

Groh-Samberg, Olaf

Article

Increasing Persistent Poverty in Germany

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Increasing Persistent Poverty in Germany

Olaf Groh-Samberg
ogrohsamberg@diw.de

Income poverty in Germany has reached its highest level for twenty years. This statistic is often seen as proof of the existence and growth of a 'decoupled underclass'. In other scenarios large sections of society appear to be facing collapse into poverty. If the duration of individual phases of poverty and the different dimensions of life in which need can occur are included in the analysis persistent poverty does appear to be on the increase. An increase in vulnerability, that is, swinging between 'middle class' and 'poor' is not evident. Those mainly affected by persistent poverty are still workers, particularly working class families with a background in migration or with several children. But to interpret poverty in Germany as the problem of a culturally destitute underclass or to dramatize it as the whole of society facing collapse is unrealistic.

Poverty in Germany, as far as it can be traced in the statistics, has been increasing gradually for thirty years. The number of persons receiving social assistance has risen from less than 1% in 1970 to 3.5% of the population in 2004.¹ The increase would be even greater if asylum seekers and persons needing nursing care had not been left out, if no ceiling had been put on adjustments in the standard rates and if the restrictions on drawing social assistance had not been intensified. During the same period the ratio of persons in income poverty rose from 8.7% (1973) to 13.5% (2003).² This ratio is calculated on the basis of the Income and Consumption Survey (EVS), which is taken officially every five years; foreigners are under-represented.³

The development of income poverty can be traced more comprehensively in the Socio-Economic Panel (SOEP) longitudinal study carried out

JEL Classification: I32, D31, J60

Keywords: Poverty, Vulnerability, Social Class, Deprivation

¹ Regular social assistance for subsistence outside institutions.

² Share of persons on less than 60% of the average income (median).

³ Cf. Lebenslagen in Deutschland. Der 2. Armuts- und Reichtumsbericht der Bundesregierung, Annexes 102 and 108f.

by DIW Berlin in cooperation with Infratest Sozialforschung. As a representative sample of foreigners living in the Federal Republic of Germany are included in the SOEP survey, and owing to differences in compiling data on incomes, the poverty ratio shown by SOEP is always higher than that based on the EVS.⁴ The income poverty ratios have risen in each of the last six years, from 12.0% in 1999 to 17.4% in 2005 (that is, by almost half). The last big increase before that date came at the start of the 90s, when the income poverty ratio rose for five years in succession, from 11.4% in 1990 to 13.8% in 1995, that is, by a good fifth.⁵ With these figures there can be no doubt that poverty is tending to increase in Germany. But the individual factors behind this development are not clear.

Measuring poverty

According to a definition by the European Commission, which the Federal Government has also accepted in its Wealth and Poverty reports, individuals and families are regarded as poor if they have so little (material, social and cultural) means that they are excluded from the lifestyle that is the minimum acceptable in the member state in which they live. Many will easily agree with this general definition, although it is, in fact, rather vague. However, how to translate it into an empirical measurement of poverty is still highly controversial.

The concept that is still most widely used is relative income poverty. According to this a person who has a net income weighted by need (also known as equivalence income)⁶ of less than 60% of the average income (median) of the society in which he lives is regarded as poor – *assuming* that on such an income it is not possible to participate in social life. However, a consideration of the net household income alone gives only a very inexact picture of the degree to which a person is affected by poverty. It is quite possible for households to maintain a standard of living that is regarded as socially acceptable although they are on a low income, either because the income poverty only occurs temporarily or

because it can be compensated by other resources, for example savings.

