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Supplement: Economic Indicators

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Growth in Unemployment Raises Poverty Rates

Most low-wage earnings constitute supplement to primary household income

Jan Goebel, Peter Krause and Jürgen Schupp

Inequality with respect to personal earned income has increased in recent years. This trend has gone hand in hand with changes in both the employment constellations of households and the labor market activity of individuals (e.g. through 'minijobs'). In particular, the years since 2000 have seen a rise in the share of households with no market income because their members are either registered or hidden unemployed. These findings do not necessarily indicate an increase in relative poverty, because the latter depends on net household income and not just on individual primary incomes. While the risk of poverty also increased in recent years amongst low-wage earners, the rise only applied to those 47% of low-wage earners who live in households without another gainfully employed household member. More than half of all low-wage earners live in households that have a below-average risk of poverty.

Unemployment still represents the principal risk factor for poverty. Whereas the likelihood of being poor in the event of unemployment was 29% in 1993, this risk had increased by ten percentage points by 2003. For an unemployed person living alone or whose spouse or partner was not working, the risk of poverty in 2003 was a substantial risk of 53%.

Widening disparity between household market incomes

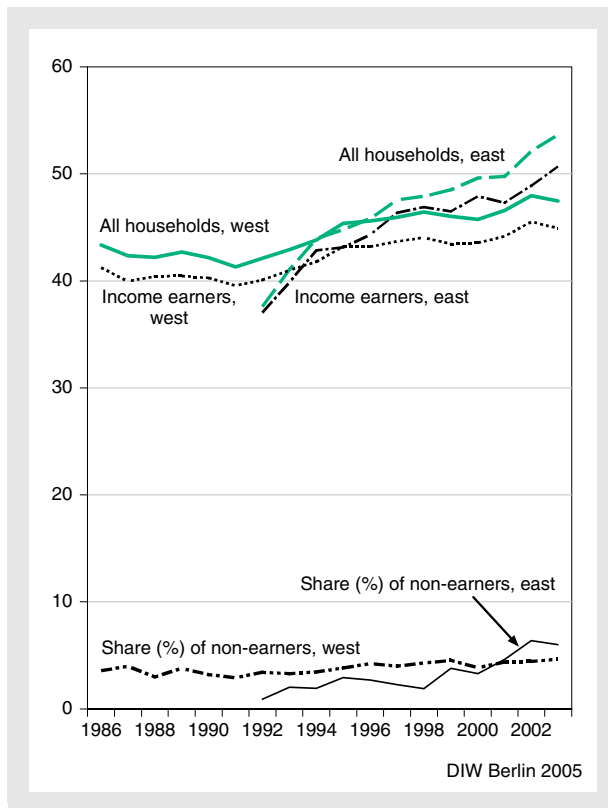
This study follows up on other up-to-date analyses of long-term income and poverty trends presented by DIW Berlin.¹ The findings presented in this

¹ Cf. Joachim R. Frick et al.: 'Zur langfristigen Entwicklung von Einkommen und Armut in Deutschland.' In: *Wochenbericht des DIW Berlin*, no. 4/2005; Ingrid Tucci and Gert G. Wagner: 'Above-Average Rise in Immigrant Poverty: Poverty Often Concomitant with Other Types of Deprivation.' In: *DIW Berlin Weekly Report*, no. 5/2005; Markus M. Grabka and Peter Krause: 'Einkommen und Armut von Familien und älteren Menschen.' In: *Wochenbericht des DIW Berlin*, no. 9/2005.

Figure 1

Household Income Inequality in Eastern and Western Germany, 1986 to 2003

Gini index¹



¹ Gini coefficient, multiplied by 100.

Previous year's household market income (labor and investment income), weighted by household composition using the new OECD scale, at 2000 prices. Population: members of private households.

Sources: Socio-Economic Panel; DIW Berlin calculations.

report show that, following a decline in the second half of the 1980s in the former West Germany, the level of inequality across the incomes of private households earned on the labor and capital markets has been rising steadily in Germany since the early 1990s. According to calculations based on the Socio-Economic Panel (SOEP) survey, which is conducted by DIW Berlin in collaboration with TNS Infratest Social Research,² the disparity between market incomes has increased more rapidly in eastern than in western Germany (cf. figure 1). The level of inequality of gross private household income earned exclusively on the market – and measured using the Gini coefficient – has been higher in eastern than in western Germany since 1997.

² The SOEP is a representative longitudinal survey of private households carried out on an annual basis throughout Germany. The field work is conducted by the TNS Infratest Social Research in Munich. For further details, cf. www.diw.de/soep.

This trend is determined by two factors: first, by the share of the population living in households that are not in receipt of any market income³ (defined here as non-earners) and whose income is therefore defined as zero in the calculation of the level of inequality; second, by the actual disparity in the market incomes earned by household members. The inequality measured across all households can be broken down into these two components.⁴ The growing disparity in market incomes could be the consequence of a larger gap between household incomes or could be associated with changes regarding individual labor market earnings.

The decomposition reveals that the inequality between income earners in western Germany has grown almost in parallel to the disparity measured across all households for the entire period (cf. figure 1). At around 4% on the most recent figures (2003), the share of households that earned no market income is only a little higher than in 1986 (3.6%), and no clear trend can be discerned. The situation in eastern Germany, by contrast, is very different. The sharp rise in inequality in eastern Germany is only partly a result of the more evident increase in disparity across households with an earned income; the additional factor is the larger share of households in eastern Germany that are no longer in receipt of a market income – for example, because every member of the household is unemployed.

The increase in income inequality in Germany is a consequence, on the one hand, of changes in the socio-demographic structure of the population, for example the steady rise in the share of older people who are no longer gainfully employed, but also the longer durations of vocational training for young people. On the other, the rise in the unemployment rate is also heightening the level of inequality. At the same time, the labor force participation of female spouses has been rising constantly.⁵ In general, changes in the composition of households are also reflected in the degree of income inequality measured. In order to better capture these effects, the following analysis does not look at household incomes but at the personal earned incomes of the members of the population aged 16 to 74. This broad

³ Income from transfers such as unemployment benefit, unemployment assistance, and social welfare benefit as well as public pensions are not considered market income.

