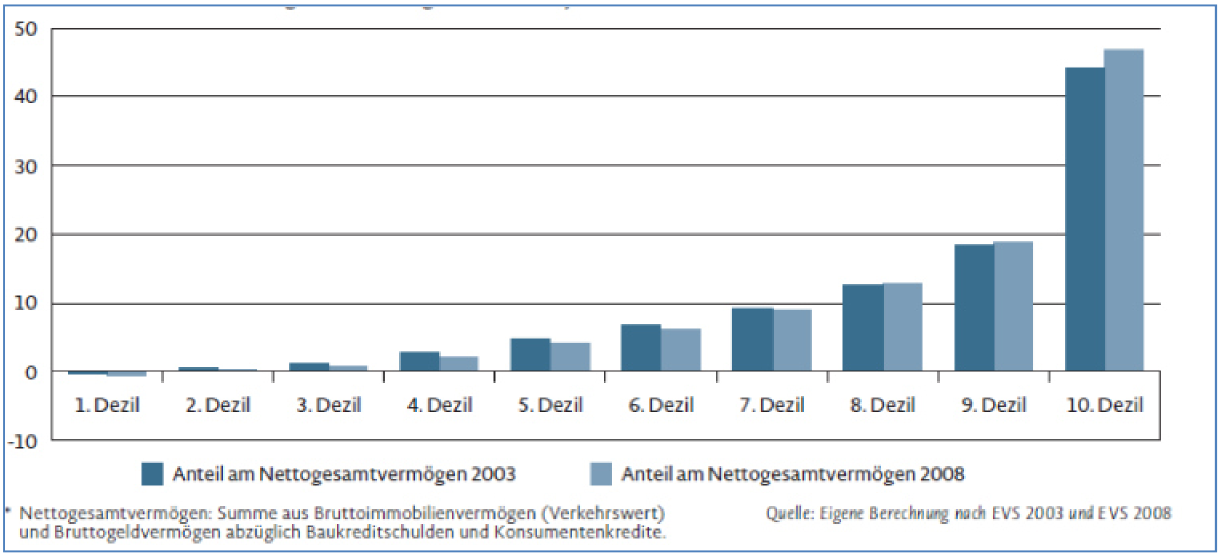
Graphic 24 Different shares in income and wealth in Bavaria in 2008



Source 22 (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2012, p. 212)

The next graphic illustrates the distribution of wealth in Bavaria 2003-2008:

Graphic 25 Development of distribution of wealth in Bavaria 2003-2008



Source 23 (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2012, p. 213)

The government sees the poverty risk quota for Bavaria in 2010 at 10.8%, compared with 13.3% for West Germany and 14.5% for Germany as a whole. From the government's point of view, major groups at risk of poverty are

- Women with a poverty risk quota of 14.9% (West Germany: 15.5%)
- Young people between 15 and 25 years: 18.2% (22%)
- Senior Citizens above 65 years: 19% (14.4%)
- Single households: 23.5% (23.3%)
- Single parents with child: 39% (40.5%)
- Parents with several children: 19.6% (24.9%)

The government sees persisting differences regarding the regional distribution of poverty. The likelihood to live in poverty is largest in the region of Upper Bavaria (15%, which is, at the same time, Bavaria's most prosperous district!) and lowest in Swabia (11.9%), it is larger in urban than in rural areas with Munich (one of Germany's wealthiest cities!) leading the list with 16%, followed by Middle Franconia (Nuremberg) with 15.2% (p. 208f.)

Regarding debts of private households, the report publishes the following for Bavaria, Baden-Wuerttemberg, North Rhine-Westphalia and Germany as a whole:

Table 8 Household debt quota in selected states and Germany

	2008	2009	2010	2011
BY	7,3	6,7	7,1	6,9
D	10,1	9,1	9,5	9,4
BW	7,7	7,1	7,5	7,5
NRW	11,7	10,4	10,9	10,8

* Abweichung in Prozentpunkten. Quelle: Creditreform 2011

Source 24 (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2012, p. 226)

2.2.3 An NGOs point of view

Dr. Thomas Beyer is head of the AWO welfare organization and in his paper "Arm in einem reichen Land" he tries to keep a continually updated overview about poverty in

Bavaria, partly commenting on the states reporting, partly introducing own facts and figures. According to him in the latest version (Beyer, 2015), poverty in Bavaria has the following indicators:

While the Third report on social conditions reports poverty risk quota for various groups within the range of 10-39%, he finds in the data material provided by the ministry groups whose poverty risk is much higher (p.11):

- Divorced: 24.7%
- Separated: 25.1%
- Pensioners: 26.1%
- Unemployed: 68%
- Persons with migration background: 23.3%
- Persons without accomplished training: 35.5%
- Households living from wage of a part-time employed: 30.4%
- Households supported with ALG I: 46%
- Households supported with ALG II: 82.2%[16]

While private households in Bavaria are admittedly less indebted than households in other German states, Beyer emphasizes that the average of 7.12% is nevertheless worryingly high indeed (p.12).

Mr. Beyer agrees with the ministry, the children, youths, one-parent families and old age citizens belong to the prime victims of poverty.

A special chapter is devoted to those persons who are (part time and/or precariously) employed, and yet in need of public support: Even though their number in Bavaria is comparatively low (87,067). The share of those employed in “atypical employment” rose from 24% (2000) to 36% (2013) – needless to say that a large share among those are female. Support of those persons cost Bavaria in 2010 EUR 300 million (pp.16ff).

Mr. Beyer criticizes the lack of affordable houses and flats in Bavaria, the increasing share of rent in the expenditures of ordinary household budgets and the decrease of publicly sponsored building programs (p. 30ff.)

All this, he concludes, on the background of a rapidly opening wealth gap which is, after all, also admitted by the Ministrys report. He points out that the wealth gap would grow even more if business assets would be included in the Ministry’s dataset, which is not the case in the EVS sample (p. 35).

2.2.3.1 Who is “wealthy”? Examples from Bavaria

It has already been mentioned above that it is a problem how to measure wealth and to distinguish it from income. Problems associated with that shall be illustrated in the case of Bavaria.

The first approach is merely looking at the amount of income. In the comprehensive Third Report on Social Conditions, the Bavarian government lists two approaches commonly

[16] ALG stands for Arbeitslosengeld, i.e. unemployment benefit. While ALG I are payments from unemployment insurance funded from SSCs, ALG II is state support for longer term unemployed, funded from taxpayers money. See https://www.bbx.de/arbeitslosengeld-und-ii-wo-liegt-der-unterschied/

applied to solve the problem (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2012, p. 218+220):

- According to some, wealth starts at 200% and more of the median equivalised disposable income (*Nettoäquivalenzeinkommen*). Here, being "wealthy" would start at the median income of EUR 2,972 per month already, which would mean that 7.9% of all Bavarian households qualify to be wealthy.
- Others call those wealthy whose annual income is above EUR 1 million. Here, of course, the number is lower, but, at the same time, rising fast: Were there 2,050 of those in 2004, the number rose up to 3,472 in 2007, an increase of 71%. In this category, regional differences are more striking than in the first category: The governmental district of Upper Bavaria ranks first, the governmental district of Swabia ranks last.

Even more telling it is, if one does not take median income, but median household wealth as yardstick, i.e. arguing, that being wealthy starts with or beyond 200% of the median household wealth. In this case, wealth would start at household wealth of EUR 138,536 and a staggering 38.5% of all Bavarian households would qualify as wealthy.

This illustrates that numbers alone do not tell a lot, since the top 10 percent, which in common view are considered to be wealthy, have an average wealth of EUR 465,950 or above in Bavaria (West Germany: EUR 385,116). Among those top households, a large percentage of households are headed by self-employed (25%) and farmers (32%) – the latter because of the value of real estate.

At the same time one has to be mindful, that wealth, for example in the form of some real property, does not mean good living: In principle, 93.4% of all Bavarian households own some form of financial wealth or real property, 86% of all households even own net wealth (p. 211). But: a farmer may be a landowner (wealth) and still earn little, since market prices for the fruits of his labour may be low and, if he was willing to stop farming and sell his land, it might not be possible to transfer land into liquid income easily. Equally, a family may own a house (wealth) and yet have little income due to the obligation of repaying a mortgage (p. 214ff.).

Alarming is the following statistics which explains how (much of) money earned as income is spent on what items: Households of the first decile have to spend 84.7% on their living and 47.5% on participation in social life. This, of course, is more than 100% of income which is why they have to turn to savings; consequentially, the column titled "wealth creation" shows a negative of 23.5%. This, of course, inevitably leads into household debt at some stage. Very different is the situation in the top decile: They spend a merely fifth upon their living and can spend 16.1% of their income on wealth creation and savings (p. 222f.):

Table 9 Spending of income (in Euro and percent of net income) on basic needs, social participation, savings, others

	Haushaltsnetto-einkommen*	Ausgaben**			
		Lebens-unterhalt	Soziale Teilhabe	Geld-vermögens-bildung	Sonstiges
Insgesamt	2.672	34,3	34,7	7,2	23,8

Einkommensposition des HH (Nettoäquivalenzeinkommen***)**					
1. Dezil	729	84,7	47,5	−23,5	−8,8
2. Dezil	1.219	59,4	33,9	−1,3	8,1
3. Dezil	1.640	48,8	39,4	−6,5	18,4
4. Dezil	1.987	43,6	37,8	4,1	14,5
5. Dezil	2.277	41,8	35,8	3,8	18,5
6. Dezil	2.465	36,1	37,0	4,3	22,6
7. Dezil	2.852	33,5	35,7	2,6	28,3
8. Dezil	3.297	31,2	34,5	9,5	24,8
9. Dezil	4.029	27,0	37,1	13,4	22,4
10. Dezil	6.221	20,2	28,0	16,1	35,7

* Ohne kalkulatorische Eigentümermiete.

Quelle: Eigene Berechnung nach EVS 2008

** Ausgabenart Lebensunterhalt: Ausgaben für Wohnen (Miete einschl. Nebenkosten, Energie und Warmwasser), Nahrungsmittel (einschl. Getränke und Tabakwaren), Gesundheitspflege (direkte Kosten ohne Versicherungsbeiträge), Bekleidung und Schuhe
Ausgabenart soziale Teilhabe: Verkehr, Nachrichtenübermittlung, Freizeit, Kultur und Unterhaltung, Bildungswesen, Beherbergungs- und Gaststättenwesen, sonst. Konsumausgaben.
Ausgabenart Geldvermögensbildung: Einzahlungen auf Bausparverträge und sonstige Anlagen, Kauf von Aktien, Rentenwerten, Fonds und sonst. Wertpapieren, Beiträge für Lebens-, Ausbildungs-, Aussteuer- und Sterbegeldversicherungen, Verleihen von Geld an Privatpersonen, Restzahlungen aller Art abzgl. Einnahmen aus der Auflösung von Geldvermögen.

*** Zwei Erwachsene sind immer eine Paargemeinschaft.

**** Kinder unter 18 Jahren.

***** Ohne kalkulatorische Eigentümermiete; gewichtet nach neuer OECD-Skala (Gewichtungsfaktoren: Haushaltsvorstand: 1; Personen ab 14 Jahren: 0,5; Personen unter 14 Jahren: 0,3).