In the European research literature on poverty it has therefore long been argued that the indirect measurement of poverty by net household income should be supplemented with direct measurements of the standard of living or of how far those affected fall below the minimum standard.⁷ It would also appear meaningful to consider poverty longitudinally, that is, over several years, in order to be able to differentiate between short-term phases of poverty and persistent poverty. Not least, the relations between resources and deprivation are often subject to time delays.⁸

Almost one tenth of the population in persistent poverty

In the following sections poverty will be analysed multi-dimensionally and longitudinally. The data base is SOEP, using the balanced sample of persons who took part in the survey continuously in the five years from 2000 to 2004.⁹ The net household incomes are weighted with the specific needs of that household according to the old OECD scale. To give a fuller picture of the standard of living four dimensions of life are chosen and minimum standards defined for each:

- In *housing* insufficient room and lack of basic equipment is regarded as need (deprivation)
- In *consumption* the situation is assessed by an index that includes a large number of items (such as owning a washing machine or able to replace worn or damaged furniture)
- In the *formation of reserves* households are regarded as deprived if they have no savings at all.
- Finally, *unemployment* is included as a state of deprivation, because, as well as its material effects, it can be regarded as the most important cause of social exclusion.¹⁰

On the basis of these four central situations in life it can be shown for every year whether a person was not at all deprived, deprived once or deprived in several

⁴ The homeless and most illegal immigrants are not covered by SOEP either.

⁵ The figures are from the SOEP Monitor, www.diw.de/deutsch/sop/service/soepmonitor/index.html. See also Frick, J.R., Goebel, J., Grabka, M.M., Krause, P., Schäfer, A., Tucci, I., Wagner G.G.: Zur langfristigen Entwicklung von Einkommen und Armut in Deutschland, DIW Wochenbericht, No. 4/2005.

⁶ The equivalence income firstly takes into account savings effects by larger households and secondly age-dependent differences in needs. According to the 'old OECD scale' the head of a household is weighted with a need of 1, every other adult in the household with 0.7 and each child 0.5.

⁷ Ringen, S.: Direct and Indirect Measures of Poverty, *Journal of Social Policy* 17 (3), 1988, pp. 351-365; Halleröd, B.: The Truly Poor: Direct and Indirect Consensual Measurement of Poverty in Sweden. *Journal of European Social Policy* 5 (2), 1995, pp. 111-129; Nolan, B., Whelan, C.T.: *Resources, Deprivation and Poverty*, Oxford 1996.

⁸ Cf. Whelan, C.T., Layte, R., Maitre, B.: Understanding the Mismatch between Income Poverty and Deprivation: A Dynamic Comparative Analysis, *European Sociological Review* 20 (4), 2004, pp. 287-302.

⁹ This is what is known as a balanced panel. All the following empirical analyses are weighted using the extrapolation factors supplied in SOEP.

Table

Poverty, Vulnerability and Prosperity in Germany

Zone of ...	Persons in %	Income in % of average	Number of stages of need (deprivations)	Duration in multiple dimensions of ...					
				Prosperity	'Fragile' prosperity	One-sided poverty	Vulnerability	Single Poverty	Extreme poverty
				In years					
Secure prosperity	45.9	131.8	0.1	4.4	0.5	–	–	–	–
Unstable prosperity	26.1	89.0	0.5	1.2	2.8	0.3	0.5	0.1	–
One-sided poverty	3.8	68.2	0.9	0.1	1.1	3.2	0.0	0.6	0.0
Temporary poverty	5.7	68.6	1.1	0.9	1.1	0.5	0.7	1.0	0.7
Vulnerability	10.1	60.9	1.2	–	0.8	0.5	2.0	1.4	0.2
Persistent poverty	8.4	43.1	2.3	–	–	0.2	0.2	1.9	2.6
Total	100	100	0.6	2.4	1.2	0.3	0.4	0.4	0.3

Sources: SOEP, waves Q to U (longitudinal population study), N - 22291, calculations by DIW Berlin.

ways. Similarly three income situations can be identified: net equivalised income of less than 50%, between 50% and 75% and above 75% of the average for society as a whole (arithmetical average).¹¹

The combination of the two dimensions of poverty, deprivation and income, gives various 'multiple' stages. For instance, the combination of income poverty with multiple deprivation is 'extreme poverty', while income poverty with single deprivation is 'single poverty', as is precarious income (50-75% of the average) with multiple deprivation. Income poverty without deprivation, or a higher income (more than 75% of the average) with multiple deprivation is 'one-sided poverty'. The combination of precarious income and single deprivation is 'vulnerability'.

