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Poverty and Wealth Reporting of the German Government: Approach, Lessons and Critique

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POVERTY AND WEALTH REPORTING OF THE GERMAN GOVERNMENT
APPROACH, LESSONS AND CRITIQUE

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Abstract

The Capability Approach has been adopted as a theoretical framework for official Poverty and Wealth Reports by the German government. For the first time, this paper provides information on the use of the Capability Approach in this reporting process to international readers. We show the background and processes that might have led the government to adopt Amartya Sen's Capability Approach as a framework for the reports and describe the Capability-related structure and main contents of the recent 3rd Poverty and Wealth Report. We also explain why the extension of the Capability Approach from poverty to wealth issues in German reports may be promising also for analyses of capability deprivation in general. Finally, we discuss major shortcoming and challenges of the reporting and end with a brief conclusion.

Key Words: capability approach, poverty, wealth, affluent countries, Amartya Sen

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1 Introduction

About a decade ago Slesnick (1998) stated in the *Journal of Economic Literature* that not enough operationalizations of the Capability Approach (CA) could be found to allow for a discussion of its application in different countries. This has changed a lot over the last years. Meanwhile the CA has not only been used in academics as a tool for assessing different dimensions of well-being and poverty but also as a theoretical framework for reporting on poverty, well-being and Human Development in the developing world. Moreover, in the last years the CA has also been increasingly used in rich countries. For instance, the CA has been a point of departure for the development of a set of European Community indicators on poverty and social exclusion called the Laeken Indicators (Atkinson 2003). Regarding a more sophisticated application in single countries, Germany was one of the first to introduce official poverty reports based on the CA (Bundesregierung, 2005). Meanwhile more CA based studies have been published, e.g. Burchardt and Vizard (2007), Anand, Santos and Smith (2008), Anand and Santos (2007) and Anand et al. (2009) for Great Britain, Burd-Sharps, Lewis and Borges (2008) for the US, Chiappero-Martinetti and Moroni (2007) for Italy and Robeyns and van der Veen (2007) for the Netherlands.

Following Sen's (1999a) position that the CA is adequate for an analysis of poor, but also of rich countries, the CA has been introduced as a theoretical framework for official „Poverty and Wealth Reports” in Germany (Bundesregierung, 2008; Bundesregierung, 2005). Meanwhile, a series of three subsequent poverty and wealth reports from 2001 to 2008 allows showing some milestones of the implementation process.

We argue that this process as well as the first reactions from scholars and the public may provide insights for current and future realizations of similar CA based reporting systems in other countries. Therefore, we will provide an overview of the major theoretical, political and practical issues that have been raised within and by the process of establishing the reports. For the first time, we want to show major achievements and shortcomings of the German CA-oriented reporting to the international CA community, as the whole reporting has so far only been discussed in German language.

The paper is organized as follows: In the second chapter we sketch out the political, organizational and theoretical background in Germany. The third section lays out the notion of poverty and wealth used in the German reporting and describes the „*framework of opportunities to participate and of capabilities*” that has been chosen in order to operationalize the theoretical concept. In chapter four we summarize the current structure of the report and its main topics. Moreover, we explain the potentials of a CA based reporting on poverty *and* wealth. We illustrate our argument by the access to top management positions in Germany which is still heavily gendered and very difficult for more than 95 % of the German population. Chapter five provides a CA critique of the German poverty and wealth reporting system and gives an overview of the controversial public debate that has been initiated with

the presentation of the last German poverty and wealth report. We end with conclusions and perspectives.

2 German Poverty and Wealth Reporting: Political, Organizational, and Academic Background

2.1 From Ignorance to the First German Poverty and Wealth Report

Some months after the Copenhagen World Summit for Social Development (WSSD) in March 1995, where among 130 countries also Germany committed itself to attach priority to combating poverty and social disadvantage,^{*} the German government argued that it was not possible to use the term “poverty” in affluent countries like Germany as long as there remained a controversial debate about a “suitable concept of poverty and wealth” without undisputed definitions. Consequently, still in 1995 it even refused to answer any of the various questions in an interpellation of the German parliament whenever the term “poverty” was used.[†]

In 1998 a new government of Social Democrats and the Green Party was elected. The new administration decided to introduce a poverty and wealth reporting system in Germany. Three issues are remarkable in this respect: First, the Social Democrats were the party that had initiated the already mentioned interpellation concerning poverty and might have felt a political obligation as well as an opportunity by concentrating on these issues. Second, some welfare organizations had called for officially recognizing and monitoring poverty *together* with wealth in Germany. Third, in 1998 the European Union adopted the National Anti-Poverty Strategy (NAPS) requiring each Member State to prepare “National Action Plans against Poverty and Social Exclusion (NAPincl)”. The NAPincl-process expected the EU Member States’ governments to establish regular plans against poverty and social exclusion in their countries.[‡]

These facts triggered the decision of the German government in 2000 to establish

- a governmental reporting system on poverty and wealth as well as
- an official national report to be published every three years.