Source 25 (Bayerisches Staatsministerium für Arbeit und Sozialordnung, 2012, p. 223)

An updated dataset in the year 2014 (Bayerisches Staatsministerium für Arbeit und Sozialordnung , 2015), drawing from a new sample of EVS data from the year 2013, confirms several findings of the 2012 Report on Social Conditions. Both medium and median wealth in Bavaria is on the increase, mainly due to the increase of value in the area of real property, also the concentration of wealth among the top decile households. The ministry admits, however, the shortcomings of the EVS sample regarding the income and wealth situation at the top of society, it further needs to be borne in mind that the wealth gap would be even larger if business assets were included in the EVS sampling.

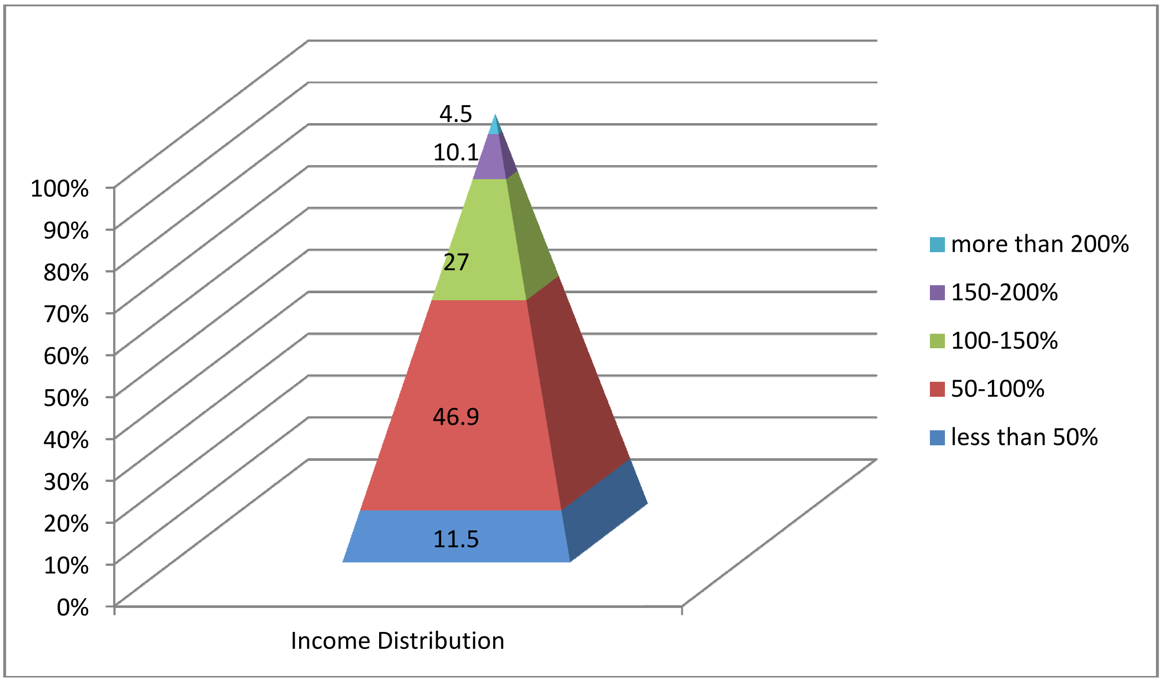
2.3 The Wealth Gap in Nuremberg

Nuremberg conducted a study into income, wealth and poverty building upon comprehensive data analyses in the years 2001-2003. Two volumes were published: Volume 1 taking stock of the situation and social structure of wealth and poverty in 2004, Volume 2 about dynamics of poverty and wealth and the efficiency of transfer-based policies for prevention and reduction of poverty in 2006. Given the age of data and the research focus, only some indicators from the summary given in Volume 1 shall be presented here:[17]

Also in Nuremberg, the equivalised disposable income serves for the assessment of wealth and poverty, modified in accordance with the size of a household. The median net-equivalence income in 2001 (!) was EUR 1,225 for a single household. As “poor” a household is categorized which has a monthly income of lower than 50% of this value, as “wealthy” a household is categorized whose monthly income is beyond 200% of this value. According to this definition, the distribution of wealth and poverty in Nuremberg is as follows:

[17] Stadt Nürnberg, Referat für Jugend, Familie und Soziales (Hrsg.) (2004, January) Sozialbericht der Stadt Nürnberg. Band 1: Die soziale Lage in Nürnberg – Struktur und Entwicklung der Armut, pp. 6-8

Graphic 26 Income distribution in Nuremberg 2001



Compared to previous years (1997-2001), there were no changes in the top segment (more than 200%), but increases in the second highest segment (150-200%) and in the lowest segment (less than 50%). Worrying for the municipality is the increase in households close to poverty (i.e. 60% of equivalised disposable income), which increased from 17.5 to 22.3 during the same period. Beyond that, the following is stated:

- The larger the household, especially if there are children younger than 18, the higher the risk of poverty.
- Poverty among households of non-Germans is twice as high (17%) as among German households (8.2%).
- This poverty is reflected by housing: While households of Germans have on average 82 m^2, the average size for non-Germans is 69 m^2.
- Poverty rate among households of unemployed is 35%.
- The poverty quota is higher than the social benefit quota, which is guessed to be due to the fact that some among the poor are too ashamed to collect benefits.
- In the Bavarian context, the situation is worse in Nuremberg than elsewhere as far as the situation of long-term employment is concerned.

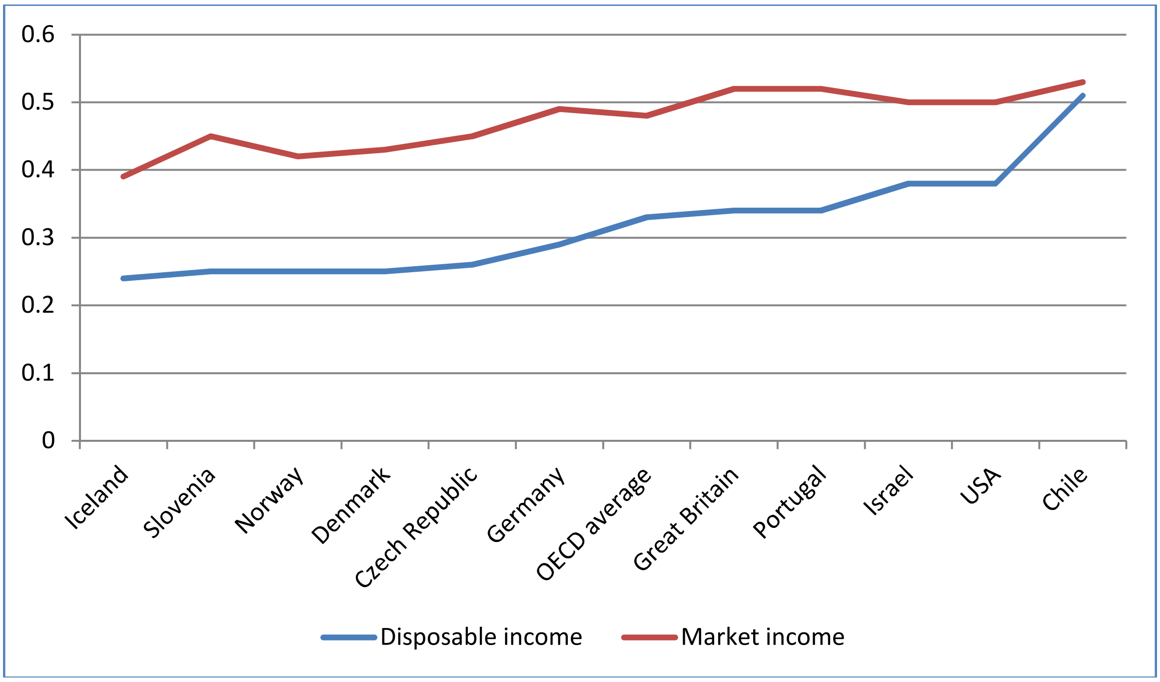
The report sees a link between poverty and health risks and a link between poverty and education. At the same time, the chance for getting education in Nuremberg is assessed to be "comparatively poor".

2.4 Wealth gap, inequality and redistribution

In Germany, the system of taxation and mandatory social security contributions is the basis for an elaborated system of redistribution whose goal is to lower inequality. The redistributive effect of taxation and transfers is remarkable. In 2011, and based upon data related to the report "Divided we stand", the Gini coefficient in Germany based upon market income (before taxes and transfers) lies at 0.49, whereas the Gini coefficient based upon disposable income (after taxes and transfers) goes down to 0.29. The share of population with an income of less than 50% of the national median income before taxes and transfers is 32%, the share after taxes and transfers is 9%.

The following graphic is based on the latest data available in the 2014 Economic Survey. It gives the position of the bottom and top OECD states as well as of Germany and the OECD average, demonstrating, that Germany holds a middle place towards the better end.

Graphic 27 Effect of net taxes and transfers on income inequality, GINI coefficient (2010/2011)



Source 26 (OECD, 2014a, p. 88)

However, and looking at the long-term trend, the OECD research also indicates that while inequality is on the increase, the redistribution effect via tax and benefits transfer has decreased. 'The German tax-benefit system reduced inequality by 29% in 2008 – down from 33% in 2000. While this reduction is still higher than in most OECD countries, this was not enough to compensate for the growing gap between rich and poor. Compared with other OECD countries, Germans experienced a greater increase of the gap between work and out-of-work income, particularly for the long-term unemployed. In 1995, out-of-work income for long-term unemployed with unemployment insurance coverage was 75% of their former take-home pay. By 2005 this had fallen to 65%' (OECD, 2011b).

A more recent examination of the distributive effect comes along with the third large report on inequality within OECD states (OECD, 2015a). The German county notes associated with it admit that the share of jobless households might be much lower than in other OECD countries, but 'the impact of taxes and transfers in alleviating poverty among these households is weaker' (OECD, 2015b).

Findings of the OECD, which are based on government data, are confirmed by research of the DIW in two main points: First, redistribution still contributes considerably to lower inequality, but second, the redistribution effect is decreasing (Bach, 2014a), (Bach, 2016a).

This is spelled out in a study comparing data from 1998 to 2008 with extending findings before and after up to 2015: In 2008, the Gini is 0.52 for market income and 0.33

after transfers for Net Equivalence income. However: The Gini is growing to 0.36 in 2015 which indicates a decreasing effect of redistribution. (Bach, Beznoska, & Steiner, 2016, p. 92). Relief due to tax reforms are larger at the top than the bottom, one reason being the shift of tax burden from direct to indirect taxation (ibid: 93).

2.5 The Financial Equalization Scheme

Germany has a complicated solidarity mechanism, the Financial (or Fiscal) Equalization Mechanism (*Länderfinanzausgleich*), whose task is to level out inequalities between the 16 states by a system of redistributing tax revenue between the more affluent and needier states and to facilitate the creation and maintenance of "comparable living conditions" (Art. 72 GG) all over Germany. This mechanism has two (main) levels: The equalization scheme between the federation and the 16 states (the federation supporting weaker states) and the equalization mechanism between the states themselves – the latter being the most contested one, where the wealthy *Länder* transfer funds to the poorer German states. It is very complex and is presented and discussed elsewhere, e.g. with (Bönke, Jochimsen, & et.al., 2013). But basically you might imagine a big pot into which the 16 state tax authorities pour revenue taken from those taxes which are jointly collected for the federation and the *Länder*: Wage Tax, Corporation Tax and Turnover tax. This amount then is partitioned and shared among the states according to a set of different criteria.