If the individual situations are considered over time (here over five years) different ways of being affected with poverty can be identified. The decisive factor is how long a person remained in the individual multiple stages. A considerable part of the population, a good 8%, is living in persistent poverty (table). The figure probably tends to underestimate the actual situation, as certain groups of people, like the homeless, illegalized migrants and many persons in homes are not covered by surveys like SOEP or at least are clearly under-represented. The average 'permanent' income of persons in the zone of persistent poverty is 43% of the average income, that is, clearly below the income poverty thresh-

old. On average this group has more than two (2.3 out of a maximum of 4) states of deprivation. Thus, a considerable number of people in Germany are living in persistent poverty. It is questionable whether this can be regarded as compatible with the view of Germany as a social state.

Above the persistent poverty level a zone of vulnerability can be identified in which people repeatedly experience income poverty or multiple deprivation, although the two seldom occur together. Typical of this zone is rather shifting between the 'multiple stages' of vulnerability and single poverty (more than three of the five years observed are spent in one of these states). The income is around 60% of the average income, and on average the person is in need in one of the four dimensions of life. In other words, poverty has not yet become persistent, but that danger is always present. Households in the vulnerability zone do just manage to avoid the worst, but they hardly experience phases of prosperity any more. Vulnerability has become a permanent state.

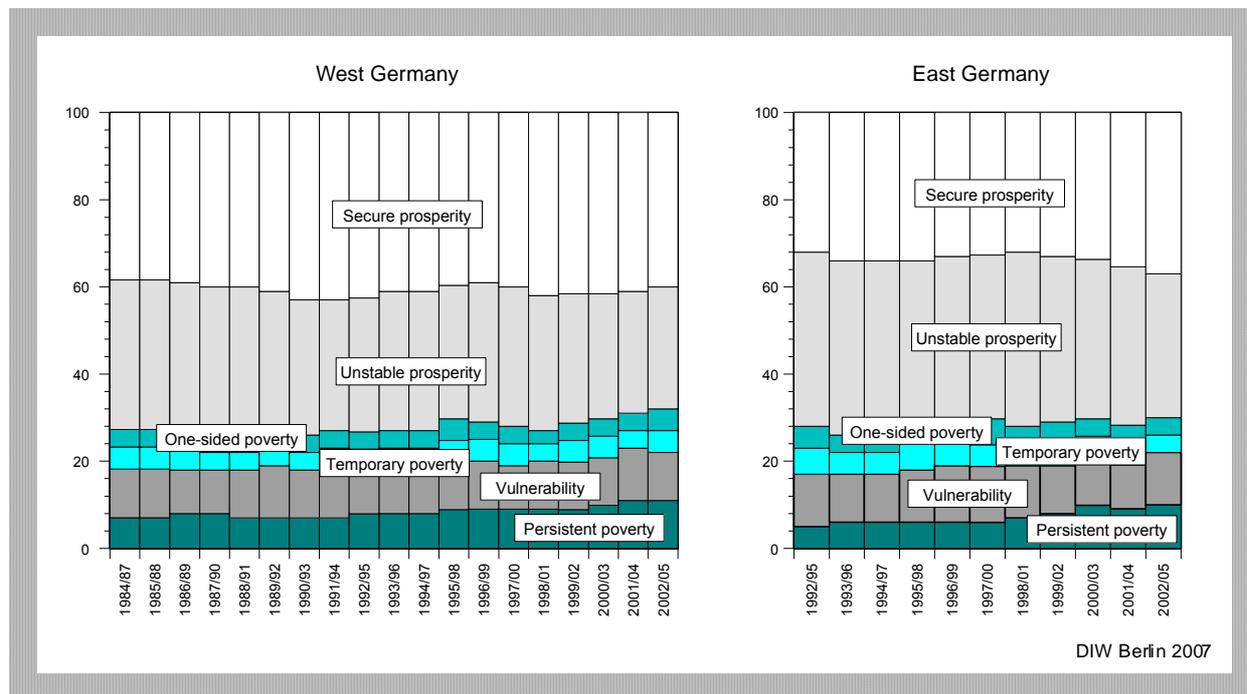
The types of temporary and one-sided poverty, on the other hand, describe changing or opposite states of poverty *and* prosperity. It is often believed that temporary and one-sided poverty-prosperity situations are typical of the 'new poverty' that can no longer be seen as structural and should rather be seen as the expression of the risks in individualized lifestyles. But it is evident that extreme shifts between poverty and prosperity, and permanent inconsistencies between incomes and deprivation, occur less often than the argument of 'temporalisation of poverty' suggests.¹²