Beyond the report itself the reporting system consists of tendered scientific studies on poverty and wealth as well as of an institutionalized public debate including scientific experts as well as public advisors (civil society organizations, local governments and other social stakeholders).[§]

Trying to deliver an informational foundation for the German National Action Plan (which the European Union expected to be published by each Member State in 2001) the German

^{*} (Semrau and Muellenmeister-Faust, 2003, p. 128)

[†] (Bundesregierung, 1995)

[‡] (Semrau and Muellenmeister-Faust, 2003, p. 134)

[§] (See Semrau and Muellenmeister-Faust, 2003, p. 129)

government over-hastily published the first Poverty and Wealth report in 2001 without a clear theoretical framework (Bundesregierung, 2001).

2.2 The Choice of a Suitable Approach for Assessing Poverty and Wealth in Germany and the Second Report

To fill this theoretical gap the German government tendered a series of scientific research projects in order to overcome the lack of theory and official results on poverty and wealth. The first two research projects had to deal with the theoretical framework.

There had already existed a comprehensive theoretical framework, for German poverty analyses called the “Conditions of Life Approach” (“CLA”, “German: “Lebenslagen-Ansatz”). Therefore one research project (Voges et al., 2003) had to explore the suitability of this approach as a framework for the reporting. Since 1910 various CLA analyses have been established and become very prominent among German social scientists who work on issues of well-being and poverty.**

Voges et al. (2003) summarized the main common features of German CLAs: Multidimensionality; importance of non-economic, immaterial dimensions of well-being, such as employment, education, housing and health; income as an important, but just one, factor of analysis; focus on individual opportunities and choices but also on their limitations. Apparently, this list shows some common features with the CA which will be discussed later.

2.3 A Capability Approach (CA) for German Poverty and Wealth Reporting?

The objective of the other project (Volkert et al., 2003) – to be discussed later in more detail – was to find a promising alternative framework for the reporting, which later resulted in the adoption of the CA as a new framework for official German reports.

In contrast to the before-mentioned study by Voges et al. (2003), Volkert et al. (2003) were not restricted to a specific theory. As conditions *sine qua non* the following major goals of the official German poverty and wealth reporting had to be taken into account (Bundesregierung, 2005; Volkert et al., 2003). The reporting should:

1. Help to establish a broad and informed discussion that would contribute to the fight against poverty and strengthen social justice and equality of opportunity.
2. Analyze exclusion and privileges.
3. Take account of gender mainstreaming issues in the reporting.
4. Check how far general public policies influence and recognize the fight against poverty (‘mainstreaming’) and foster social integration.
5. Strengthen the international exchange of knowledge and experience.

** Otto Neurath, who was also a philosopher, developed this approach between 1910 and 1945, followed by Weisser who worked on this approach from 1950 until 1978; for further details see Leßmann (2007).

The research team recommended to use the CA as a future theoretical foundation for attaining the official reporting goals and presented an example for a country-specific framework for Germany based on the CA.

In the end, one of the most convincing arguments in favor of the CA might have been that it was more promising in order to pursue the fifth goal (of strengthening the international exchange of knowledge and experience), taking into account that the CLA had been almost unknown in international debates. As Germany also has to report on poverty on the European level it was a helpful coincidence that at the same time Atkinson et al. (2002) had proposed a reorientation of EU poverty concepts, directly invoking Sen's arguments that emphasized the necessity to integrate income and wealth into a broader picture of success and deprivation (Atkinson 2003; Volkert 2006).

2.4 Capability (CA) and Condition of Life Approaches (CLA): Similarities

The similarities between the CA and the CLA allowed an integration of the CLA into a CA perspective. In fact, there are diverse similarities of the CA with the traditional German CLA. Neurath's (1912 and 1917) critique of utility as a measure of welfare as well as his subsequent preference of a multidimensional focus on the lives people lead shows remarkable parallels to Sen's (1992) work. Perhaps most striking is the difference already Grelling (1921) had made between an achieved standard of living ("Lebenshaltung") that an individual has chosen on the one hand and the set of all possible standards of living ("Lebenslage") from which the individual can choose. This is almost identical with the distinction of functionings and capabilities in the CA. And, according to Weisser, what should be central for the CLA, is not achievement but the individual menu of feasible standards of livings in the sense of individual choices and opportunities – just as in the CA. This corresponds to the CA's capability set as much as does Weisser's search for criteria for identifying relevant dimensions as well as his further challenges like adaptive preferences and different "lists" of relevant conditions of life (Weisser, 1972).^{††}