More precisely, this redistribution involves three levels: The first involves redistribution of Turnover Tax between the 16 states. The second is the more decisive one, namely the redistribution between 4 giving and 12 receiving states. The third level involves an amount contribute by the Federation and shared among the 16 states.

Within this mechanism, Bavaria is one out of just 4 net-donor states, while the other 12 *Länder* are at the receiving end. Even worse: Bavaria is paying the lions share into this mechanism, namely in 2015 EUR 5.4 Billion out of EUR 9.6 Billion.[18] On that background, Bavaria is no longer prepared to do that without substantial changes to the mechanism. For that reason, Bavaria launched a complaint against this mechanism with the Federal Constitutional Court in 2013.

This distribution of roles among German states has not always been the case: Earlier in German history, other states were more affluent and Bavaria belonged to the needy states: in those days, agriculture dominated and the extent of industrialization was not comparable to – say – North Rhine-Westphalia.

2.6 Hidden poverty of Germans and Non-Germans

A difficult question is that between "registered" poverty and hidden poverty. It is known that there are many people in Germany who are ashamed or too proud or unknowing regarding options of social welfare support. Obviously, it is difficult to assess the number of people falling into this category. In one of the rare occasions, the Institut für Arbeitsmarkt und Berufsforschung puts the number at somewhere between 3.1 and 4.9 million.[19]

[18] Bayern bleibt auch 2015Geberland Nummer 1. (2016, March, 21). In: Der Focus. Retrieved from http://www.focus.de/finanzen/steuern/laenderfinanzausgleich-rekordsumme-im-topf-bayern-bleibt-auch-2015-geberland-nummer-eins_id_5373323.html

[19] Eubel, C. (2013, July 1) Mehr als jeder Dritte verzichtet auf Hartz IV. In: Der Tagesspiegel. Retrieved from http://www.tagesspiegel.de/politik/verdeckte-armut-in-deutschland-mehr-als-jeder-dritte-verzichtet-auf-hartz-iv-/8427514.html

This question is even more important when looking at the relationship between Germans and Non-Germans. This question was discussed especially in the wake of massive influx of refugees beginning late summer 2015. It is feared by researcher that in the middle run two things will happen: The Poverty Risk Quota will increase as will “absolute poverty”, and non-Germans will be harder hit than Germans so that poverty will increasingly get an “ethnic face”. Here current discussion regarding the punishment of those non-Germans who are unwilling to integrate (even though they may be unable to do so), fuels this suspicion. Against those dangers, experts call for a higher taxation of private and corporate wealth in order to advance good and effective integration measures so that refugees, once they are leaving their provisional camps, have a realistic chance on the employment market.[20]

The preceding necessitates two comments:

First regarding the expression “absolute” poverty, understood in the sense of openly visible poverty: this may admittedly not be as visible in Germany as in a Third World Metropolis. And yet it exists in Germany, but “underground” beyond any statistics: Experts point to the fact that a number of poor people in Germany might be larger than assumed since they are not even showing up in statistics for two reasons:

- Because a large number of poor people are unaware of how they could obtain social welfare support for themselves or their families. Or, if they do know, they are too ashamed to apply for it. Or, if they do know, they are unwilling to do so, as it is often in the case of homeless or drug addicts.[21]
- Because non-German poor are too afraid to show up, which applies mostly to the considerable, but unknown, number of migrants without legal status.

As to the latter, own research into the situation of undocumented migrants opened insights into a hidden world of abject poverty, where thousands of people survive by being a burden upon private and social networks, by begging or petty theft (Alt, 2003).

A second issue reminds of the question of how poverty is measured. Whenever Germany discusses poverty, it normally refers to material measurements, e.g. the question of low income or the kind of financial or in-kind transfers. For this research, however, A. Sens capability approach is guideline, measuring a person’s ability to unfold his or her capabilities to cope in life. Here, the situation in Germany is certainly not rosy because it is experience of welfare organisations that social welfare support for many is perhaps adequate for survival, but not adequate in enabling capability development. This applies, most importantly, to those already recognized to be poverty risk groups, e.g. senior citizens, long time unemployed, single parents or families with children.

2.7 Income mobility, Social mobility

In I/IV/4.5 it has been said that the socio-economic developments over recent years were paralleled by a declining social and economic mobility. What about the individual’s possibility to free him/herself from poverty and attain a better social status in Germany? Research suggests that during the past decades social mobility between income groups

[20] “Absolute Armut” is used in relation to more obvious forms of “Third World Poverty”. See Butterwegge, Chr. (2016, February 10) Die absolute Armut nimmt zu. In: FR Online. Retrieved from http://www.fr-online.de/gastbeitraege/sozialpolitik-die-absolute-armut-nimmt-zu,29976308,33758718.html

[21] The knowledge of those problems is widespread and old, but it does not really influence current debates. See, for example, Herz. W (1995, January 6) Versagt der Sozialstaat? In: Die Zeit. Retrieved from http://www.zeit.de/1995/02/Versagt_der_Sozialstaat_

decreased and the chance to escape the poverty risk decreased to less than 50% (Bach, 2014a, p. 695).

Most relevant here are findings of the 2015 OECD report into inequality, saying, that there is a strong link between unemployment/badly paid jobs/low income on the one side, and the chance to get the best out of education on the other. As it seems: In Germany there is a trap for those being born at the lower end of society, while those born in better-off families are better placed also for moving up the income scale: ‘Low-educated persons in Germany own 60% less than those with upper/postsecondary education, while persons with a tertiary degree own 120% more. This is the widest gap after that recorded in the United States.’ (OECD, 2015b). That way, income and social mobility influence each other.

This is confirmed by research by a study conducted by the Wirtschafts- und Sozialwissenschaftliches Institut of the Hans Böckler Stiftung, based on SOEP data: Research suggests that there is a growing and “solidifying” tendency on both the top and bottom tail of society and, regarding the middle class, downwards tendency surpass upwards tendencies. In addition they state that income mobility decreased, i.e. that it is possible to move from a lower income into a segment of higher income. The mobility was measured by using the Pearsall-Correlation-Coefficient and demonstrates that income-mobility decreased from 0.73 in 1983/84 to 0.85 in 2012.

In the 1980s, and measured over a period of 8 years, only 11.53% of all those being poor remained poor. In the period 2005-2012, 45.62% of those being poor remained poor. Vice versa: in the 1980s, 33.11 of those being very rich remained very rich, in 2005-2012 56.42% remained very rich. While mobility in the 1980s was considerable, mobility in the 2000s is decreasing: Apart from the wealthy, in all other income segments less people moved upwards or downwards than in earlier years, i.e. they seem to be trapped. If mobility occurs, it is rather within the upper segment, i.e. those who are middle class/better to do had rather a chance to move upwards than downwards while those in the lower middle had a larger chance to move downwards. This proves that the likelihood increased with which one can say: Poor once, poor always. This is worrying because income mobility results in a decreasing social mobility, since income mobility also has to do with the ability to select better education for children or being more attractive for employer on the labour market (Spannagel, 2015, p. 10ff.).

Those findings are consolidated by other research, e.g. the German Federation of Trade Unions, also based upon SOEP data and DIW calculations (Deutscher Gewerkschaftsbund, 2016a, p. 44)

2.8 Assessment of development and situation

How is the development of events and the situation judged by major stakeholders in the debate? Three representative views shall be presented in the following: The view of the German government, one exemplary NGO and one intergovernmental institution.

2.8.1 The Federal Government’s reporting on poverty and wealth

Since the year 2000, in a four-year interval, the Federal Ministry for Employment and Social Affairs compiles a report on poverty and wealth for the German government. There is a discernible shift in analysis and reporting, as the course of events surrounding the most recent reports illustrates:

‘Germany is a wealthy country’. In the Federal Government’s second report on Poverty and Wealth in Germany (Bundesministerium für Arbeit und Soziales, 2005), this phrase occurs four times. The report explains: ‘This is illustrated by the wealth accumulated in private hands, which is an important factor to determine the circumstances of life of the people’ (p. 32). However: the same report states that this situation is under threat, because: (a) Poverty and risks of poverty are no longer marginal phenomena, but are spreading into the 'centre of society', and (b) the report states a ‘very unequal distribution of wealth’ (p.XVII).

‘Social inequality is a fact’, says the Federal Government, ‘and it is, analogous to certain developments on the employment market, in some areas growing over the past years.’ These developments are dangerous not only for the marginalized. Rather, they ‘afflict gravely the cohesion of society as such’. For that reason, the strengthening of ‘communal wealth, the common good, the public goods are a fundamental condition for the preservation of society.’ (p. 194). For all these reasons, the wealth gap and other processes of growing inequality require decisive government action, and pages 194-317 contain an impressive bundle of government intentions on how to address these issues.

Having that in mind, one is of course interested to see how the situation developed later on, and whether government policies were able to reverse some of the trends which have had been identified as dangerous for the cohesion of the country. Sadly, on the contrary:

The information provided in the fourth report (Bundesministerium für Arbeit und Soziales, 2012b) is even more alarming – even though the data used only goes back to the year 2008, which means that the impacts of the Global Financial and Economic Crisis of 2007/2008 are not yet included:

- The share of private wealth possessed by the top ten percent households increased from 48% (1998) to 53% (2008). At the same time the share of private wealth possessed by the lowest ten percent of households decreased from 3% (2003) to 1% (p. XII)
- In absolute figures: Private wealth doubled from EUR 4.6 trillion (1991) to EUR 10 trillion (2011) (p. 49).
- At the same time net assets of the state decreased by EUR 800 billion (ibid.).

There is good news in the report, though, for example: Income Inequality, as measured by the Gini coefficient, is on the decline (p. 325), the share of people in danger of poverty did not increase (p. VIIff.). Regarding wealth inequality, the report states a decrease between West German households in relation to East German households, meaning, that inequality between the two German parts is diminishing (p.343).

However: Even within the report the careful reader will note repeatedly, that it all too often comes down to what is being calculated how and according to which criteria. For example: On the very page 343 just quoted above, there is a caution to that one has to look beyond medium, median and average figures and take note of the fact that there is ‘a very uneven distribution of private wealth’.

This latter statement, in spite of its placement far in the back of the report, is remarkable, since it has been leaked to the public that there was considerable controversy between the Federal Ministry for Employment and Social Affairs and the Federal Ministry for Economics on statements like that prior to the official publication. And: That the (liberal) Minister for Economics succeeded in “softening” some of the statements in the report before its release. Even though Ursula von der Leyen, as Minister for Employment and Social Affairs in charge of the report, emphasized at the release press conference, that nothing in substance has been removed from the report, there are differences: In the draft report, for example, one finds prominently placed the statement that the current development in the area of incomes 'hurts the sense of justice within the population and therefore can endanger the cohesion of society.' (Bundesministerium für Arbeit und Soziales, 2012a, p. XX). This statement is missing in the final report.