¹⁰ Many analyses on the basis of SOEP and corresponding data bases in other countries show that unemployment hugely lowers satisfaction in life. See Clark, A.E., Georgellis, Y., Lucas, R.E., Diener, E.: Unemployment Alters the Set-Point of Life Satisfaction, in: Psychological Science 15 (1), 2004, pp. 8-13.

¹¹ Owing to the robust compilation of incomes in SOEP the arithmetical average can be used here; unlike the median it responds to developments in fringe areas.

¹² See Leisering, L., Leibfried, S.: Time and Poverty in the Welfare State, Cambridge 1999.

Figure 1
The Distribution of Poverty and Prosperity in West and East Germany
Shares in %



Sources: SOEP, waves A to V, pooled 4-year panel; calculations by DIW Berlin.

Clear increase in persistent poverty

Figure 1 shows the distribution of a slightly different form of the combined poverty indicator, in a breakdown for West and East Germany.¹³ For both parts of the country two trends predominate: the zone of unstable prosperity declines steadily over the entire period, and the zone of extreme poverty has been clearly increasing since the start of the 90s. Temporary and one-sided poverty, and the vulnerability zone, on the other hand, prove largely stable.

So poverty is not affecting the broad middle of society as much as the argument that the boundaries of poverty are becoming blurred or that the middle of society is becoming more vulnerable suggests. The opposite rather appears to be the case. As in-depth analyses have shown,¹⁴ poverty becomes more persistent over time, in

the sense that it becomes more permanent, its cumulative effect continues through various situations in life and hence its concentration on a certain groups in the population increases. Poverty grows upwards, as it were, in that material disadvantages accumulate in a small group in the population, it does not grow in the form of prosperity fragmenting increasingly from the centre outwards.

That applies particularly to East Germany, where not only has the zone of persistent poverty continuously increased since the start of reunification, the zone of secure prosperity has as well. But this tendency to polarization is also a process of alignment with West German structures.

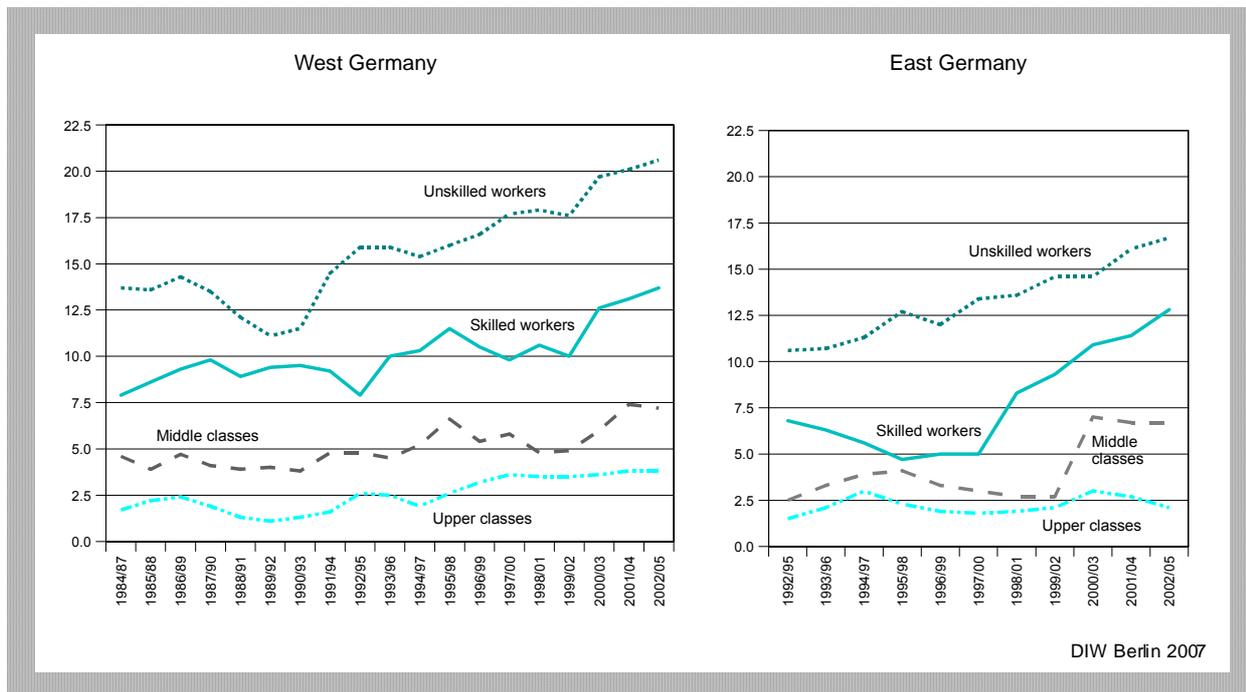
Workers most affected by persistent poverty