The parallels in theory and application result in a very similar political perspective. Therefore, there is no problem to derive consistent policy recommendations based on both approaches. To the contrary, the application of both approaches may produce value-added for each of them. Leßmann (2009) expects that the CA might improve the coherence of the CLA as the CLA's terminology has changed from author to author in the last 100 years which has sometimes produced inconsistencies. However, the CA can also benefit from the CLA by strengthening the role of social sciences within the CA. The hope that the perspectives and findings of both approaches could be mutually beneficial, might have contributed to the adoption of the CA as a guiding framework by the German government.

^{††} For a thorough discussion of similarities and differences of the CA and the CLA refer to Leßmann (2009, 2008, 2007 and 2005).

2.5 CA and CLA: A Combined Framework for Official German Reports

The German government has started to refer to Sen's CA as a conceptual framework not earlier than with the second national Poverty and Wealth Report which was published in 2005. However, the series where the reports are published is called "Conditions of Life in Germany". Regarding the theoretical framework, the government stated in the 2nd report:

"Derived from relevant conditions of life the framework [of this official German Report on Poverty and Wealth] is based on Amartya Sen's Capability Approach in order to assess opportunities that allow to achieve valuable beings and doings. In this context poverty is identified in terms of capability deprivation, wealth as a very extensive capability set (Bundesregierung, 2005, translation by authors)."

Moreover, a first empirical feasibility study on how to assess main determinants of capabilities in Germany has been carried out (Arndt and Volkert, 2007; Arndt et al., 2006). Finally, after the elections in 2005, the new German government decided to continue to use Sen's CA as a conceptual framework for subsequent German 'Poverty and Wealth Reports'. The latest 3rd official German Poverty and Wealth Report (Bundesregierung, 2008) re-emphasizes the role of the CA in combination with the CLA, but at the same time tries to shift the report closer to the framework, terminology and dimensions that had been recommended from the CA perspective. This perspective established for the reports will be briefly sketched in the next section.

3 A Framework of Main Determinants of Capabilities for Germany

The CA framework perceives poverty as the *inability of individuals to realize a set of basic functionings or capabilities to lead the kind of lives that are valuable to them* (Sen, 1992, pp. 39-40). Wealth can be conceived correspondingly as a very extensive capability or functioning set.

In order to identify poverty and wealth along these lines, the main determinants that make up a person's capability set have to be assessed. We will discuss the exemplary set of main determinants that has been adopted by the German government for the current poverty and wealth reportings.

3.1 Choice of Dimensions and Main Institutions of the Reporting Process

Volkert et al. (2003) emphasized that a thorough public discussion would be needed for the final assessment of relevant dimensions. Meanwhile, the following framework for discussion has been developed:

1. An institutionalized discourse within the reporting process involves about 40 scientific experts as well as representatives of about 35 civil society organizations who bring in their background and perspectives in regular meetings together with the project team of the responsible German Ministry of Labor and Social Affairs.

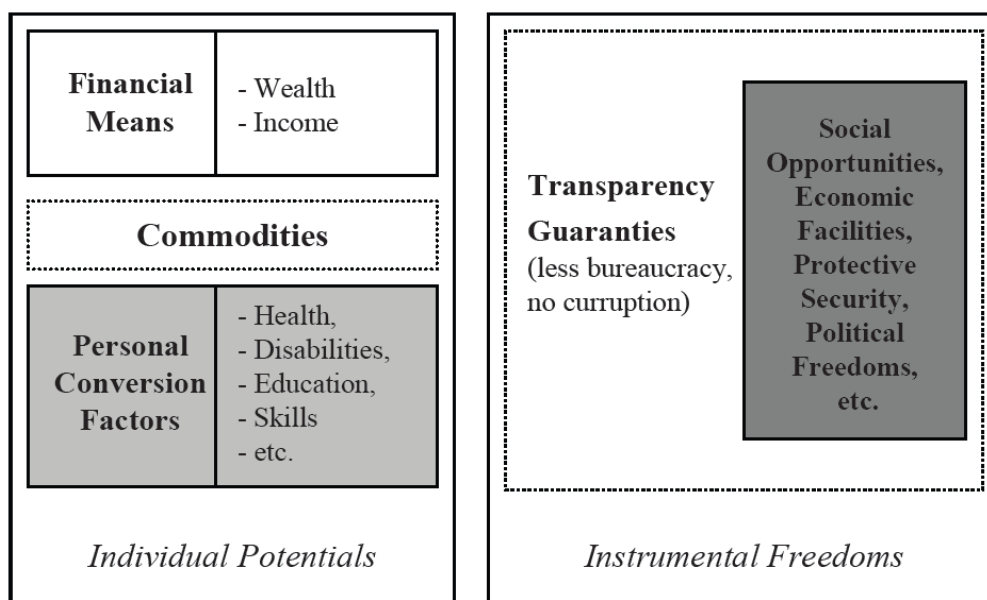
2. Goals, results and perspectives of social policy strategies as well as regional and local initiatives are discussed in a regional forum.
3. The “National Poverty Conference” aims at enabling the poor to articulate their positions and participate in the reporting process (Bundesregierung, 2008).
4. Moreover, each of the Poverty and Wealth Reports has received a lot of attention and caused a lively and controversial public discussion that can be used to further develop the framework and the details of the report. This helps to get closer to the first goal of the reports: To establish an informed and competent broad discussion on challenges of poverty and wealth.