⁴ Expressed in mathematical terms, this means that $G_{all} = p + (1-p)G_{earner}$, where G is the Gini coefficient and p is the share of non-earners of market income. For further details of this method, cf. Lynn A. Karoly and Gary Burtless: 'Demographic Change, Rising Earnings Inequality, and the Distribution of Personal Well-Being, 1959-1989'. In: *Demography*, vol. 32, 1995, pp. 379-405.

⁵ On this point, also cf. Elke Holst and Jürgen Schupp: 'Employment behaviour among women in Germany: differences between east and west persist.' In: *DIW Economic Bulletin*, vol. 38, no. 11, November 2001.

definition of the population that is fit for work, which adheres to the latest Eurostat conventions,⁶ permits the inclusion of changes in the (secondary) employment of retirees and pensioners.

Western Germany: growing inequality in individual earned income as labor force participation rises

From this point of view, different trends emerge for eastern and western Germany. In western Germany, only relatively minor changes can be seen over the period observed. Having fluctuated throughout the period, the share of non-earners of working age declined overall between 1986 and 2003 from 38% to around 34%; the lowest figure – 32% – was recorded in 1991 (cf. figure 2). At the same time, the degree of inequality between actual income earners rose in western Germany from almost 40 to 42 index points.⁷

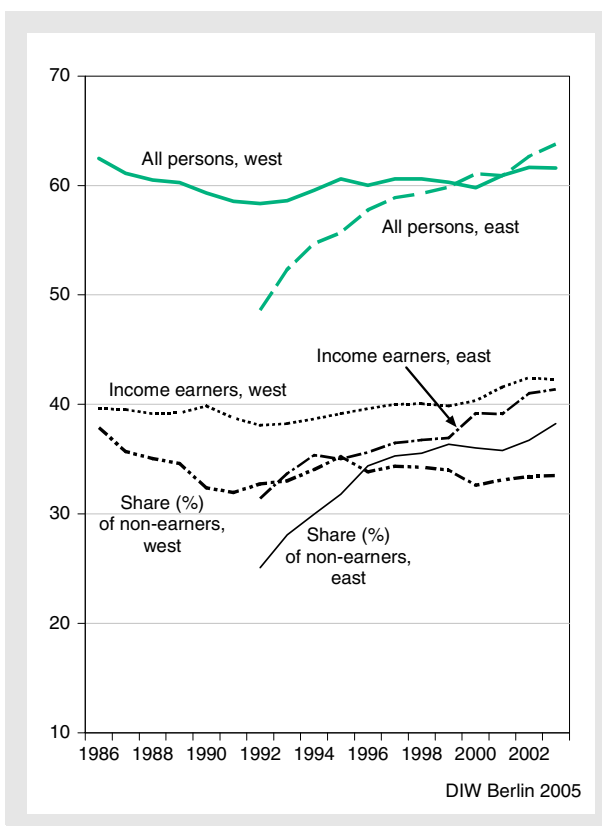
Eastern Germany: income earners in decline

A steady and also much more substantial increase in inequality between personal earned incomes from 49 (1992) to 64 (2003) index points was observed in eastern Germany. On the one hand, the share of income earners fell in this period from 75% to 62% and has been significantly lower than the western German level since 1999. On the other, inequality between actual income earners rose perceptibly in eastern Germany within the same period. While the index still amounted to 31 in 1992, in 2003 – for the first time – it caught up with the western German level of 41 points.

Growing role for part-time work

Looking at the different types of labor force participation of all people of working age for the last ten years, the individual perspective indicates only a slight percentage decrease in the share of active labor market participants. Because of the increase by almost 1.1 million

Figure 2
Personal Income Inequality in Eastern and Western Germany, 1986 to 2003
Gini index¹



1 Gini coefficient, multiplied by 100.

Previous year's personal earned income at 2000 prices. Population: working-age population (aged 16 to 74).

Sources: Socio-Economic Panel; DIW Berlin calculations.

of the total number of people of working age, the number of gainfully employed was still somewhat higher in 2003 than in 1993 (cf. table 1).

Nonetheless, both the share and the absolute number of persons in full-time dependent employment diminished. In 1993, almost 42% of all persons of working age were still full-time workers; by 2003, this share had fallen to 35%. Conversely, the share of dependent employees not in full-time employment rose over the same period by 4 percentage points to 16%.⁸ The share of self-employed has changed little over the last ten years and now stands at around 6%; only eastern Germany saw a slight increase in the self-employment rate.

⁶ This age definition is analogous to that used in the EU Labour Force Survey, which covers all persons aged 15 to 74. Cf. *Official Journal of the European Communities* L228/18 of September 8, 2000. Brussels.

⁷ The index in question is the Gini coefficient multiplied by 100. Cf. Frick et al., loc. cit., p. 64 ff.

⁸ In particular, this increase reflects the rise in the number of 'mini-jobs', i.e. employment relationships that are not subject to mandatory social insurance; cf. Jürgen Schupp and Elisabeth Birkner: 'Marginal employment: no jobs miracle.' In: *DIW Economic Bulletin*, vol. 41, no. 10, October 2004.