The careful reader will realize, of course, that such a statement is in contradiction to the above mentioned quotation on page 343, namely, that wealth inequality as measured with the Gini coefficient is presented in the draft report as declining. And indeed, there is another difference in emphasis between draft report and final version: While the draft report states that the Gini coefficient regarding income inequality 2003-2005 (!) 'is slightly more unequal' (2012a: p. 318), the official report emphasizes that the trend of increasing income inequality 2000-2005 (!) is reversing and inequality is on the decrease (2012b: p. 325). The latter, however, is not really obvious at first sight if one looks at the figures presented in both reports: In both reports, the coefficient is given with 0,284 for 2008.

2.8.2 The 2016 "Paritätische" Report on Poverty

The Deutsche Paritätische Wohlfahrtsverband, one of the six big German Welfare Organizations, publishes in cooperation with the National Conference on Poverty its own report on Poverty and Wealth since it got increasingly the impression that the analyses and findings of the governments reports are far too rosy if compared with that reality which their social worker encounter in their offices.[22] Their latest report has been published in February 2016, is based on findings from the Mikrozensus 2014 and shows the following:

- The national poverty quota[23] decreased slightly from 15.5% (2013) to 15.4%, which is still close to the "all time high" of last year.
- While poverty quotas decreased in 9 states they remained unchanged in five and increased in two, among which is Bavaria with an increase of 0.2% to 11.5%.
- The poverty quota is above the national average of 15.4% with the following social groups: Unemployed (58%), single parents (42%), non-Germans (32.5%), people with low qualifications (31%), families with children (24.6%) and, for the first time, old age pensioners (15.6%).

[22] Methodologically, the report is based on household survey and microdata (see chapter „Methodische Anmerkung" p. 1f)

[23] What they define as "poverty quota" would be the "poverty risk quota" in the definition presented above (1.2)

Graphic 28 The development of the GDP and poverty quota 2005-2014

Source 27 (Paritätischer Wohlfahrtsverband, 2016a, p. 14)

Beyond that results are:

- While 2012 an 2013 were predominantly characterized by a general increase of poverty in all states, the picture in 2014 was regionally diverse.
- As the graphic above illustrates, poverty development is increasingly detached from the economical development.
- Increase in GDP profits qualified labour, but not those caught in the low-pay segment.
- In particular the emergence of old age poverty indicates that this will be a considerable problem in the futures when more people from temporary employment, low-pay employment, self-employment etc. will retire.

The important, and political, question is the ongoing discussion about whether it makes sense to have poverty quota for the whole of Germany if there is such a large difference between the individual states (*Länder*) and regions; because surely: Poverty in Bavaria or Munich is very different from poverty in Mecklenburg-Vorpommern or Bremen. The Paritätische Wohlfahrtsverband wants to work with both. As explained in an earlier report, the poverty quota for the whole country is said to be important for two reasons:

1. The more one sub-structures ones focus of examination, the more relative poverty disappears following the insight 'In a poorhouse, no relative poverty exists.' (Paritätischer Wohlfahrtsverband, 2013, p. 4)
2. The German Constitution demands in Article 72 comparable/equal conditions of life (*gleichwertige Lebensverhältnisse*) within Germany, therefore a single yardstick needs to be applied for the entire state for which this constitution applies (Paritätischer Wohlfahrtsverband, 2013, p. 2+12).

The situation is bound to worsen since in 2019 the Financial Equalization Scheme (*Länderfinanzausgleich*) between German States will expire in its present form and already the two wealthiest states have launched a constitutional complaint about their "over proportionate" burden with the Federal Constitutional Court. And: In 2020 the constitutional "Debt Brake" will come into force for all, which means that federation, states and municipalities can no longer balance a structural budget deficit by taking more loans (cf. below 3.4). To fulfil these demands will require spending cuts, especially in areas which are non-mandatory payments in areas such as culture, sports and education for those who are already disadvantaged and cut-off from general welfare and wealth developments.

2.8.3 OECD Studies

For context purposes and comparison with another set of states different from the ECB, another international study shall be looked at which is basing its analysis on long-term trends and tendencies. Here, OECD studies are useful, to start with the 2011 OECD study "Divided we stand", part of a series of OECD studies into inequality (cf. I/IV/2.3.1).

This study confirms the tendency of an increasing inequality in the OECD in general and Germany in particular. While the Gini coefficient increased in 17 of those 22 countries for which long-term data series are available, Germany is among those where it rose by more than 4 percentage points. Moreover: 'A widening gap between rich and poor' is shown 'for the first time in traditionally low-inequality countries such as Germany... where inequality grew more than anywhere else in the 2000s' (OECD, 2011a, p. 22). The average increase in real household income between the mid-1980s and 2000s was 0.1% in the bottom decile income group, but 1.6% in the top decile income group. In its Economic Survey the OECD states that income inequality has stopped rising since 2004/2005; at the same time conomic growth did and does benefit wealthy households more than poorer households. And since projected growth of the (real) economy is estimated to fall on account of demographic changes over the next 20 years, more disadvantages are to be expected for the gap between the well-paid and low-paid labour sector with further decline in net income.

Some further indicators for Germany are quoted in the "Country notes" accompanying the report (OECD, 2011b):

- 'The average income of the top 10% of working-age Germans in 2008 was EUR 57,300, nearly 8 times higher than that of the bottom 10%, who had an average income of EUR 7,400. This is up from a ratio of 6 to 1 in the mid 1990s.
- The rise in inequality was largely driven by widening gaps in market income sources: gross earnings, self-employment income as well as capital income, they all became more unequally distributed. The wage gap between the 10% best and least paid of full-time German workers has increased by more than a fifth since 1990.
- Growth in part-time employment also contributed to the upward inequality trend. Since 1984, the share of part-timers doubled in Germany, from 11% to 22%, or from just below 3 million to more than 8 million people.'
- Finally, societal changes behind the growth of inequality are noted: The rise of single households, households of DINKS ("Double Income no Kids"), single parent households and the fact, that there is an increase in households set up between people of similar income rather than between those of widely diverging income.

The report points out that many (de-regulatory) reforms were due to the need to adjust national labour markets to globalization driven competition with other parts of the world. This implied a loosening of the employment protection, decrease in minimum wages and changes in wage-setting mechanisms since the relevance of trade unions decreased. The emergence of a low-skill sector and an increase of temporary contracts made itself feel at the lower end of statistics, while high-skilled labour was searched for and rewarded with wage increases. In Germany, the increase of part-time employment is markedly higher – and wage inequality therefore greater – than in other OECD countries (OECD, 2011a, p. 171f.). To put it simply: Inequality in wage distribution is the price for employment (ibid. 30f.).

Inequality in income increases even further, if the self-employed are being taken into account and income from non-labour sources beyond earnings is included (e.g. incomes from capital, property, investment...). In both cases, households of the upper decile profit more from these options than households at the lower decile (ibid. 32-36). In particular, capital income is 'an important part of rising market inequality in Germany ... There is a shift from earnings to capital income for higher-income persons. The contribution of capital income to total income inequality is still minor but has almost doubled from 8% to 15.5%' (OECD, 2011b).

The Economic Survey 2014 for Germany continues the OECDs concern for the wealth gap within Germany: the growth of German economy and basis of income for labourers, will diminish over the next years due to demographic developments. At the same time, the situation of labourers is alarming already: 'Our figures show that 22% of all workers earned less than two thirds of the median income' (Gurria, 2014). The development seems to speed up towards the creation of a class of "working poor" also in Germany, forcing the state to top up their wages with public subsidies in order to enable those households at least some decent way of living.

Finally, information arising from the third big research into inequality, the 2015 report "In it together" (cf. I/IV/2.3.3), which had in chapter 6 a specific look at the development of wealth inequality, and the accompanying country notes:

In Germany, top income rose faster than those of other groups, while income of the bottom 10% stagnates. The 2015 report confirms that a major cause for poor income among the lower 40% of the population is the large share of non-standard jobs, e.g. temporary or part time contracts: Here, worker only earn about 56% of that which those in quality job are able to bring home. The report confirms that there is a link between poverty and unemployment on the one side, and badly paid jobs and education on the other: Those, who are born in low income household are less able to get a good education, which results in being trapped in low income jobs – meaning: social mobility is on the decrease. More blatantly: The place of birth is more important than other factors for ones position in life.[24] The link between income and education is the second widest, only topped by the USA.

Still, income inequality in Germany is not the major problem, but rather wealth inequality and the high concentration of assets among the top 10% or even top centile. Here, too, Germany remains to be on the top of OECD countries.

2.9 Conclusion

This chapter so far displays a wide range of sources and documents which, in all diversity, illustrate how important the selection of criteria and sources is when it comes to the assessment of the extent of income and wealth. Whether or not one includes capitalized insurances or other forms of pensions, whether or not one includes business assets: it does influence both the statistic and the conclusion to be drawn from it. Other differences may be

[24] Which also impacts on the place of Germany in the Social Justice Index of the Bertelsmann Foundation, see (see also (Schraad-Tischler, 2015, p. 106)

more “innocent”, for example that NGO reports commenting government reports draw from data which is more updated and was not yet available for governments. Others are “ideologically biased”, e.g. if authors are “market friendly” and therefore reject redistribution, or “market sceptical” and therefore favour it.

Equally, the chapter highlights the problem of “small numbers”: because top income and wealth households are comparatively few, they are not considered adequately in most representative samplings of statisticians. This is of particular importance in the case of government reports which draw to a large extent from the Microcensus and EVS sampling: to cut out those households with a monthly income level of EUR 18,000 and beyond excludes the most relevant households for this research from that survey. This lack of knowledge also suggests that more attention is given to “Wealth Report” which depends on a database emerging due to (more or less) exclusive oversampling among this target group.

Given the variety of sources ranging from (inter)governmental reports to NGOs to business and financial institutions, it is also noteworthy that all agree that the wealth gap in Germany is widening in spite of an overall positive economic situation or development of income: There is an alarmingly growing low-pay segment among Germany’s labour force whose members at times are in need of “topping up” their salary with public transfers in order to lead a decent live and among whose members indebtedness is growing. On the other side, income and wealth at the top tail of society is rising, and the increase was not notably interrupted by the World Financial and Economic Crisis. Sandwiched between those two extreme segments, the so-called Middle Class is shrinking. Related to this development is the decreasing redistributive effect of the German welfare system.

There is indeed a danger of decoupling (entkoppeln) between social groups and classes: The importance of income due to labour decreases as does income and social mobility, while income from wealth survives the ups and downs of economic and financial crises. All this can be balanced via redistribution from top to bottom, if political will is adequate (Spannagel, 2015, p. 13).

A final important observation concerns the regional distribution of income and wealth in Germany and within individual states. As will be demonstrated in GER/VI/3.2 etc., this has also to do with tax policies and tax administration and it does of course impact on tax revenue and resources available for federation, individual states and municipalities to maintain infrastructure, public services and support of the poor.