Although each of these steps is certainly helpful for the establishment of a participatory reporting process, the identification of main capability dimensions will necessarily stay heavily influenced by “experts” and organized stakeholders. However, from a CA perspective, the public, notably the poor, deserve more attention because they are often more capable to decide on major dimensions of capability (failure) (Volkert et al., 2003).

3.2 Main determinants of capabilities as central reporting issues

In order to motivate such a public discussion, Volkert et al. (2003) had established a preliminary illustrative proposal of determinants of capabilities that might be helpful for the reporting issues (figure 1) and could serve as a point of departure. This proposal of main determinants of capabilities had been derived by integrating major German CLA analyses and discussions into a CA framework. Some of the technical terms used in this suggestion are new to the existing CA literature and will be described in more detail.

Figure 1: Main Determinants of Capabilities



3.2.1 Individual Potentials

The notion of *individual potentials* is a new term in the CA literature. From a CA perspective individual potentials include means like income, wealth (and debts) as well as commodities

and personal conversion factors like education, skills, health, disabilities, gender, age, nationality etc. (Robeyns, 2005; Sen, 1999b). The term “individual potentials” has been introduced in order to distinguish those determinants of capabilities that are closely linked to an individual and do not directly depend on a specific society. This can be illustrated by individual potentials like personal health or income: an individual will suffer from diabetes in any society of the world; also, as he or she will be able to transfer and make use of income in all kinds of countries in the world. *Individual potentials* are opposed to the *instrumental freedoms* or *social conversion factors* that determine how given comparable individual potentials can or cannot be converted into well-being depending on the society a person lives in.

Income is an important element of individual potentials because it serves as a means to a variety of ends. Income indicators may also help to proxy capability dimensions for which adequate indicators are not available (Anand and Sen, 2000; Sen, 1992, p. 111).

However, the financial situation is also influenced by the *stock of financial wealth* or *extreme debts*^{‡‡}: a person with a relatively low income may even be better off than a person with a higher income with extreme high debts. Moreover, the group of income-poor in Germany differs significantly from the group of over-indebted persons.

Further, the array of *commodities* that are available to a person has to be taken into account, because it may not be adequately reflected by financial indicators only.^{§§}

Personal conversion factors determine the ability to convert income, wealth and commodities into capabilities, according to personal characteristics (Robeyns, 2005, pp. 98-100). This is so because individual capabilities are not mainly determined by the quantity of available commodities but rather by commodity characteristics that are valuable for a certain person. Personal conversion factors include – inter alia – an individual’s educational level (school enrolment) and skills (literacy), health, disabilities, age, sex, nationality etc.

3.2.2 Instrumental Freedoms

Whether and how far individual potentials can be converted into capabilities will be strongly influenced by society and social actors. For instance, the extent to which a chronic disease such as diabetes will affect the life expectancy, depends on the access to efficient health care, knowledge and awareness of the corresponding risks, which are influenced by a prior access to education etc. (Sen, 1992, pp. 111-116; Robeyns, 2005, pp. 98-99).

The notion of *instrumental freedoms* summarizes these main possibilities of a state, public policies, social groups, and other social actors to expand or restrict individual capabilities. For instance, instrumental freedoms appear in the following forms (Sen, 1999a, pp. 38-41):

^{‡‡} The term “extreme debts” is used to describe situations in which a person (or a household) is faced with debt payments that go beyond his or her financial means and make it impossible to cover the financial needs of a socio-economic minimum.

^{§§} Complementary public transfers in kind (instead of cash transfers), assistance and transfers by family or neighborhood networks, etc., may loosen the link between financial income and commodities. Moreover, the calculation of personal income by equivalence scales does often not adequately reflect the actual intra-household distribution.