Table 1

Types of Labor Force Participation in Germany, 1993, 1998, and 2003

(%)

| | Germany | | | Western Germany | | | Eastern Germany | | |
|--|---------|--------|--------|-----------------|--------|--------|-----------------|--------|--------|
| | 1993 | 1998 | 2003 | 1993 | 1998 | 2003 | 1993 | 1998 | 2003 |
| Population of working age ¹ (extrapolated to 000s) | 61 385 | 61 966 | 62 446 | 49 747 | 50 037 | 50 630 | 11 652 | 11 929 | 11 809 |
| Total | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| Total labor force | 61.4 | 59.3 | 60.6 | 62.1 | 60.1 | 62.1 | 58.1 | 55.8 | 54.5 |
| Full-time dependent employees ² | 41.5 | 38.6 | 35.4 | 41.2 | 38.6 | 35.9 | 42.6 | 38.4 | 33.0 |
| Dependent employees in in-company training, or part-time or marginal employment ² | 12.2 | 12.8 | 16.0 | 13.0 | 13.5 | 16.7 | 8.8 | 9.8 | 12.8 |
| Self-employed and family workers | 5.6 | 5.6 | 5.9 | 6.0 | 5.6 | 6.0 | 4.0 | 5.4 | 5.4 |
| Other labor force (parental leave, internships, part-time early retirement) | 2.1 | 2.4 | 3.4 | 2.0 | 2.4 | 3.5 | 2.7 | 2.2 | 3.2 |
| Registered unemployed ³ | 5.9 | 7.5 | 7.4 | 4.0 | 6.0 | 5.9 | 14.0 | 14.1 | 13.8 |
| Hidden unemployed ⁴ | 1.9 | 2.2 | 2.2 | 1.8 | 2.4 | 2.2 | 2.2 | 1.4 | 2.0 |
| Other non-active population | 30.9 | 30.9 | 29.8 | 32.1 | 31.5 | 29.8 | 25.8 | 28.7 | 29.8 |

1 Aged 16 to 74. — 2 Amount of employment defined by respondent. — 3 Gainfully employed persons who are registered as unemployed are classified as members of the active labor force. — 4 Non-actives who are not registered as unemployed but who plan to take up employment either immediately or within the next year.

Sources: Socio-Economic Panel; DIW Berlin calculations.

In addition, at around 14% of all people aged between 16 and 74, unemployment in eastern Germany is over twice as high as in western Germany.

On the significance of low wages

The sectoral transformation from an industrial to a service economy, which is closely related to the rise in the number of working wives, probably accelerated the transformation of the different types of employment while also constituting one of the principal reasons – as a result of the rise in part-time work – for the increased inequality amongst those in receipt of market incomes.⁹ The question of the degree of wage dispersion has gained substantial importance in discussions on employment and labor market policy in recent years, and particular attention has been given to the low-wage sector.¹⁰ For example, topics addressed within the context of low wages include incentive problems deriving

from implicit minimum wages and issues related to the subsistence minimum.

Low wages can be described on the basis of various different indicators, but – as is also the case in international poverty analysis¹¹ – median income is the most important of these. In 2003, the median gross income of all workers in Germany amounted to 2010 euro per month, or 13 euro per hour.¹² Low-wage earners are defined in the following as those employees whose gross monthly earnings are less than two-thirds of the respective median¹³ (cf. table 2). These earnings can also refer to remuneration for part-time employment.

It must be pointed out that the threshold of almost 67% does not correspond to the usual threshold of 60% of the median used in discussions on poverty – for exam-

⁹ The other factor is the greater necessity to adjust wages and tariffs in response to the process of globalization and the trend for German firms to move abroad. Cf. Ingo Geishecker and Holger Görg: 'Investment by German firms abroad – unpatriotic?' In: *DIW Economic Bulletin*, vol. 41, no. 11, November 2004.

¹⁰ For an overview and comparison of international studies, cf. Claudio Lucifora: 'Wage Inequalities and Low Pay: The Role of Labour Market Institutions.' In: Mary Gregory et al. (eds.): 'Labour Market Inequalities'. Oxford 2000, pp. 9-34.

¹¹ Cf. Tony Atkinson et al.: 'Social Indicators – The EU and Social Inclusion'. Oxford 2002.

¹² This figure is based on real wages and salaries at 2000 prices. The nominal median wage in 2003 amounted to 2100 euro per month, i.e. 13.60 euro per hour.

¹³ Cf. Wiemer Salverda, Stephen Bazen, and Mary Gregory: 'The European-American Employment Gap, Wage Inequality, Earnings Mobility and Skill. European Low-Wage Employment Research Network (LoWer)'. Amsterdam 2001. A less common definition is used in the study by Eric Marlier and Sophie Routhieux ('Low-Wage Employees in EU Countries.' In: Eurostat: *Statistics in Focus*, No. 3-11. Luxembourg 2000), who set the threshold at 60% instead of 66% of the median, leading to a low-income rate which is an average two to three percentage points lower; also cf. Frank Stille, Brigitte Preissl, and Jürgen Schupp: 'Zur Dienstleistungslücke'. *DIW Berlin Sonderheft*, no. 175. Berlin 2003, pp. 146ff.

Table 2

Share of Low-Wage Work in Germany, 1993, 1998, and 2003, by Type of Employment (%)

| | Germany | | | Western Germany | | | Eastern Germany | | |
|--|---------|------|------|-----------------|------|------|-----------------|------|------|
| | 1993 | 1998 | 2003 | 1993 | 1998 | 2003 | 1993 | 1998 | 2003 |
| Employees with monthly income of less than two-thirds of median | | | | | | | | | |
| Total labor force ¹ | 24.6 | 24.9 | 27.6 | 21.4 | 22.8 | 26.5 | 38.8 | 33.7 | 32.6 |
| Full-time dependent employees ² | 8.9 | 8.2 | 7.6 | 3.8 | 5.0 | 5.2 | 29.9 | 21.6 | 18.8 |
| Dependent employees in in-company training, or part-time or marginal employment ² | 81.3 | 80.6 | 77.7 | 80.5 | 80.2 | 78.3 | 86.4 | 82.6 | 74.3 |
| Self-employed and family workers | 31.4 | 23.7 | 21.5 | 29.8 | 20.9 | 20.7 | 40.1 | 35.4 | 25.2 |
| Employees with gross hourly wage of less than two-thirds of median | | | | | | | | | |
| Total labor force ¹ | 21.0 | 20.7 | 23.4 | 15.2 | 16.8 | 20.3 | 46.9 | 37.5 | 38.6 |
| Full-time dependent employees ² | 12.5 | 10.9 | 12.6 | 5.4 | 6.2 | 8.8 | 41.3 | 30.5 | 29.8 |
| Dependent employees in in-company training, or part-time or marginal employment ² | 51.6 | 49.2 | 49.4 | 47.9 | 47.1 | 47.3 | 74.0 | 60.7 | 61.2 |
| Self-employed and family workers | 29.9 | 32.2 | 25.8 | 24.3 | 27.7 | 21.5 | 57.6 | 48.9 | 45.6 |

1 Population of working age, aged 16 to 74. — 2 Amount of employment defined by respondent.
Sources: Socio-Economic Panel; DIW Berlin calculations.

ple, in the German government's Report on Poverty and Wealth. There is actually no systematic reason for the difference, which is simply the result of 'historical' developments. Thus, the discussions on low wages (regarding individuals) and poverty (regarding private households), which are completely unrelated (at international level), traditionally use two different thresholds. The differences in the definitions are accepted in this report so as to render the results internationally comparable, but this inconsistency must be expressly noted.