3 Governmental dependence on external financing

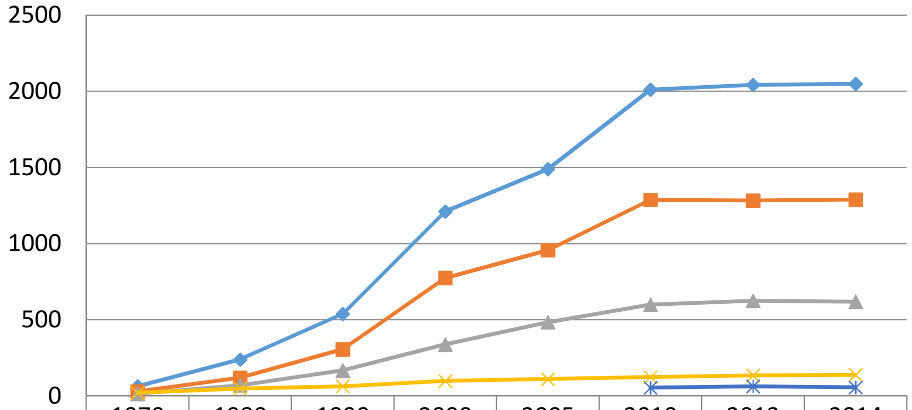
Since Germany is one of the wealthiest states of the world, governmental dependence on external financing is not such a pressing issue as in Kenya or Zambia. But the influence of external finance on public households is increasing to a degree that in some areas, one might also perceive governmental dependence in Germany, too.

The context of the development in Germany is similar to Kenya and Zambia: Neoliberal reforms in Germany also called for the reduction of “public burden” on business, especially in the area of tax and regulation, for the benefit of individuals and businesses to operate more freely on the global marketplace. This resulted on all levels of German government (municipal, state, federal) in deregulation, lower taxation and the privatization of tasks which were so far proper to public authorities.

3.1 Dependence on external financing in Germany/federal level

The following graphic demonstrates that governmental debt in Germany has been growing for many years.

Graphic 29 Development debt of the public total households in billion Euros[25]



	1970	1980	1990	2000	2005	2010	2013	2014
Total	64	238.89	538.33	1,210.92	1,489.85	2,011.68	2,043.34	2,049.17
Federation	29.55	119.95	306.32	774.83	957.27	1,287.46	1,282.69	1,289.70
States	14.17	70.42	168	338.07	484.47	600.11	624.92	619.48
Municipalities	20.48	48.53	64.02	98.01	110.63	123.57	135.12	139.43
Social Insurances						54	63	56

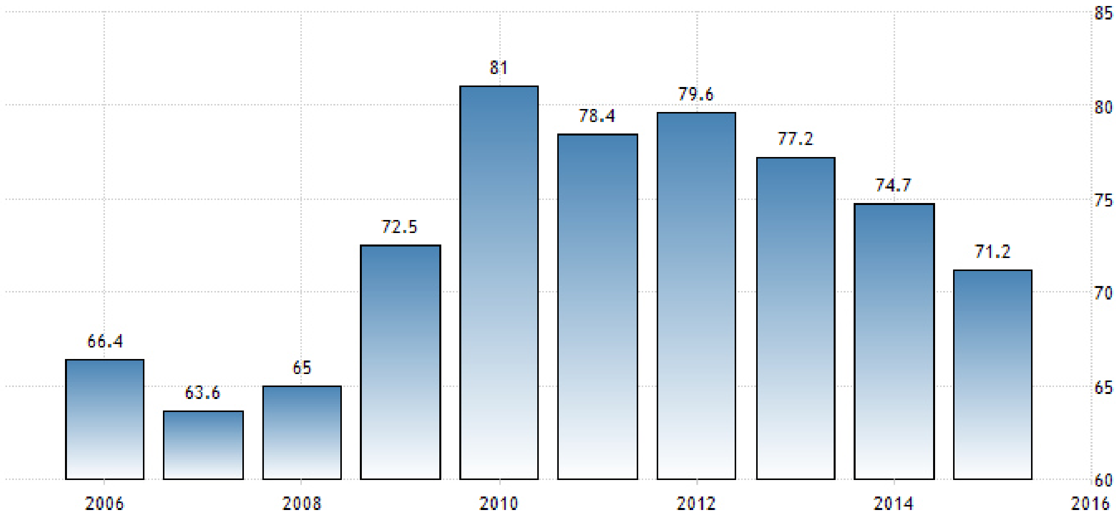
The process started around the 1980s when neoliberal reforms were called for and Germany, too, implemented recommendations of the "Tax Consensus" (cf. I/IV/3.3.1). Governmental debt received a major push when the unification process between East and West Germany needed to be financed after 1989. At the same time, neoliberal deregulation and reforms received a major push: after the communist system had collapsed, neoliberal policies were as popular as never before, not only under the conservative Kohl government but also under Gerhard Schroeder's social-democratic government implemented fiscal and economic policies which benefitted business and reduced revenue. Both led to a major collapse of industries, especially in East Germany, rising unemployment, decreasing tax revenue and a steady or even increasing need of public spending, e.g., on unemployment benefits. The third push of governmental debt was triggered by the 2007/2008 Global Financial and Economic Crisis. Given the developments, not only the federation, but also the 16 German states and municipalities suffered a decrease in tax revenue and the need to "bridge the gap" by raising capital at "the markets" by issuing bonds, obligations and related papers.

The debt-to-GDP ratio for Germany is, accordingly, as follows, demonstrating the latest hike in the wake of the 2007 Financial Crisis and the subsequent Eurozone-Crisis:

Graphic 30 Germanys Government Debt to GDP, 2006-2016[26]

[25] Statistisches Bundesamt ,"Schulden des öffentlichen Gesamthaushalts", regularly updated https://www.destatis.de/DE/ZahlenFakten/GesellschaftStaat/OeffentlicheFinanzenSteuern/OeffentlicheFinanzen/Schulden/Tablen/SchuldenNichtOeffentlich_Insgesamt.html .

[26] Retrieved from http://de.tradingeconomics.com/germany/government-debt-to-gdp. This website only assures that the most updated data is used for their listings, they concur, however, with Eurostat data, which can



3.1.1 Costs of the World Financial and Economic Crisis

The World Financial and Economic Crisis of 2007 has been addressed already in I/IV/3.3.3, but given its importance, it also justifies some data regarding the particular costs for Germany. Here, too, direct and indirect costs need to be distinguished, equally, costs arising from and/or within Germany, because of international obligations and commitments, and whether one includes the Eurozone Crisis or not. I tend to the latter, since the Eurozone Crisis quite "naturally" followed the 2007 Crisis.

For that reason, however, it is difficult to get a complete and a differentiated picture. For example the Eurozone Crisis is far from over and because it is not yet obvious whether guarantees given will have to be spent as well.

Regarding Germany, a study by researcher of the Rheinisch Westfälische Institut für Wirtschaftsforschung attempts to take stock of costs for the years 2008-2010. They identify three areas where direct costs or losses occurred:

1. The German government had to provide money to banks, e.g., the Commerzbank or the HRE bank, the latter alone amounting to EUR 19 billion.
2. Economic development did not grow; in some areas stagnated, in others decreased which led to billions of Euro losses in taxation.
3. At the same time, the government invested money in an attempt to support economic activities either by inducing investment or by supporting governments to pay wages in order to avoid redundancies.

On the whole, losses and expenditure here amount to EUR 187 billion just for the federal budget. In other words, if losses for the states and municipalities would be added, much more losses would become apparent. In addition to national costs arise costs for the stabilization of the common currency system of the Euro, will amount in the most comprehensive and worst possible scenario to close to one trillion Euros.

At the same time one has to bear in mind that the money spent are loans to other states, which in turn have to pay interest, which again is revenue for the donor, i.e., Germany.

be accessed at
http://ec.europa.eu/eurostat/tgm/table.do?tab=table&init=1&language=en&pcode=teina225&plugin=1

Greece, for example has paid already EUR 308 million up to 2011 alone and between 2010-2014 another EUR 360 million.

Last not least: Germany is profiting from the crisis indirectly. If for example, Germany needs to pay its share of money, it can raise it at capital markets. Since, due to the good reputation of Germany, German bonds are heavy in demand, even though there is 0% or even negative interest being paid. In June 2016, for example, even interest for 10 year "Bunds" went into the negative. A study by the Leibniz Institute calculated that for this reason Germany did not need to spend up to EUR 100 billion in interest for public debt within 2010 and the first half of 2014. Even if Greece would not be able to pay any of the EUR 90 billion loan shares which Germany shoulders, Germany would, on balance, profit from the Greek crisis.

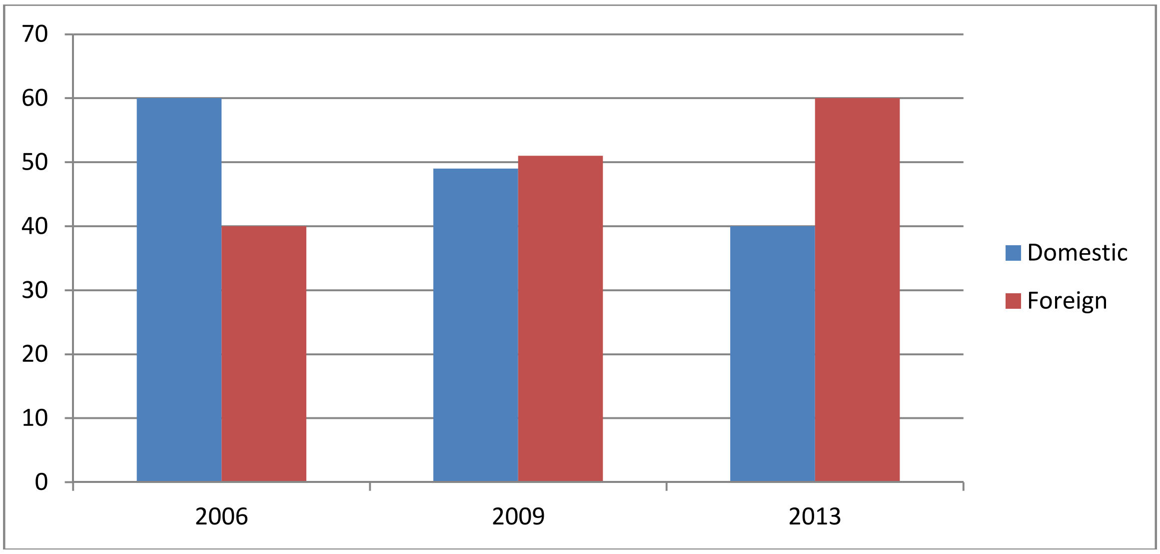
3.1.2 Who owns Germany?

Looking at this extent of governmental debt it is well worth asking: Who "owns" (large shares of) Germany because they bought government issued papers?

It is very difficult to obtain information on those whom the German governmental institutions are indebted to. First of all, there is no detailed statistics available. Secondly, a list containing names of those who bought newly issued bonds and obligations would probably be not too informative since there are a lot of institutional buyers, hiding the identity of beneficial owner commissioning them to buy or those institutional buyers sell purchased bonds on to yet other institutional buyers etc.