First, *social opportunities* reflect the arrangements that a society makes in order to guarantee the access to education, health care, public services, decent housing and other social institutions.

Second, opportunities to use economic resources are called *economic facilities*. To give an example, the most important lack of economic facilities in European countries like Germany is caused by (long-term) unemployment because it has many far-reaching effects other than loss of income, including psychological harm, loss of work motivation, skill and self-confidence (Sen, 1997). But also working conditions, such as ‘working poor’ and ‘low wages’ or privileged career opportunities co-determine one’s capability set (Arndt and Volkert, 2006). Further economic facilities include access to capital (banking accounts) and land.

Third, *protective security* includes social security systems and protection from violence and criminality. A social safety net is needed in order to prevent misery of the most vulnerable. Redistribution effects of the social security system, particularly its contribution in favor of the poorest households, are important to assess capability deprivation. Protective security privileges, in contrast, can be assumed when certain persons or groups enjoy low taxes and social security burdens relative to their (high) incomes. Also, a concept to assess protective security should explicitly incorporate protection from violence.

A major challenge in the field of protective security is the need to identify *primary* or *extreme poverty* in the sense of missing even biological subsistence levels also in rich countries (Sen, 1999a, p. 89; Sen, 1981). Sen (1983, p. 154) argued that the important insight of the relativity of poverty unfortunately “took the investigation entirely in the relativist direction.” Recently it has become more obvious in Germany that the homeless, drug addicts or illegal immigrants live in desperate misery and *extreme poverty*. Their problems have been neglected for decades. Therefore, a new focus has been given to these issues of extreme poverty in German poverty and wealth reports (Bundesregierung, 2008).

Fourth, *political freedoms* refer to the opportunities to participate in determining governments and public policies. Needs that are not articulated in the democratic process tend to be neglected. Highly influential interest groups can further distort the political process (Sen, 1999a; Schneider and Volkert, 2005).

Fifth, in the CA the opportunities to realize social actions under guarantees of disclosure and lucidity are called *transparency guarantees* (Sen, 1999a, p. 39). For poverty analyses the degree of bureaucratization and the resulting size of non-take-up-rates of social transfer payments are of particular interest. The same holds for obstacles in transparency guarantees due to corruption, bribery, fraud or tax evasion with respect to poverty as well as wealth analyses (Volkert et al., 2003, pp. 131-143). This is most important because *formal* public policy guarantees of other instrumental freedoms, like access to health care or social security, do not enhance individual capabilities for those people that are not able to benefit from them because of corruption or bureaucratic complexity. Thus an analysis of transparency guarantees is indispensable for identifying a lack of *real* freedoms and privileges.

Summarizing, the new CA perspective has been one reason why political freedoms, and the assessment of extreme poverty have been integrated as major elements into the poverty and

wealth reporting. They are reaching well beyond the German CLA which did not give the same importance to these dimensions.

3.2.3 Instrumental freedoms, social exclusion, privileges, and public policy

The theoretical division of individual potentials and instrumental freedoms is new in the CA. It has been developed for the German reporting process in order to specify major determinants of social exclusion and privileges; and to distinguish direct and indirect impacts of public policy as will be explained in the following.

Following a CA perspective social exclusion can be perceived as a specific lack or social denial of instrumental freedoms to certain individuals or groups (Strotmann and Volkert, 2008). On the one hand side, deficits of individual potentials like income-poverty or severe diseases do not – per se – cause *social* exclusion. Instead, it is the lack of corresponding instrumental freedoms like the denial of social security payments or of an access to healthcare that leads to social exclusion in these situations. On the other hand side, social privileges may be seen as an extensive set of instrumental freedoms that is often established and maintained by impairing the capability sets of other citizens. Again, an extensive set of individual potentials like high income, very good health or excellent education alone will not be associated with privileges as long as they are not restricting the instrumental freedoms of other persons. Privileges will be established by instrumental freedoms like exclusive access to elite education, to excellent health care, to economic top positions or by corruption that may also be used to exclude others from certain opportunities.

In a CA framework redesigning public policies means to further develop instrumental freedoms. For public policy it is easier to directly influence instrumental freedoms than to indirectly affect personal conversion factors. This is so as only some functionings are determined by social constraints, others depend on individual potentials like skills or on preferences.^{***} Whether and how far these political public policy reforms are effective – via instrumental freedoms – can be evaluated by analyzing the resulting changes within individual potentials and instrumental freedoms. It is important to extend the scope of such an evaluation to the full range of individual potentials and instrumental freedoms. This is so, because targeted improvements of one component of individual potentials or instrumental freedoms often induce unexpected deteriorations or improvements of other main determinants of capabilities (Alkire, 2002). Therefore, in spite of the importance that must be given to instrumental freedoms that politics can directly influence the report has to avoid a bias towards the public sphere of life. How the German government deals with this challenge in the recent 3rd report will be explained in the following together with the structure and main contents of the report.