The decision to observe monthly incomes as opposed to low hourly wages was considered more appropriate for this analysis because the aim is to ascertain the effect of earned income on the economic situation of private households. If the analysis considers all the types of employment carried out at each respective survey date, then the monthly gross earned income of around every fourth employee turns out to be below the threshold for low-wage incomes. This relatively high rate¹⁴ is primarily a consequence of the rise in part-time employment; the share of low-wage incomes found

amongst persons in dependent full-time employment is much lower (8%). As could be expected, the monthly wage of over three-quarters of dependent part-time employees is in the low-wage segment, while amongst the self-employed, including family workers, it amounts to only 22%; ten years previously it was 31%.

If, however, instead of looking at gross monthly income we look at hourly wages as well as the share of persons who are paid hourly wages that amount to less than two-thirds of the median (cf. table 2), then it emerges that amongst full-time workers, too, around every eighth person is a low-paid worker. In western Germany, however, only 9% of full-time employees work for a low hourly wage. In eastern Germany, by contrast, the share is almost 30%, compared to over 40% of full-time employees ten years ago. Amongst dependent part-time and marginal employees, as well as in-company apprentices, almost every second person is employed on an hourly wage that amounts to maximum two-thirds of the median hourly wage.

Rising risk of poverty amongst the unemployed, but also amongst low-paid workers ...

The increase in income inequality in Germany went hand in hand with the rise in the number of households living in poverty, in other words, households with less

¹⁴ It must be borne in mind that the 13.3% low-paid workers identified by the OECD in Germany as a share of all workers refers only to western Germany and only to year-round employment; cf. OECD: *Employment Outlook* 1996. Paris. If the calculation of the wage structure is not based on SOEP data but on data from the IAB Employment Sample, which do not, however, include wages above and below the limit for mandatory social insurance, the share of low-wage workers turns out to be comparatively high; cf. Claus Schäfer: 'Effektiv gezahlte Niedriglöhne in Deutschland.' In: *WSI-Mitteilungen*, vol. 7/2003, pp. 420-428.

Table 3

Risk of Poverty¹ in Germany, 1993, 1998, and 2003, by Type of Employment (%)

| | Germany | | | Western Germany | | | Eastern Germany | | |
|--|---------|------|------|-----------------|------|------|-----------------|------|------|
| | 1993 | 1998 | 2003 | 1993 | 1998 | 2003 | 1993 | 1998 | 2003 |
| Population of working age ² | 11.7 | 11.9 | 14.1 | 10.6 | 11.9 | 13.6 | 16.5 | 11.9 | 16.5 |
| Total labor force | 5.8 | 6.5 | 8.0 | 5.6 | 6.6 | 7.7 | 6.9 | 5.7 | 9.2 |
| Full-time dependent employees ³ | 3.9 | 3.6 | 4.4 | 3.8 | 3.5 | 4.1 | 4.7 | 4.1 | 6.1 |
| Dependent employees in in-company training, or part-time or marginal employment ³ | 12.1 | 15.8 | 17.2 | 11.6 | 16.6 | 16.9 | 15.6 | 11.0 | 19.2 |
| Self-employed and family workers | 6.1 | 4.8 | 4.3 | 5.3 | 4.1 | 4.2 | 11.4 | 7.8 | 4.4 |
| Other labor force (parental leave, internships, part-time early retirement) | 17.2 | 18.2 | 25.2 | 15.7 | 17.4 | 22.6 | 21.8 | 21.6 | 37.6 |
| Of which: | | | | | | | | | |
| Total low-wage workers | 12.9 | 17.5 | 20.4 | 12.8 | 19.5 | 20.5 | 13.1 | 11.4 | 19.8 |
| Total labor force without low wages | 2.7 | 2.2 | 2.9 | 2.9 | 2.2 | 2.8 | 1.8 | 1.9 | 3.1 |
| Registered unemployed ⁴ | 28.7 | 31.7 | 39.1 | 28.8 | 33.8 | 39.3 | 28.6 | 27.8 | 38.7 |
| Hidden unemployed ⁵ | 20.3 | 21.0 | 33.2 | 17.8 | 21.0 | 33.2 | 29.5 | 20.6 | 33.3 |
| Other non-active population | 19.0 | 16.0 | 17.1 | 17.1 | 16.4 | 17.4 | 28.7 | 14.3 | 15.4 |

1 Persons living in poverty are defined as those whose equivalent net annual household income (for Germany as a whole) is less than 60% of the median. — 2 Aged 16 to 74. — 3 Amount of employment defined by respondent. — 4 Registered unemployed who are working are classified as members of the active labor force. — 5 Non-actives who are not registered as unemployed but who plan to take up employment either immediately or within the next year.
Sources: Socio-Economic Panel; DIW Berlin calculations.

than 60% of median income at their disposal. At 15.3%, the poverty rate was 2 percentage points higher in 2003 than in 1993. The analysis shows that unemployment is the main cause of the rise in poverty in Germany. As a result of lower wage-replacement or reduced welfare benefits instead of earned income, the incidence of poverty amongst the unemployed is increasing equally in both eastern and western Germany. The poverty rate amongst the unemployed rose from 29% in 1993 to 39% in 2003. But there was also an increase in the risk of poverty amongst the hidden labor force.