Beside the development of poverty over time the question of the groups affected is of particular interest. Figure 2 shows the ratios of persistent poverty for different social 'classes' (box). The relation between poverty and 'social class' is seen to be very stable.

¹³ The indicator is based on successive four-year panels. Only three dimensions of life could be considered, as *consumption* was not available for the entire period. The share of deprived persons in housing also had to be kept constant. The analyses were carried out for West and East Germany separately. Owing to the difference in design the poverty ratios cannot be compared with those in the table.

¹⁴ For more detail see Groh-Samberg, O.: *Armut, soziale Ausgrenzung und Klassenstrukturen. Zur Integration multidimensionaler und längsschnittlicher Perspektiven*, Wiesbaden (forthcoming).

Figure 2
The Risk of Persistent Poverty by Social Groups¹
 Shares in %



¹ Division into social groups by Erikson, Goldthorpe and Portocarero (see Box).
 Sources: SOEP, waves A to V, pooled 4-year panel, calculations by DIW Berlin.

The group chiefly affected by poverty are workers, especially the low skilled. In West Germany the poverty ratios of unskilled and skilled workers have moved slightly closer together, owing to the decline in poverty among unskilled workers. However, with the recession that followed the brief reunification boom the ratios of extreme poverty among unskilled workers began to rise continuously. Skilled workers and the middle classes (not further differentiated here) appear, by contrast, to remain sensitive to the cyclical trend. Their poverty ratios increased up to the mid-90s and then first declined slightly, before again pointing steeply upwards.

For East Germany the picture is largely similar, although there are some notable special features. The contrast between the patterns for skilled workers and the middle class, that are influenced by the cyclical trend, and the continuous rise in the poverty ratios for unskilled workers is much more marked here. The skilled workers actually achieved under-average poverty ratios in the first observation phases, only moving up to join the unskilled workers since the mid-90s. The sudden rise in poverty ratios among the middle classes in the last three periods measured is also remarkable. In-depth analyses show that this is primarily due to routine services providers, whose poverty ratios have moved far beyond the average figures for East Germany recently.

Altogether, poverty is tending to increase in all the occupational groups, but there is no evidence that social class is becoming less significant. On the contrary, the rapid rise in poverty ratios among unskilled workers rather suggests that the social differences are becoming more marked in regard to the risk of slipping into persistent poverty. In the period observed around three quarters of all the persons in the zone of persistent poverty belong to the working classes (skilled and unskilled). Of course the risk of poverty is influenced by many other factors as well. It is particularly high for persons with a migrant background, single parents and families with more than two children – and it accumulates accordingly for working class families with many children and a background in immigration.