^{***} To give an example: to improve the skills of the population, public policy can provide instrumental freedoms like the access to (excellent) education; however, this will not guarantee the improvement of people's skills and other personal conversion factors, as long as the population is not willing to attend or able to follow these education programs.

4 The third official German poverty and wealth report: structure, topics and selected insights

4.1 Basic structure and major topics

The third official German Poverty and Wealth Report containing 375 pages is divided into two major parts:

1. The first, analytical part mainly relies on socio-economic studies established by independent German researchers on behalf of the German Government. Its purpose is to highlight the major findings regarding poverty, wealth, conditions of life and capabilities in Germany. In principal, it follows the system of *main determinants of capabilities* that has been described in chapter 3.^{†††} Hence, the major issues of the report are high and low incomes, financial wealth and debts, education, health, housing, employment, political and social participation. Social protection issues like the redistributive effects of social transfers and taxes in Germany are included into the income sections, education and health as individual potentials are combined with related instrumental freedoms like access to education and the health system. The statistics related to these major issues are called *core indicators* and deliver systematic descriptive results for each of the determinants mentioned in this figure. An overview of the empirical results related to the core indicators is given in the appendix. To avoid a bias towards the public sphere of life, and neglect family life, social relationships, and the importance of groups, additional focus chapters in the report highlight the situation and challenges of groups like families, immigrants, disabled people, and of most vulnerable people in extreme poverty (homeless, street kids, (former) prison inmates, drug addicts, women suffering from domestic violence and HIV-Aids). The selection of focus groups shall be modified from report to report.
2. The second, political part of the German Poverty and Wealth Report shows the same structure as the analytical part, i.e. it is also structured according to major determinants of capabilities. The main purpose of this part – which is established by the government – is to show how the government plans or has taken action to overcome major challenges that have been addressed and identified in the analytical part. Therefore, this part explains how they intend to fight income poverty and over-indebtedness, how “education as a key to participation and integration” may be improved and how gainful employment, health, and housing as well as political and social participation may be fostered by politics and society.

From a CA perspective it is remarkable that the report does not limit the discussion to poverty and capability deprivation but extends the discussion to wealth as a very extensive capability set. In the next section we will discuss the potentials of such a comprehensive perspective by some findings of the recent Poverty and Wealth Report.

^{†††} Refer to the appendix for further information and results on core indicators.

4.2 Extensive economic facilities and capability deprivation in Germany: who may or may not reach the top

4.2.1 Wealth and the CA

The idea to enhance the capabilities and the real freedoms of all people can be seen as one of the major goals of the CA. Therefore, in principal, the CA goes far beyond overcoming capability deprivation and rather calls for extending one's capabilities and even aims at providing wealth as a very extensive capability set to the population. Hence, the integration of wealth into CA analyses takes account of major aspirations of the CA.

However, like in poverty research, we have to analyze issues beyond the traditional concentration on income and economic wealth in order to achieve a broader capability focus on the lives we can lead to assess poverty, affluence and development. For example, a person who is denied the opportunity of employment but assisted by "unemployment benefits" may be less income poor than deprived in terms of the valued opportunity of having a fulfilling occupation. Moreover financially rich persons suffering from expensive or extremely handicapping ailment would not be classified as income-poor, although they are deprived in an important way (Sen 1999a: 94). For high incomes and financial wealth are just one of several means for being able to lead the kind of lives we have reasons to value (Sen 1999a: 14). Hence, the examination of wealth has to be extended from financial measures to include also various non-financial determinants of very extensive capability sets.

Moreover, integrating wealth into CA-analyses may help poverty researchers to identify impediments that prevent from enhancing the capabilities of the poor. As Oyen (1996, p. 11) puts it: "If we are to advance in further poverty understanding, as researchers and policy makers, there is an urgent need to develop a more realistic paradigm where the focus is shifted to the non-poor part of the population." The non-poor, the rich and especially the role of both groups in creating and sustaining poverty – for example via privileges – are of high importance. In particular an analysis that shall broaden the perspective from poverty to inequality must extend its scope to the non-poor and the rich and the elite.