However, the extent to which low wages and part-time employment contribute to poverty must also be examined. Contrary to what is often claimed in the labor market policy debate on low wages, a low income alone does not necessarily imply that a low-paid worker is living in poverty.¹⁵ Only a few empirical studies addressing the socio-political implications of low wages have been carried out in Germany to date.

The probability of living in poverty of any person of working age has increased from around 12% to 14% over the last ten years (cf. table 3). The increase amongst the active labor force likewise amounted to around two percentage points; the risk of poverty in this group amounted to 8% in 2003, and was somewhat higher in eastern than in western Germany. The risk of poverty amongst full-time dependent employees amounted to

only 4%. This figure is well below the average and has remained practically unchanged over the last ten years.

However, a more substantial increase in the risk of poverty can be observed amongst dependent part-time workers and marginal employees: this risk increased from 12% in 1993 to around 17% in 2003.

If one looks only at the low-wage earners amongst the employed, the probability of living in poverty as a member of this group rose from 13% in 1993 to around 20% in 2003. A large part of the increase is accounted for by low-paid workers living in households without other earners; their risk of poverty has risen perceptibly over the last ten years. It appears that in addition to

¹⁵ Thus, the socio-political evaluation of the low wages earned by the wife of a top executive is completely different to that, for example, of the low wages earned by a single mother. Information of this kind on the household context is typically missing from process-produced statistics on wage levels and wage dispersion. The SOEP data set, by contrast, offers the possibility of identifying factors related to both low-wage earnings and low incomes in the household context. For a comprehensive analysis up to the end of the 1990s, cf. Wolfgang Strengmann-Kuhn: 'Armut trotz Erwerbstätigkeit'. Frankfurt/Main 2003; Peter Krause, Walter Hanesch, and Gerhard Bäcker: 'Normalarbeitsverhältnisse, niedrige Erwerbseinkommen und Armut.' In: Felix Büchel et al. (eds.): 'Zwischen drinnen und draußen'. Opladen 2000, pp. 125-138; Walter Hanesch: 'Labour market related poverty in Germany.' In: Peter Krause, Gerhard Bäcker, Walter Hanesch (eds.): 'Combating Poverty in Europe'. Aldershot 2003, pp. 201-222.

Table 4

Poverty Rates¹ in Germany, 1993, 1998, and 2003, by Employment Constellation of Household (%)

| | Share of population in private households | | | Poverty rate | | |
|---|---|-------|-------|--------------|------|------|
| | 1993 | 1998 | 2003 | 1993 | 1998 | 2003 |
| Total | 100.0 | 100.0 | 100.0 | 13.3 | 13.0 | 15.3 |
| No gainfully employed and no registered unemployed | 22.3 | 23.5 | 25.0 | 25.9 | 18.1 | 20.2 |
| No gainfully employed but at least one registered unemployed | 4.2 | 6.2 | 6.5 | 42.7 | 40.3 | 52.7 |
| At least one earner | 73.5 | 70.3 | 68.5 | 8.6 | 11.8 | 11.7 |
| At least one earner earning in excess of low wage | 68.5 | 63.7 | 60.0 | 5.4 | 5.7 | 6.3 |
| Only one earner earning in excess of low wage | 31.8 | 28.4 | 27.0 | 5.9 | 4.8 | 6.2 |
| Two earners earning in excess of low wage | 17.0 | 18.1 | 16.8 | 0.1 | 0.9 | 0.2 |
| At least one earner earning in excess of low wage and one registered unemployed | 3.4 | 4.0 | 3.8 | 3.4 | 4.4 | 4.0 |
| At least one earner earning total of low wage | 21.3 | 19.7 | 20.8 | 8.6 | 11.8 | 11.7 |
| At least one earner earning in excess of low wage and one earner earning low wage | 15.1 | 13.0 | 14.2 | 2.5 | 2.8 | 0.8 |
| Only one or several low-wage earners in household | 4.8 | 5.3 | 5.3 | 26.6 | 31.6 | 34.9 |
| One low-wage earner and one registered unemployed person in household | 1.4 | 1.5 | 1.4 | 12.4 | 20.3 | 36.0 |
| Memo item: | | | | | | |
| Share of low-wage earners without higher income earners as % of all low-wage earners. | 41.1 | 52.3 | 47.2 | x | x | x |

¹ Persons living in poverty are defined as those whose equivalent net annual household income (for Germany as a whole) is less than 60% of the median.
Sources: Socio-Economic Panel; DIW Berlin calculations.

income from low-wage employment, members of this group are increasingly also in receipt of supplementary income in the form of transfers.¹⁶

... and yet over half of all low-paid workers are at a below-average risk of poverty

However, low-wage incomes do not constitute a particular poverty risk in all types of household.¹⁷ A particular distinction must be made between households where the low wage is the only source of income and households

where the low wage is a supplementary source of income because at least one other gainfully employed person in the household is working in an occupation that does not pay a low wage. Almost 21% of the population lives in private households with at least one low-wage earner, and this share has remained more or less stable over the last ten years. Over half of the population in this group lives in households in which, in addition to the low-wage earner, there is another person in employment whose remuneration exceeds the low-wage threshold. This share has also remained largely stable over the last ten years. Accordingly, the risk of members of these households of living in poverty is well below the average at less than 1% (1993: 2.5%) and actually even lower than the risk in households with a single earner whose earned income exceeds the low-income threshold. The average risk of poverty in this case is around 6% and therefore around as high as ten years ago. In other words, in most cases, low wages represent supplementary household income which significantly reduces the risk of poverty.

The average risk of poverty for those low-wage earners who are single earners is another story entirely, however. For this group of almost 7% of the population liv-

¹⁶ Cf. the findings on concomitant receipt of transfers by persons in marginal employment in Jürgen Schupp and Elisabeth Birkner, loc. cit., pp. 493f.

¹⁷ When the analysis is shifted from the individual to the household perspective, households with several members and especially households with children become more significant, although in the case of households with several members, only the wages and salaries of the head of household and the partner or spouse, where applicable, are taken into consideration, i.e. the employment status of children and other persons living in the household are not taken into account in this typology.

ing in private households (the figure amounted to 6% in 1993), the average risk of poverty amounted to around 35% in 2003 and was thus much higher than ten years previously.