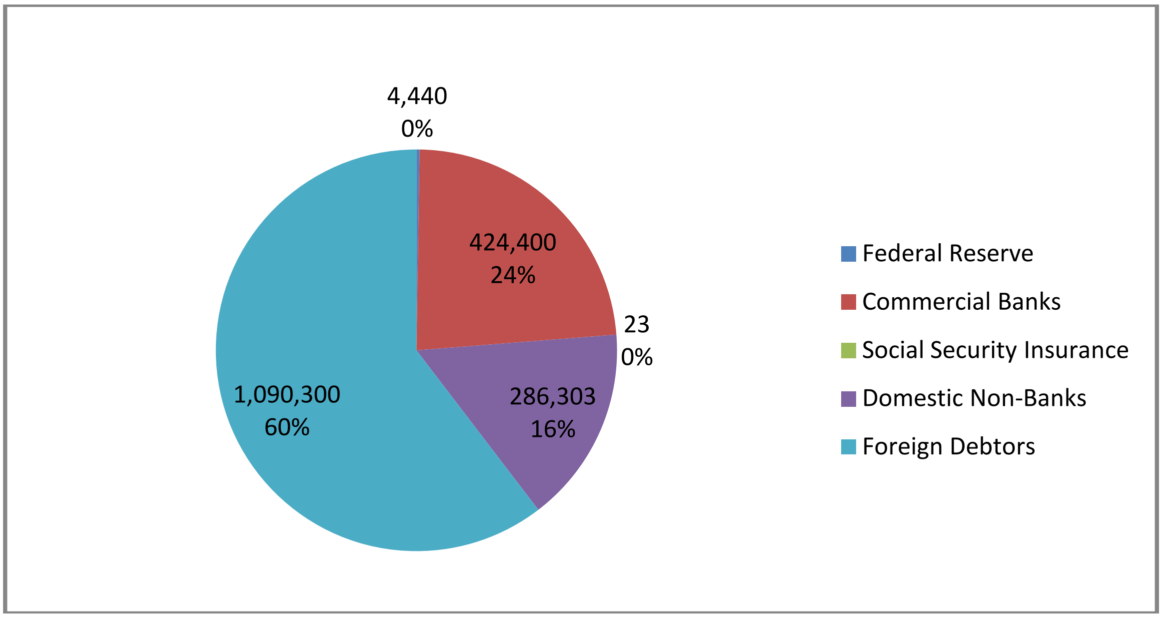
What can be concluded from the little retrievable statistic there is that there is a shift from domestically owned debt to foreign owned debt. The German Federal Reserve Bank publishes statistics examining the ownership of governmental debt by the Federal Reserve Bank, Commercial Banks, Domestic Non-Banks (Insurances, Building Associations, private persons) and Foreign Debtors. The development is as follows:

Graphic 31 Who is owning Germany? Share in percent



Regarding the distribution of ownership towards the end of March 2013, the following picture emerges:

Graphic 32 Owner of governmental debt, in Million Euro, End of March 2013[27]



The increase in the share of foreign debtors is obvious which probably has to do with the attractiveness of German bonds in times of the Euro Crisis. The emission of bonds, "Bunds" and other forms of debt obligation is organised by the Federal Republic of Germany Finance Agency who publishes on her website information for institutional and private buyers. Right now, around 40 institutional buyers are registered with the German Federal Reserve Bank. In more detail, the following institutional buyers and owners are registered with the German Federal Reserve:

[27] Retrieved from the database of the German Federal reserve: http://www.bundesbank.de/Navigation/DE/Statistiken/Zeitreihen_Datenbanken/Makrooekonomische_Zeitreihen/its_list_node.html?listId=www_v27_web004_02a.

Graphic 33 Who owns Germany? The buyer of federal bonds and obligations[28]

Mitglieder der Bietergruppe Bundesemissionen
(Stand: 1. Januar 2016, alphabetische Reihenfolge)

ABN AMRO Bank N.V.
Banca IMI S.p.A.
Banco Bilbao Vizcaya Argentaria S.A.
Banco Santander S.A.
Bankhaus Lampe KG
Barclays Bank PLC
Bayerische Landesbank
BHF-Bank Aktiengesellschaft
BNP Paribas S.A.
Citigroup Global Markets Limited
COMMERZBANK Aktiengesellschaft
Crédit Agricole Corporate and Investment Bank
Danske Bank A/S
DekaBank
Deutsche Girozentrale
DEUTSCHE BANK AKTIENGESELLSCHAFT
DZ BANK AG
Deutsche Zentral-Genossenschaftsbank
Goldman Sachs International Bank
HSBC France S.A.
ING Bank N.V.
Jefferies International Limited
J.P. Morgan Securities Ltd.
Landesbank Baden-Württemberg
Landesbank Hessen-Thüringen Girozentrale
Merrill Lynch International
Mizuho International plc
Morgan Stanley & Co. International plc
Natixis
Nomura International plc
Norddeutsche Landesbank Girozentrale
Nordea Bank Finland plc
Rabobank International
Scotiabank Europe plc
Société Générale S.A.
The Royal Bank of Scotland plc
Niederlassung Frankfurt
UBS Deutschland AG
UniCredit Bank AG

Nobody of course, knows in whose name institutional buyers act in auctions, i.e., the beneficiary owners are unknown and are revealed only upon request to the authorities. Therefore, behind the category of "Foreign Debtors" German businesses and German private persons could also be hiding since they may place their orders for German bonds with foreign banks. There is an advantage for them buying German Bonds abroad; domestic debtors pay tax on their income from interest, whereas, foreign debtors do not (or at least not as high). Hence, we may find here a tax saving scheme at work. After all, there are plenty of opportunities at bond market trades to disguise the real identity of buyers and sellers (and therefore existing tax obligations).

As a rule of thumb one can conclude: First, if the debtor lives in Germany (or holds a depot abroad), then the situation would lead to a redistribution of wealth from the bottom to the top. Second, If the debtor is a foreign institution or a country, wealth is leaving Germany to other countries. Observing these trends Piketty comes to the conclusion that indeed,

[28] Retrieved 1 March 2016 from http://www.bundesbank.de/Redaktion/DE/Downloads/Service/Bundeswertpapiere/tenderverfahren_liste_mitglieder.pdf?__blob=publicationFile

> the bulk of the governmental debt is in practice owned by a minority of the population (as in nineteenth-century Britain but not only there), so that the debt is the vehicle of important internal redistributions when it is repaid as well as when it is not. In view of the high degree of concentration that has always been characteristic of the wealth distribution, to study these questions without asking about inequalities between social groups is in fact to say nothing about significant aspects of the subject and what is really at stake. (Piketty, 2014a, p. 135)

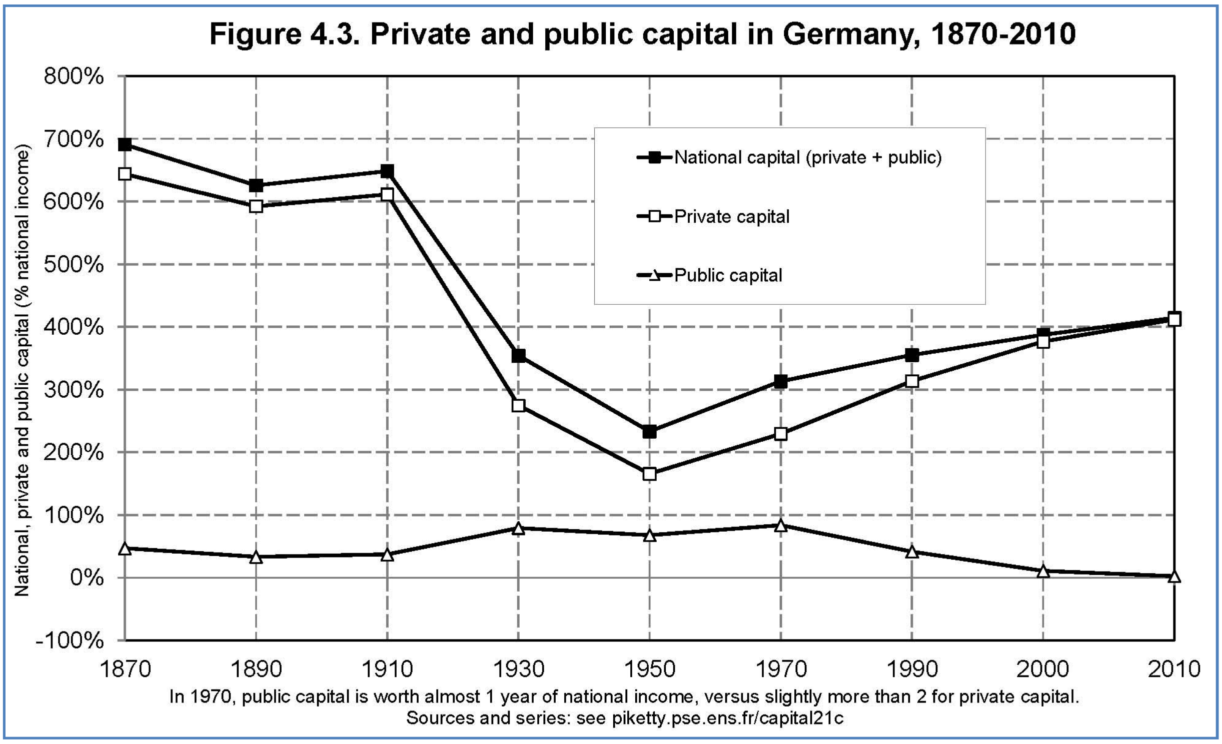
3.1.3 Redistribution from bottom to top?

Given the anonymity of the owner of German Bonds the question cannot be conclusively answered whether the system of governmental debt is yet another channel for wealth redistribution from bottom to top, further advancing the wealth of top households. However, even though, some bonds perhaps are certainly held by "ordinary" citizens, it can safely be assumed that the lion-share of bonds is held with rich capital institutions and private persons, i.e., those who have already a lot of investable money. If this is the case, however, ordinary citizens would indeed bear the lion-share of costs arising from interest payment on debt, repayment of debt and the costs for rescheduling debts. This money is taken from general state revenue i.e., that which workers pay in income tax and each of the citizens by their consumption and VAT payments (cf. I/IV/3.3.3 and GER/V/7.3).

3.1.4 Governmental debt and private wealth

A basic rule of economics says: Each wealth is somewhere mirrored by debt. The following figure taken from Piketty shows the historic development between public and private capital over the centuries.