Furthermore, assessing wealth in the sense of very extensive capability sets may contribute to better understand the ambivalent nature of wealth. On the one hand side, wealth, in particular when defined comprehensively, is a valuable goal, notably in the CA. On the other hand side, extensive capability sets can also lead to privileges that hamper the opportunities and access to attractive beings and doings for other persons in a way that is neither in line with social justice nor with economic efficiency. This means that identifying privileges in the access to valuable beings and doings may provide further insights into the social mobility from a CA perspective.

Privileges and earnings of German top managers have been one of the examples for this and have been discussed in the public as well as in the wealth section of the current third Poverty and Wealth Report. The access to top management positions can be interpreted as a result of very extensive economic facilities. In principle, an efficient and fair economic system should guarantee equal access to these extensive economic facilities for all individuals with the same prerequisites and (high) skills. However, a study on behalf of the reporting process (Noll et al.

2008) has identified a privileged access to top positions in major companies in Germany. The causes of these privileges and ways to achieve higher social mobility within economic facilities in Germany will be discussed in the next subsection. Afterwards we will discuss the reasons why there are (almost) no women in German top management. These restrictions for women are very different from the impediments for members of socially disadvantaged households whose access to top management is restricted due to other reasons. Both sections shall illustrate the value-added that a CA analysis of poverty *and* wealth can provide.

4.2.2 Reaching top management positions: the importance of social background and education

Like in other rich countries the access to economic top positions in Germany is characterized by a strongly biased social selection process (Bundesregierung, 2008, pp. 30-31). Hartmann (2007) has provided further insights by distinguishing the categories of “upper classes” (highest 0.5% of the German population), “upper middle classes” (highest 3.0 % of the German population next to upper classes), and “middle and working classes” (96.5 % of the German population). About 50% of all CEOs of Germany’s top 100 companies have been born in upper class families, one third of CEOs in upper middle classes and 15 % in German middle and working classes. This means that 85 % of all CEO positions in Germany are held by a group of 3.5 % of the population while 96.5 % of the population compete for 15 % of all CEO positions (Table 2).⁺⁺⁺

Table 2 shows that the situation is similar to Germany in France (F), Great Britain (G) and Spain (ES) with more than 50 % of all top managers coming from upper class families and less than 16 % of all CEOs being a member of the middle, working or lower classes. However, in Sweden (S) half of all CEOs have been born in middle, working or lower classes.

Table 2: Social recruitment of economic elites (VCEO / Chairman, PDG, Vorstandsvorsitzender, Amministratore Delegato, President)

	F	GB	ES	D	I	CH	S
Upper classes	57.0 %	53.2 %	55.0 %	51.7 %	51.6 %	31.8 %	28.6 %
Upper middle classes	30.3 %	31.2 %	30.0 %	33.3 %	16.1 %	22.7 %	21.4 %
Middle/working/lower classes	12.7 %	15.6 %	15.0 %	15.0 %	32.3 %	45.5 %	50.0 %

Source: Hartmann (2007)

For Germany, a major reason for these inequalities is education. Top managers in Germany face an increasing importance of excellent education. 80-90 % of them have a university degree and almost 50 % of them have achieved a doctorate. Therefore, abolishing privileges

⁺⁺⁺ Hartmann (2007) with results for France (F), Great Britain (GB), Germany (D), Italy (I), Switzerland (CH) and Sweden (SWE).

in the access to higher education is one of the most important prerequisites for a fair access to top management and a high degree of economic facilities.

However, strong social selection processes are already rooted in the German primary education. It has been shown for Germany that the access to day-care centers for pre-school children has a significant impact on their further success in school.^{§§§} However, of all children in the age of 3 to 6 years whose mother does not have a school degree, only 74 % do benefit from child care, compared with 90 % of the children of mothers with a university degree (Kreyenfeld, 2007). The recent Poverty and Wealth Report continues to acknowledge that, despite the dominance of free public school education, Germany is one of the OECD countries with a remarkable social selectivity in schools. German schools tend to outsource a considerable share of education to homework making it difficult for children whose parents do not have sufficient skills (low educated or migrant parents) or time (single mothers) to assist and help their children. Therefore, controlling for cognitive skills children from the highest educational quartile have a more than five times higher probability to get access to a university than children with parents in the 3rd educational quintile.^{****} As a consequence, 83 of 100 children in Germany whose father has an academic degree also make their way to the university compared with 23 children of non-academic fathers who at least start to study (Bundesregierung, 2008, p. 69). Moreover, the probability to finish their studies and continue with a successful doctorate is also lower for people from non-academic households (Noll, Volkert and Zuber, 2008). Obviously, better access to education is one of the major challenges to overcome the social selectivity in the access to economic top positions and extensive economic facilities. This, as well as other necessary improvements of social opportunities, like child care, support of “homework” by schools, full day education etc. are highlighted in several chapters of the report. Although better access to education and improvements of other social opportunities may be necessary in all of these cases, they are sometimes not sufficient to improve the access to the top management for all – as the challenges for women in Germany show.