Conclusion

The inequality in the earned income of private households has increased slightly in western Germany over the last ten years, mainly as a result of the disparity in primary incomes. The situation is different in eastern Germany, however. Here, the sharper rise in inequality between households with earned incomes is mainly a result of the increase in the number of households that have no market income whatsoever because all their members are unemployed. While persons with an earned income are subject to greater disparity across market incomes because of the growing significance of part-time employment, they are still at a lower than average risk of poverty.

The low-wage sector, or the 'working poor', are given particular attention in the public debate.¹⁸ According to calculations based on SOEP data, around 7% of all people are currently living in private households in which the only earned income is a low wage. This share has hardly changed over the last ten years, although the share of all employed persons who are low-wage earners has risen slightly since 1993. However, persons who participate in the labor market in the form of low-wage employment are at a much lower risk of poverty than the unemployed, while working in an occupation that offers remuneration above the low-wage threshold continues to successfully reduce the risk of poverty in Germany.

A low earned income is the only source of earned income in the household for almost half of all low-wage households. Therefore, for this group, in particular, transfer benefits that supplement earned income represent an increasingly important socio-political contribution to the battle against poverty. However, over half of all low-wage earners lives in households with a well below-average risk of poverty. There is therefore no justification – and never has been any – for generally defining low incomes as 'poverty wages'. Clearly, supplementing low wages in general without investigating the neediness of the individual households would amount to a subsidization measure that would be difficult to legitimize because there is no recognizable socio-political need.

¹⁸ Cf. European Foundation for the Improvement of Living and Working Conditions: 'Working Poor in the European Union'. Luxembourg 2004.

Supplement: Economic Indicators
Weekly Report No. 10/2005
(data as of 11 April 2005)

Germany – Selected Seasonally Adjusted Economic Indicators¹

| | | Unemployment | | Vacancies | | Orders in manufacturing (volume) ² | | | | | | | | | | | | Capital goods industry | | Durable consumer goods industry | | Non-durable consumer goods industry (incl. semi-durable goods industry) | |
|---------|---|--------------|-------|-----------|-----|---|---------|-------|----------|-------|---------|-----------------------------|---------|-------|---------|-------|---------|------------------------|---------|---------------------------------|---------|---|---------|
| | | | | | | Manufacturing | | | | | | Intermediate goods industry | | | | | | | | | | | |
| | | | | | | Total | | | Domestic | | | Abroad | | | | | | | | | | | |
| | | | | | | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter |
| in 000s | | | | | | 2000 = 100 | | | | | | | | | | | | | | | | | |
| 2003 | J | 4 318 | | 391 | | 98.1 | | 93.3 | | 104.2 | | 97.6 | | 99.4 | | 89.0 | | 99.4 | | 89.0 | | 98.5 | |
| | F | 4 365 | 4 334 | 379 | 385 | 98.4 | | 94.7 | 92.9 | 103.0 | 102.3 | 96.8 | 96.4 | 100.4 | 98.3 | 88.0 | 87.6 | 100.4 | 100.0 | 88.0 | 100.0 | 97.6 | |