Conclusion

The more complex consideration of poverty gives a more exact insight into its development. In Germany this development is characterized primarily by an increase in persistent poverty that has been evident in both West and East Germany since reunification, and has increased again clearly in the last five years. Phases of poverty last longer and are increasingly characterized by multiple need in various situations in life (housing

The Division into Social Groups

The sociological 'class scheme' used in the analyses is from Erikson, Goldthorpe and Portocarero (EGP). It has proved valuable in a large number of international comparisons and analyses on social mobility and inequality.¹ Persons in employment are divided into different occupational classes, with the jobs differing as follows:

- The service classes, or upper social groups (the upper and lower service classes are grouped together here). As well as self-employed entrepreneurs and the academic self-employed this group includes highly qualified white collar workers and officials who enjoy a high degree of autonomy and responsibility in their jobs (service relationship)
- By contrast, the working classes, divided by qualifications into unskilled and semi-skilled workers or skilled workers, are characterized by being largely at the command of others with their work strictly controlled (labour contract)
- Between the services groups and the working classes are the middle classes of the self-employed on smaller earnings, persons in simple non-manual jobs and the providers of routine services; these are 'intermediary' occupations (middle social groups).

¹ See Erikson, R., Goldthorpe, J.H.: *The Constant Flux, A Study of Class Mobility in Industrial Societies*, Oxford 1992; Breen, R. (ed.): *Social Mobility in Europe*, Oxford 2004.

Table

The Structure of Social Groups

Shares in %

Upper services	9.9
Lower services	18.1
Upper classes	28.0
Simple non-manual jobs	12.2
Routine services providers	9.9
Self-employed, small firms with staff	5.0
Self-employed without staff	3.4
Middle classes	30.4
Skilled workers	18.9
Unskilled workers	22.7
Working classes	41.6

Sources: SOEP, calculations by DIW Berlin.

In order to assign persons not in employment to one of these occupational classes the individual information on occupational activity is used, and persons who have never had a job are assigned using the household context (the occupation of the male or female head of the household).

problems, consumption shortfalls, unemployment or lack of financial reserves). At the same time poverty is concentrated on certain groups in the population, particularly workers, while a spread of poverty to the broad middle section of society is not yet evident.

Although poverty is becoming increasingly persistent the idea of a new underclass has rather met with rejection in Germany owing to its defamatory undertone. But it is tantamount to denying reality if in rejecting this term the existence of social class distinctions in general is denied. Social class distinctions are particularly marked in Germany. The picture drawn by international comparisons in research is clear: In scarcely any other comparably developed country do educational attainment and the chances of social mobility depend as strongly on social background as they do in Germany.¹⁵ During the education expansion the working classes have also been able to increase their participation, but the relative gap between them and the middle and upper classes has remained largely unchanged.¹⁶ The more recent studies on school performance, like PISA, not only confirm that workers' children lag behind the children of higher social classes in developing performance

¹⁵ For a summary see Breen, R. (ed.): *Social Mobility in Europe*, Oxford 2004.

¹⁶ See Shavit, Y., Blossfeld, H.-P., (eds): *Persistent Inequality. Changing Educational Attainment in Thirteen Countries*, Boulder 1993.

and competences, because they start from a worse position, with a lower educational family background. More alarming is the conclusion that even with the same cognitive and educational competences they perform clearly worse than children from more privileged family backgrounds.¹⁷ So the expansion of education has not achieved its aim of mobilising the 'educational reserves' of the lower social classes in this respect.

In the long term efforts in education policy to give children from socially weak families encouragement and a good education at an early age can make a major contribution, not only to more justice in education but also to combating poverty. However, they must be flanked by labour market and distribution policy measures to put a lower limit on material inequality. The increase in persistent poverty indicates not least that with the massive loss of traditional jobs for unskilled and semi-skilled workers, that once offered good pay and social security, the social position of unskilled workers has deteriorated markedly. The interaction of rigid class and status differences in the educational and employment systems with the material risks on the lower fringe of the social structure makes the development of poverty in Germany particularly acute.

¹⁷ See Solga, H., Stern, E., von Rosenblatt, B., Schupp, J., Wagner, G.G.: *The Measurement and Importance of General Reasoning Potentials in Schools and Labor Markets: Pre-Test Report*, DIW Berlin, Research Notes 10, 2005; this is based on SOEP data.