Graphic 34 Private and public capital in Germany, 1870-2010



Source 28 (Piketty, 2014b)

If one divides the governmental debt by the number of every living German citizen, the debt burden for each person is already EUR 25,426 and growing. On the other hand, while governmental debt in Germany is now 83% of GNI, private wealth equals 127% of the

German GNI. The latest and most updated figures can be obtained on a website operated by wealthy people arguing for a wealth levy namely <www.appell-vermoegensabgabe.de> On 18 July 2016, the figures were as follows:

- The net private wealth in Germany was at EUR 10,622,302,000,000
- The wealthiest 1% of Germans owns 35.7% of it, namely EUR 3,792,161,650,000
- Governmental debt was at EUR 2,139,998,725,000

3.2 Dependence on external finance in Bavaria

As it has been indicated in 2.5, Bavaria is financially the best-off among German states. For example, on 31 December 2013, Berlin had a EUR 21,592 debt burden per capita, the Saarland EUR 15,903 and Bavaria EUR 2,354 per capita respectively. But given the upheavals of past years, also Bavaria was not spared to raise finance from capital markets. Current data is as follows if one considers real debt without given guarantees (which are not yet called for (row 1)) and with given guarantees included (row 2):

Table 10 Governmental debt of Bavaria (without guarantees) in billion Euros (retrieved July 2016)

	2010	2011	2012	2013	2014
Real debt	31.66	32.44	31.37	29.54	27.29
Guarantees (Bürgschaften)	8.66	8.72	8.68	8.66	5.62

Source 29 http://www.haushaltssteuerung.de/verschuldung-land-bayern.html

Given the comparatively low amount of governmental debt it is noteworthy that Bavaria had to organise quite a substantial share of governmental debt, namely EUR 10 billion, in the effort of stabilizing the Bavarian State Bank from bankruptcy. This is even more important since critics argue that this money would not have been needed if the Bavarian political elite would not have messed with decisions of that bank earlier; one indicator for the frequently alleged collusion between political and economic-financial elites in Bavaria (cf. GER/VIa).

The second interesting fact to state when looking at the table is that the amount of governmental debt is decreasing which is a rare case among German states.

Regarding the creditors of Bavaria, the dark-blue and turquoise-blue shares are those to be looked at since they indicate the non-governmental debtors which include domestic and foreign banks:

Graphic 35 Share of debtor-categories for Bavaria

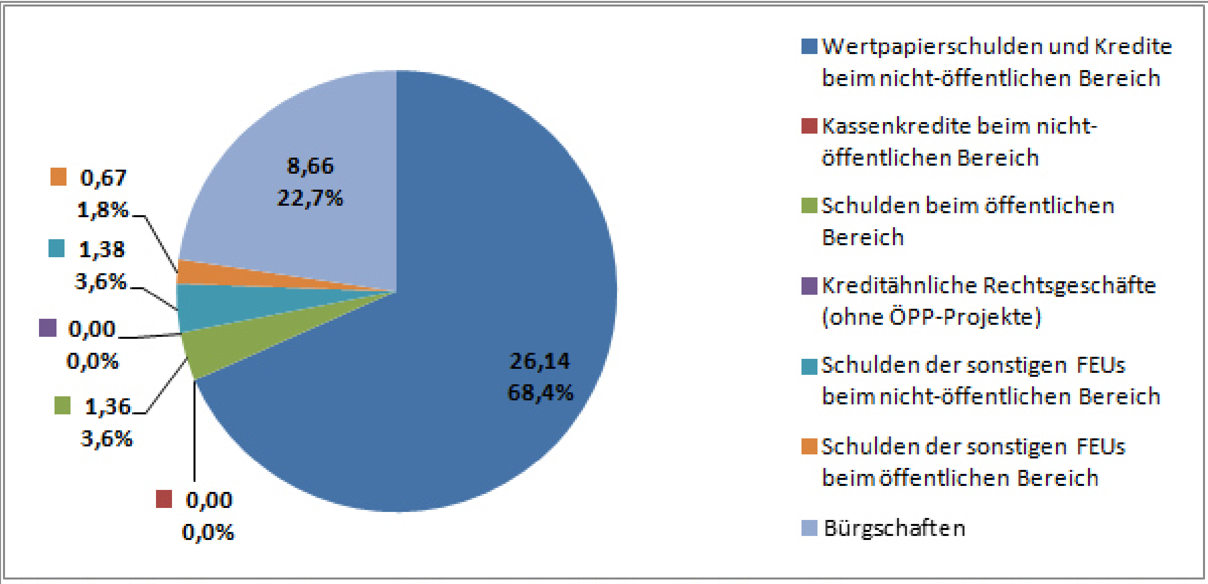


Abbildung 2: Verschuldung und Bürgschaften des Landes Bayern (Kern- und Extrahaushalte) zzgl. der Schulden in sonstigen FEUs aus dem Nicht-Staatssektor nach Schuldenarten zum 31.12.2013 [in Mrd. Euro]

Quelle: Eigene Darstellung (Daten entnommen aus: Statistisches Bundesamt, Schulden der öffentlichen Haushalte 2013 – Fachserie 14 Reihe 5, Tab. 1.4.1/16.2/16.3, Wiesbaden 2014 | 14.8.2014); inkl. sämtlicher FEUs des Staatssektors

Source 30 http://www.haushaltssteuerung.de/verschuldung-land-bayern.html

3.3 Dependence on external financing of Nuremberg

The excellent situation of Bavaria in comparison with other German states is mirrored in the situations of municipalities. Munich and Nuremberg have an exceptional position among major German cities. For example, while the net annual budget result per capita in Wuppertal (North Rhine-Westphalia) is EUR -459 and in Frankfurt (Hesse) EUR -386, Nuremberg enjoys a plus of EUR 24, and Munich even of EUR 364.

The municipal debt burden in Nuremberg was 2013 at EUR 1,215 Million without, resp. EUR 1,269.5 million if obligations from Public Private Partnerships are included.

A very interesting example for the dependence of Nuremberg from external financing is the pioneering placements of municipal bonds and obligations together with the neighbouring town of Würzburg placed on 8th May 2013 and raising EUR 80 million for Nuremberg and EUR 20 million for Würzburg respectively. This placement was the first of its kind nationwide, and conversation partners from the Nuremberg administration are confident that this successful placement was only possible due to the well known soundness and good reputation of Bavaria and its municipalities. Other municipalities followed the example of Nuremberg. In February 2014, six municipalities for instance, on North Rhine-Westphalia raised together EUR 400 million on the markets.

By 2016, also German municipalities profit from the desperate search of international capital to find attractive and secure opportunities for investment. Besides the federal state, also municipalities are in the situation to make profit with loans on capital markets, among those municipalities are also Bavarian towns, Nuremberg included. Municipalities are secure, because in case of insolvency states or federation will jump the gap, they are attractive because they offer higher interest than the federation.[29]

3.4 The problematic "debt brake"

One way of public institutions to respond to growing governmental debts was the introduction of a constitutional "debt brake" (*Schuldenbremse*) on public borrowing and spending. This instrument came into force on 1st August 2009 and requires federal and state households to limit their annual net borrowing to eventually 0.35% of the annual GNI. This instrument puts a severe strain on public spending since money owned by the state is used first to serve interest payments on governmental debts and only then for financing running expenses, including pensions for former civil servants.

This in turn has the (rather ridiculous) consequence, that states refuse to employ more tax inspectors for enforcing existing laws in order to increase tax revenue; an employment which pays off very well, as will be demonstrated in GER/VI/. On the whole, the austerity medicine seems to worsen the problem rather than curing the sickness.

3.5 Efforts to reduce public spending

If there is less money to spend due to decreasing revenue and high or increasing debt service, raising private money is one way to reduce public spending. The following options shall be mentioned and discussed exemplarily:

3.5.1 Example 1: Privatization of public services

A relatively well known example for public efforts to reduce public spending is the widespread efforts of municipal governments to privatize parts of their public services, e.g., institutions providing for water, heating or electricity – the so called *Stadtwerke* (Public Utility Companies). Quite a number of German municipalities tried to generate money by (partially) selling their Utility Companies to private investors during the years 1990-2010. By now, the results are discouraging:

- The instantaneous gain of money for selling was outbalanced by the decrease in regular income, which otherwise would have been transferred from the *Stadtwerke* to the municipal household (which is a reason why the municipality of Munich is extremely well off).
- Private investors shied away from long-term plannings and long term investments.
- All too often the quality of services did not increase, but the prices for those services did.

As a result, resistance against this form of privatisation is rising. Citizens all over Germany oppose further privatization of the *Stadtwerke* with a two- third majority. For instance, a people's referendum in Berlin opposed the partial privatization of the local water supplier. Moreover, some municipalities try to reverse privatization either by buying their shares back or by establishing new municipal *Stadtwerke* in competition to the privatized ones, while others, indicate that they will not extend their contractual obligations after current contracts expire. Thus, in general, the willingness to privatize municipal services has stopped.

[29] Traumkredite für Nürnberg: Mit Schulden Geld verdienen. (2016, June 13). In: Nordbayern. Retrieved from http://www.nordbayern.de/region/nuernberg/traumkredite-fur-nurnberg-mit-schulden-geld-verdienen-1.5267429

3.5.2 Example 2: Privatization of Education

Another example is the decline of public funding for the educational sector and the increasing influence of private funding. While the option for private sponsorship has existed for a long time, the process speeded up when strain grew on public households.

Both, the Trade Unions and the government authorities agree that the German expenditure on education is too low compared to other states, especially, since investment in education is seen as both to be of major importance for the future relevance of Germany in the globalizing world, and to be the best way for people out of disadvantaged situations.

Both, the Trade Unions and the government authorities agree further, that private and corporate investment in the educational sector increases for the above mentioned reasons, but not surprisingly, they disagree in judging this development. It is remarkable, however, that it is not only Trade Unions that are critical regarding the increasing influence. There is a rising number of complaints about "education as commodity" or the "economisation of education" not only from academics but also from conservative circles of society, who traditionally adhere to a classic-comprehensive ideal of education.

It seems, however, it is too early to judge the extent and the influence of private and corporate money over public goods like education at this stage in Germany. However, the conclusions drawn in other countries, which look back on a longer history of private sponsoring give reasons to be very cautious indeed.

Regarding Bavaria, private sponsors into education are well accepted. In 2003 already, an expertise sponsored by the Federation of Bavarian Industry came to the conclusion that in the field of education deregulation is important both to widen the choice of the individual and to open more options for sponsors to open education orientated institutions. Against this others, such as Trade Unions or Federations of Teachers and Educators, launched protest and supported instead the state control of education standards.

Surprising in this context is a list compiled by Wealth-X regarding German/Austrian Universities which can boast of the largest number of UNHWI alumni.[30] All of those universities are public, not a single one is private. Wealth-X perceives a North-South divide (reflecting the general resource situation of German states). Most surprising is, however, the small number of UNHWI alumni making up the survey (barely 100), since the overall number of German UHNWIs is reported to be 19,000 (the second largest in any country of the world). And why is Munich University mentioned in three places? One wonders, whether the remaining number did not study at all? Or whether they all studied abroad? And whether there are still a large number of private tertiary institutions relevant even though they are not within Germany and Austria.