| | M | 4 389 | | 371 | | 94.6 | | 90.7 | | 99.6 | | 95.0 | | 95.3 | | 85.7 | | 95.3 | | 85.7 | | 94.3 | |
| | A | 4 405 | | 365 | | 96.9 | | 92.7 | | 102.1 | | 96.1 | | 98.4 | | 86.8 | | 98.4 | | 86.8 | | 96.5 | |
| | M | 4 398 | 4 396 | 353 | 359 | 93.1 | | 91.7 | 92.5 | 94.8 | 99.9 | 93.7 | 95.3 | 93.1 | 97.0 | 83.9 | 84.6 | 93.1 | 95.6 | 83.9 | 95.6 | 96.6 | |
| | J | 4 381 | | 346 | | 97.3 | | 93.0 | | 102.7 | | 96.1 | | 99.5 | | 83.2 | | 99.5 | | 83.2 | | 97.7 | |
| | J | 4 386 | | 346 | | 97.3 | | 93.0 | | 102.7 | | 97.6 | | 98.0 | | 88.5 | | 98.0 | | 88.5 | | 96.5 | |
| | A | 4 392 | 4 389 | 341 | 343 | 97.3 | | 92.2 | 93.1 | 103.6 | 103.6 | 97.2 | 97.8 | 98.4 | 98.9 | 85.7 | 87.4 | 98.4 | 97.6 | 85.7 | 97.6 | 96.6 | |
| | S | 4 394 | | 337 | | 98.7 | | 94.2 | | 104.3 | | 98.6 | | 100.2 | | 88.0 | | 100.2 | | 88.0 | | 95.7 | |
| | O | 4 399 | | 333 | | 99.7 | | 94.7 | | 105.8 | | 100.1 | | 100.5 | | 89.1 | | 100.5 | | 89.1 | | 98.5 | |
| | N | 4 398 | 4 395 | 330 | 331 | 100.0 | 100.0 | 95.6 | 94.7 | 105.6 | 106.7 | 100.7 | 100.8 | 101.3 | 100.9 | 87.2 | 88.2 | 101.3 | 95.8 | 87.2 | 95.8 | 97.5 | |
| | D | 4 381 | | 323 | | 100.4 | | 93.8 | | 108.8 | | 101.6 | | 101.0 | | 88.2 | | 101.0 | | 88.2 | | 98.4 | |
| 2004 | J | 4 311 | | 312 | | 99.5 | | 94.7 | | 105.5 | | 100.5 | | 100.5 | | 87.4 | | 100.5 | | 87.4 | | 95.1 | |
| | F | 4 296 | 4 317 | 299 | 305 | 100.3 | | 94.8 | 95.7 | 107.3 | 107.4 | 101.9 | 101.9 | 101.3 | 102.2 | 87.1 | 87.6 | 101.3 | 94.3 | 87.1 | 94.3 | 95.5 | |
| | M | 4 308 | | 283 | | 102.9 | | 97.6 | | 109.4 | | 103.3 | | 104.8 | | 88.2 | | 104.8 | | 88.2 | | 97.0 | |
| | A | 4 330 | | 278 | | 103.1 | | 97.1 | | 110.7 | | 104.3 | | 104.3 | | 88.2 | | 104.3 | | 88.2 | | 98.6 | |
| | M | 4 338 | 4 333 | 282 | 281 | 107.3 | 104.3 | 98.6 | 97.3 | 118.1 | 113.0 | 107.6 | 105.4 | 109.5 | 105.6 | 90.6 | 89.3 | 109.5 | 100.6 | 90.6 | 89.3 | 98.5 | |
| | J | 4 358 | | 281 | | 102.4 | | 96.2 | | 110.2 | | 104.4 | | 103.1 | | 89.1 | | 103.1 | | 89.1 | | 96.4 | |
| | J | 4 386 | | 276 | | 103.4 | | 96.4 | | 112.1 | | 103.3 | | 105.6 | | 87.5 | | 105.6 | | 87.5 | | 98.6 | |
| | A | 4 412 | 4 398 | 274 | 276 | 103.4 | 103.3 | 97.2 | 96.2 | 111.1 | 112.1 | 104.7 | 103.7 | 104.8 | 105.4 | 87.6 | 86.7 | 104.8 | 96.9 | 87.6 | 96.9 | 97.6 | |
| | S | 4 434 | | 275 | | 103.1 | | 95.1 | | 113.1 | | 103.1 | | 105.7 | | 84.9 | | 105.7 | | 84.9 | | 97.3 | |
| | O | 4 458 | | 280 | | 102.8 | | 95.6 | | 111.8 | | 101.9 | | 106.2 | | 83.7 | | 106.2 | | 83.7 | | 97.0 | |
| | N | 4 491 | 4 482 | 283 | 282 | 102.0 | 103.6 | 94.5 | 96.1 | 111.4 | 113.0 | 101.6 | 101.4 | 104.2 | 107.9 | 85.4 | 84.3 | 104.2 | 100.3 | 85.4 | 100.3 | 98.8 | |
| | D | 4 558 | | 291 | | 106.0 | | 98.3 | | 115.7 | | 100.6 | | 113.4 | | 83.9 | | 113.4 | | 83.9 | | 99.0 | |
| 2005 | J | 4 748 | | 304 | | 104.7 | | 95.9 | | 115.8 | | 103.3 | | 107.8 | | 85.2 | | 107.8 | | 85.2 | | 103.2 | |
| | F | 4 855 | 4 781 | 321 | 314 | 103.1 | | 93.6 | | 115.0 | | 100.6 | | 106.7 | | 85.1 | | 106.7 | | 85.1 | | 103.8 | |
| | M | 4 919 | | 345 | | | | | | | | | | | | | | | | | | | |
| | A | | | | | | | | | | | | | | | | | | | | | | |
| | M | | | | | | | | | | | | | | | | | | | | | | |
| | J | | | | | | | | | | | | | | | | | | | | | | |
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| | A | | | | | | | | | | | | | | | | | | | | | | |
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| | O | | | | | | | | | | | | | | | | | | | | | | |
| | N | | | | | | | | | | | | | | | | | | | | | | |
| | D | | | | | | | | | | | | | | | | | | | | | | |