3.5.3 Example 3: Public Private Partnerships

Yet another instrument to raise private and corporate money for public spending is the Private Public Partnerships (PPPs). It seems to be an attractive option for businesses and financiers, as the website on PPP projects on part of the German Federation of Building Industry suggests. But here as well its usefulness for the public is disputed, for example, in the case of the expansion or repair of federal motorways (the world-famous *Autobahnen*). In this area

[30] Wealth X newsletter (2015 August 26) German And Austrian Universities With The Most UHNW Alumni. Retrieved 27 August 2015 from http://www.wealthx.com/articles/minisite-post/german-austrian-universities-uhnw-alumni/

alone, for example, the Federal Court of Auditors in an expertise, came to the conclusion that the six motorway projects which have been implemented via PPP, were EUR 1.9 billion more expensive than a "conventional implementation". While government still pretends that one of those projects has been 40% cheaper than otherwise, the Federal Auditors conclude that the realization was 12% more expensive.[31]

Investigative journalists report about the growing resistance not only among public servants entrusted with construction and administration of motorways, but also state and federal auditor courts. They all doubt that PPPs are economically more "advantageous" for the public purse than the execution of these works entirely with public funding and under public control. The main reason, according to independent experts quoted in reports, for governments to enter into PPPs, is that these arrangements permit the circumvention of the "debt brake". That way, more motorways can be built and maintained than otherwise possible, because the private constructor takes the credit and gets indebted and not the government. In other words, by this formal trick the governmental debt statistic does not increase. At the same time, this model puts small and medium enterprises; the backbone of the German economy, at a disadvantage because for large projects only large corporations can hand in the offers. And, there are severe losses for the public households, since the private partners will receive all toll charges for the use of roads for many years to come, which in turn tightens further public means available for public tasks. A major problem is the lack of transparency with those projects and the way for an instance, how decisions are taken as to which entrepreneur what contract is to be given. In the case of a prison, it was only revealed much later that the contract was decided after bribes were asked for and paid. Parliamentarians complain that under "Freedom of Information" provisions they can fight for having a look at relevant documents, but still some information are withheld from them. Even worse and beyond that they are barred from acting upon the information they read and the assessment they concluded. On the whole, it seems, PPPs are a loss for the state and are profitable only for those getting the contracts. It is not really surprising that the country which invented the PPPs, namely the United Kingdom, is meanwhile distancing itself increasingly from this model. But even the Head of the Federal Court of Auditor admits that in times ruled by the "debt brake" not many alternatives are open to the state for realizing major projects. For the same reasons it is not surprising that Germany is number two after France of those countries where those projects are still very popular.

Bavaria also enters into cooperation with external financiers, into Public Private Partnerships for instance, whose benefit for the public and the common good is disputed. The Bavarian Government set up a website advocating this way of attracting private finance for public projects. That way, army barracks, prisons, schools, public pools, administrative centres and other projects are implemented; critique in Bavaria is as outspoken against those projects as it is on the national level, e.g., by the Bavarian Supreme Court of Auditors.

3.6 The problem of repayment

3.6.1 Germany

In 2016, the budget for payment of interests on governmental debts and/or the repayment of debt in the federal budget was EUR 25.227 million; the third largest sub-budget in the federal household after Defence (EUR 34 billion) and Labour & Social Affairs (EUR 130 billion).

[31] For the expertise see https://www.bundesrechnungshof.de/de/veroeffentlichungen/gutachten-berichte-bwv/berichte/langfassungen/2013-bwv-gutachten-wirtschaftlichkeitsuntersuchungen-bei-oeffentlich-privaten-partnerschaften-oepp-im-bundesfernstrassenbau

The federal household in 2014 was the first for many decades in which it could be financed without raising new debts. Due to surplus tax revenue, this could be maintained in spite of huge and unforeseen extra costs due to the sudden influx of one million refugees. The goal for the present government is to keep it that way until 2020. This welcome development does not mean that existing debts are lowered or repaid, which will happen at a later time.

Critics argue already, however, that the 2014 budget (and the following) was only possible due to "skimming" billions of Euros from the health fund, endangering future health care. Equally, critics complain that the priority on saving is done on the expense of important investments, both into the national labour market, economy and infrastructure. Billions of public investment would be needed to just repair and maintain public infrastructure.

However, there are also voices arguing that repayment of debt is not as urgent and pressing as it seems at first sight. The issuing of government bonds for financing large projects are part of the global financial system and the willingness of even developing countries invest their reserves in bonds issued by governments of developed countries proves the case (cf. I/IV/6.7). Especially, German bonds are heavy in demand. They are so attractive that buyers are willing to accept negative debt, i.e., they pay Germany for buying their bonds. And indeed, the governmental debts are part of the global financial game and it is perfectly adequate to at least temporarily demonstrate the ability to repay debts while keeping the others for some time longer.

3.6.2 Bavaria and Nuremberg

As has been indicated already in 3.2, Bavaria, due to its prosperity, is able to pay back governmental debts, which, in turn, cuts obligations in the area of interest payment. The goal of the Bavarian Government is to get the state free of the burden of governmental debts by the year 2030. This is extremely ambitious and would be a unique achievement for all German states.

As in the case of Germany, critics argue that the emphasis on repayment might be critical in the long run because money, due to repayments the status of roads and buildings, e.g., of schools and universities, continues to deteriorate, and will cost eventually much more than it would be the case if done immediately and timely. These foreseeable extra costs are also squander of public money.

Opposition parties also continue to remind the Bavarian government that they have to repay for sins and failure of earlier governments. The rescuing of the Bavarian State Bank with EUR 10 billion in 2008 resulted in a debt burden of roughly EUR 1 million per day, which amassed already in an extra EUR 1 billion for the taxpayers by October 2012.

Also Nuremberg profits from the good economic situation of Bavaria, which shows also in its willingness and ability to repay debts. In 2014, Nuremberg was able to pay back EUR 6.7 million of its debts.

3.7 The "Sustainability-Gap"

Given the specifics of the German situation, the concept of the "Sustainability Gap" is a valuable tool to determine the present and future challenges of governmental debt: Right now, the fact that all levels of government are able to "earn" money with making debt because Germany is so attractive for foreign investment seduces to the opinion that all is well in Germany. What is overlooked, however, is the fact that the low-interest policy of the Federal

European Central bank and the German government destroy billions of Euros worth of savings, making it difficult for private and corporate actors to secure retirement benefits and all other plans which depend on those reserves. This, in turn, will impact at the latest when the present generation heads for retirement since the demographic development will then burden future generations with the unmanageable task to support a growing number of “unproductive” people.

To illustrate this situation, the term “Sustainability Gap” was developed to contain both present governmental debt and future governmental debt, i.e. governmental debt which is foreseeable, but not yet “visible”. And it is those future debts, arising, e.g., from retirement entitlements or the need of the state to take care of all those who are uninsured or underinsured (e.g. Solo-Self-Employed or other working in the low-wage segment of the labour market) which should worry politicians already today. And here, for 2016, the Sustainability Gap for Germany was at 212% of GDP (equalling EUR 6.2 billion), which is an improvement to 2015 when the Gap was at 238%. If, however, costs for the refugee influx 2015 and immigration likely to continue for the next months and year are factored in, the Gap would increase once more to 228%.If it is assumed that not all descendents of those immigrants can be integrated into society and labour market, the Gap would rise to 251% (Stiftung Marktwirtschaft, 2016).

The prime challenge is that diverging development of present and future debt: As present policies succeeds in (by 2015) lowering present debt by 77% GDP, the future, yet right now “invisible” debt is increasing to 161%. Sadly, as it is always, however, politics is acting in the present and in view to the voter right now, not bothering about the future.

A solution to keep that debt burden sustainable could be, in the view of researcher, a sound immigration policy by luring highly skilled immigrants needed by the German society and economy into the country to replace all those going into retirement. This, of course, is a nice vision. The problem is, on the other hand, that this would deprive other states of a highly skilled and highly needed workforce and therefore once more the sentence would hold true: Somebody’s gain is the others loss.

3.8 Conclusion

Looking on the whole of Germany, at first sight the level of governmental debt is devastating for the present and the future. The debt share in relation to GDP rose from below 40% before unification to over 80% currently, and still costs of the Euro Area Crisis are pending. This is ethically unacceptable (DBK; EKD, 2014, p. 26). Even the IMF warns that ‘maintaining governmental debt at these historic peaks would leave advanced economies exposed to confidence shocks and rollover risks and hamper potential growth.’ (International Monetary Fund, 2013a, p. 4). Problems in debt service and repayment may hamper the willingness of external financiers to hand out new credits or increase interest rates. Delays or cuts in public investment will lower the attractiveness of the country for investors etc. Even worse is the situation for future generations whose room to manoeuvre is by then not only curtailed by this burden from the past, but also by the foreseeable demographic development, requiring much higher spending on an ageing population.

At second sight, one notices the differences within the German scenery, especially the differences in wealth and governmental debt among the 16 German states and their municipalities. As it seems right now, the wealthier states will have a serious chance of getting out of their debt situation, while the poorer states will more likely remain there since they have to be mindful of necessary investments or even legal payment obligation. The situation will most likely be worsened when the "debt brake" comes into full effect in 2020.

Given this divide, the Financial Equalization Mechanism is of importance since it is a real solidarity mechanism. The present Equalization Mechanism, however, expires in 2019 and negotiations for a new system are under way.

And this poses a problem due to the federal makeup of Germany, because the German *Länder* have a strong say in how they organise tax administration and public spending. The most basic difference here is that some states adhere to the paradigm of tax cooperation, while others favour tax competition influencing, for example, the number of employed tax inspectors and the amount of revenue (cf. GER/VI/3). Within this context the wealthy states also accuse the poorer of squandering resources, while the latter respond that the wealthy forget the support they received in earlier times, accusing them of stinginess. These disputes have an impact on federal politics as well due to the role of the Chamber of States in the federal makeup of Germany. Bavaria, which is the focus country of this research, is very much engaged in this debate, as it will be demonstrated later.

4 Conclusion

Looking back at this chapter one realizes two parallels between the introductory presentation and the German situation.

First of all, the wealthy seem to profit more from developments than the middle class or low income households. While top income and wealth is increasing, the increases in the middle and low segments are more modest if they occur at all. Also, security has been lost due to the loosening of employment legislation. But there are further indicators, for example, the decrease of the share of labour income in the National Income and Expenditure Statistics and the parallel growth of private and corporate wealth, which is mirrored by indications that it is also the top private and corporate (especially financial) wealth holders who profit from the public rescue attempts to stabilize the economy after the world financial and economic crisis (2.1). As to the latter, the ever steeper increase in private and corporate wealth is mirrored by rising shares of debt at governmental and private households, proofing the saying that each wealth is mirrored by somebody who owes. This is even more alarming since the redistributive effect of the taxation and social security system is decreasing (2.4.) and important solidarity mechanisms are under political pressure (2.5). If those developments could be confirmed, it would throw weight behind deliberations, whether social justice still exists in today's society and whether/how it could/should be improved.

Other striking issues are the differences in assessing and evaluating "the facts", namely between those who are more market friendly and support everything the free market requires, and those who are more market sceptical and prefer more regulation. This has, for example, been visible:

- In 2.1.4, where employers and trade unionists judge a major consequence of the 2005 reforms, namely the emergence of a large low-paid sector in Germany.
- In 2.2.3 and 2.8.2, where NGO assessment diverges from more official assessments.
- In the positive or critical assessment of measures discussed in 3.5.
- In the pros and cons of 3.6 for fiscal austerity and an emphasis on reducing governmental debts rather than spending and investing in times of need.

Another important observation is that the largest wealth gap (and perhaps even the highest risk of poverty) occurs there where the largest wealth is concentrated. Regarding EU states it is Germany, regarding Bavaria it is the district of Upper Bavaria, and regarding municipalities it is Munich.

Those two issues are yet another indication that the attitude towards the market and its forces in the whole of public and social life is a crucial issue to be considered and discussed.

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