¹ Seasonally adjusted by the Berlin Method (BV4). With this method, the addition of new data can change previous seasonal adjustment patterns even if the original, unadjusted, figures remained unchanged. Quarterly figures are calculated from seasonally adjusted monthly figures. — ² Also adjusted for working days.
Sources: Federal Labour Office; Federal Statistical Office; DIW Berlin calculations.

Germany – Selected Seasonally Adjusted Economic Indicators¹ (continued)

| | Manufacturing output ² | | | | | | | | | | | | Retail trade turnover | | | | Foreign trade (Special trade) ² | | | | | |
|------|--|---------|-------|---------|---------------|---------|------------------------|---------|---------------------------------|---------|---|---------|-------------------------|---------|---------|---------|--|---------|---------|---------|--|--|
| | Employment in mining and manufacturing | | | | Manufacturing | | Capital goods industry | | Durable consumer goods industry | | Non-durable consumer goods industry (incl. semi-durable goods industry) | | Construction industries | | Exports | | | | Imports | | | |
| | | | | | | | | | | | | | | | | | | | | | | |
| | in 000s | | | | 2000 = 100 | | | | | | | | | | | | Euro billion | | | | | |
| | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | month | quarter | | |
| 2003 | J | 6 191 | 99.6 | 102.4 | 102.3 | 88.1 | 97.5 | 97.0 | 85.6 | 100.9 | 100.2 | 100.9 | 83.8 | 100.9 | 55.5 | 165.1 | 45.7 | 135.6 | | | | |
| | F | 6 182 | 100.1 | 104.1 | 102.3 | 89.0 | 97.5 | 97.0 | 81.1 | 100.9 | 100.2 | 100.9 | 83.8 | 100.9 | 55.5 | 165.1 | 44.8 | 135.6 | | | | |
| | M | 6 172 | 98.0 | 100.4 | 102.3 | 85.8 | 96.1 | 97.0 | 84.8 | 98.7 | 100.2 | 98.7 | 84.8 | 98.7 | 54.0 | 165.1 | 45.1 | 135.6 | | | | |
| | A | 6 160 | 99.8 | 101.7 | 102.3 | 87.6 | 98.9 | 97.6 | 86.7 | 100.6 | 100.2 | 100.6 | 85.7 | 100.6 | 54.3 | 163.5 | 44.5 | 133.3 | | | | |
| | M | 6 151 | 97.8 | 100.3 | 100.2 | 85.7 | 95.8 | 97.6 | 84.9 | 101.3 | 100.2 | 101.3 | 85.7 | 101.3 | 54.2 | 163.5 | 44.2 | 133.3 | | | | |
| | J | 6 140 | 98.0 | 98.8 | 100.2 | 83.8 | 97.9 | 97.6 | 85.5 | 98.7 | 100.2 | 98.7 | 85.5 | 98.7 | 55.0 | 163.5 | 44.6 | 133.3 | | | | |
| | J | 6 130 | 99.7 | 102.2 | 100.2 | 88.8 | 97.8 | 97.2 | 86.5 | 99.4 | 99.2 | 99.4 | 84.9 | 99.4 | 55.7 | 168.1 | 44.1 | 132.3 | | | | |
| | A | 6 117 | 98.3 | 99.9 | 100.9 | 85.5 | 97.4 | 97.2 | 83.7 | 98.1 | 99.2 | 98.1 | 84.9 | 98.1 | 56.7 | 170.6 | 44.0 | 132.3 | | | | |
| | S | 6 107 | 98.5 | 100.7 | 100.7 | 86.6 | 96.3 | 97.2 | 84.5 | 100.2 | 100.2 | 100.2 | 84.5 | 100.2 | 55.6 | 170.6 | 44.3 | 135.4 | | | | |
| | O | 6 097 | 100.3 | 102.3 | 103.8 | 87.9 | 97.7 | 97.6 | 84.5 | 100.3 | 103.8 | 97.8 | 84.5 | 100.3 | 56.9 | 170.6 | 45.7 | 135.4 | | | | |
| | N | 6 090 | 101.0 | 104.4 | 103.8 | 87.8 | 97.0 | 97.6 | 83.9 | 97.8 | 99.6 | 97.8 | 84.5 | 97.8 | 58.1 | 170.6 | 45.3 | 135.4 | | | | |
| | D | 6 084 | 101.6 | 104.7 | 103.8 | 88.7 | 98.2 | 97.6 | 85.1 | 100.6 | 103.8 | 100.6 | 85.1 | 100.6 | 58.1 | 170.6 | 45.3 | 135.4 | | | | |
| 2004 | J | 6 048 | 100.7 | 102.7 | 103.5 | 88.0 | 97.7 | 97.4 | 82.0 | 98.6 | 103.5 | 98.6 | 83.2 | 98.6 | 58.2 | 176.0 | 45.0 | 135.9 | | | | |
| | F | 6 037 | 100.9 | 102.3 | 103.5 | 87.1 | 97.3 | 97.4 | 86.2 | 98.1 | 103.5 | 98.1 | 83.2 | 98.1 | 58.3 | 176.0 | 45.9 | 135.9 | | | | |
| | M | 6 031 | 102.1 | 105.6 | 103.5 | 89.7 | 97.3 | 97.4 | 81.3 | 100.1 | 103.5 | 100.1 | 81.3 | 100.1 | 59.5 | 176.0 | 45.1 | 135.9 | | | | |
| | A | 6 028 | 102.6 | 105.9 | 103.5 | 89.2 | 97.5 | 97.4 | 80.4 | 98.5 | 103.5 | 98.5 | 80.4 | 98.5 | 61.4 | 184.7 | 46.9 | 142.1 | | | | |
| | M | 6 020 | 105.6 | 109.2 | 107.8 | 92.5 | 100.2 | 98.3 | 82.4 | 95.6 | 107.8 | 95.6 | 81.3 | 95.6 | 63.2 | 184.7 | 48.8 | 142.1 | | | | |
| | J | 6 017 | 103.7 | 108.2 | 107.8 | 90.5 | 97.1 | 98.3 | 80.9 | 100.2 | 107.8 | 100.2 | 81.3 | 100.2 | 60.1 | 184.7 | 46.3 | 142.1 | | | | |
| | J | 6 010 | 102.9 | 106.0 | 107.5 | 87.5 | 97.8 | 98.1 | 78.8 | 98.3 | 107.5 | 98.3 | 79.6 | 98.3 | 61.0 | 181.5 | 49.0 | 146.3 | | | | |
| | A | 6 012 | 104.1 | 108.1 | 107.5 | 88.4 | 98.1 | 98.2 | 81.1 | 98.2 | 107.5 | 98.2 | 79.6 | 98.2 | 60.5 | 181.5 | 48.2 | 146.3 | | | | |
| | S | 6 009 | 104.2 | 108.3 | 107.5 | 86.8 | 98.7 | 98.2 | 79.1 | 97.8 | 107.5 | 97.8 | 79.1 | 97.8 | 60.0 | 181.5 | 49.1 | 146.3 | | | | |
| | O | 6 004 | 103.5 | 107.9 | 105.1 | 85.5 | 97.9 | 98.1 | 77.9 | 96.2 | 105.1 | 96.2 | 77.8 | 96.2 | 62.6 | 184.9 | 49.3 | 146.0 | | | | |
| | N | 5 995 | 102.3 | 104.1 | 105.1 | 85.0 | 98.7 | 98.1 | 77.6 | 98.8 | 105.1 | 98.8 | 77.8 | 98.8 | 61.9 | 184.9 | 48.9 | 146.0 | | | | |
| | D | 5 990 | 101.5 | 103.4 | 105.1 | 85.1 | 97.7 | 98.1 | 77.9 | 97.5 | 103.4 | 97.5 | 77.9 | 97.5 | 60.4 | 184.9 | 47.8 | 146.0 | | | | |
| 2005 | J | 5 974 | 105.1 | 107.3 | 107.3 | 87.9 | 100.7 | 98.7 | 80.5 | 98.5 | 107.3 | 98.5 | 78.8 | 98.5 | 63.2 | 184.9 | 49.5 | 146.0 | | | | |
| | F | | 104.0 | 106.2 | 107.3 | 87.7 | 101.1 | 98.7 | 72.7 | 98.9 | 106.2 | 98.9 | 78.8 | 98.9 | 62.3 | 184.9 | 48.6 | 146.0 | | | | |
| | M | | | | | | | | | | | | | | | | | | | | | |
| | A | | | | | | | | | | | | | | | | | | | | | |
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¹ Seasonally adjusted by the Berlin Method (BV4). With this method, the addition of new data can change previous seasonal adjustment patterns even if the original, unadjusted, figures remained unchanged. Quarterly figures are calculated from seasonally adjusted monthly figures. — ² Also adjusted for working days.
Sources: Federal Labour Office; Federal Statistical Office; DIW Berlin calculations.