4.2.3 Women: well educated, but unknown creatures in German top management

In Germany, women’s access to education and their educational levels have been remarkably improved in the last decades. More girls than boys achieve a university-entrance diploma and less girls than boys end up in less promising schools. Not girls, but boys cause a major challenge for schools due to their remarkably lower literacy skills in comparison to girls (Noll, Volkert and Zuber, 2008, p. 153). Today, the share of women aged 25-35 with a university degree is almost as high as the share of men, in East Germany more women than

^{§§§} This is so because the provision of professional care and pre-school education helps to establish social and other basic competences and fosters the development of language skills, especially when low-skilled parents are not able to provide optimal support for their children. The latter is of particular importance for children of immigrants whose parents do not speak German and who often have severe problems in their school career (Bundesregierung, 2008, 97).

^{****} At first glance the differences are even higher. This is so because – without controlling for cognitive skills – the probability that children from the 25 % best educated families (highest quartile) get advanced schooling and access to a university is almost nine times higher than that of children with parents of the 3rd educational quartile (25-50 %), PISA (2003).

men are already finishing their studies with a university degree (Bundesregierung, 2008, p. 65). 30 % of all doctoral degrees in disciplines that are most relevant for German top management positions (economics and law, natural sciences and engineering) are achieved by women (Noll, Volkert and Zuber, 2008, p. 134). However, even with comparable educational levels, the probability of men to reach a top management level in Germany is 10 times higher than that of women (Bundesregierung, 2008, p. 31). In 2006, no woman had made her way into an executive board or board of directors of the top 10 corporations in Germany. And even among the top 100 companies in Germany there was just one female member of the executive board who was not at the same time a major capital owner (Holst and Stahn, 2007, p. 9). Major causes for this kind of gendered opportunities are disadvantages for women with respect to economic facilities and social opportunities. Women have more problems to get integrated into important corporate career networks (worse access to high potential labor markets and careers). Moreover also high-skilled women – especially in West Germany – are still confronted with traditional role models and a division of labor that expects them to be primarily responsible for their children (less social opportunities). 10 % of all women between 30 and 44 years (in the “family phase”) with children have reached a leading position in middle management but 21 % of all women without children have. Moreover, 24 % of men in the same age group reach comparable leading positions no matter whether they have children or not. Married men in leading positions tend to delegate the organization of their family and social networks to their wives who often do not work (full time). At the same time, successful female managers do not get a similar support from their – mostly employed – partner and more often they have no partner and children.^{††††}

The analysis of women’s problems to reach extensive economic facilities in Germany by the German reporting process underlines the value of a comprehensive assessment of poverty and wealth from a CA perspective. It shows that the main causes of social exclusion and privileges in the market for top managers may differ – like they do for women and socially less privileged groups. It is important to identify different group specific reasons in order to establish policies and social strategies to overcome the resulting problems. For children from socially disadvantaged households this calls for more *real* freedoms to get educated. But for women this means more than better education, which has not provided a much better access to top positions yet. It requires an additional improvement of economic facilities within companies. However, for women, economic facilities cannot be improved without providing more social opportunities in various fields. Changing role models and providing sufficiently flexible, high quality child care are only two of these major issues. Insofar a comprehensive assessment of poverty and wealth from a CA perspective may also provide further insights into the interplay of different instrumental freedoms as a barrier and a point of departure to improve social mobility from the bottom to the top. From this perspective, one of the main contributions of Germany’s official Poverty and Wealth Reports is to explore the value-added

^{††††} Recent studies also show that women who apply for leading middle management positions have even better chances to get these jobs than men. The reason why they are not more successful is that they apply less often – which may result of their awareness of restricted social opportunities and economic facilities (Noll, Volkert and Zuber, 2008).

of a comprehensive CA perspective on poverty *and* wealth – topics that are not often combined in the CA.

5 CA-oriented reporting in Germany: contributions, shortcomings and conclusions

In the following we first address remarkable contributions of the German reporting system. Thereafter, we discuss central shortcomings.

5.1 Contributions

The establishment of an official Poverty and Wealth Reporting System in Germany has contributed in a number of ways to better assess and overcome poverty and social exclusion.

First, the establishment of official reports by the German government indicates a political acknowledgement of its responsibility for fighting poverty and social exclusion as well as for reducing existing privileges. It is remarkable that the recent 3rd report was published by a government under a chancellor of the Christian Democrats, a party who refused to accept even the idea that poverty exists in affluent countries until the 1990s.

The strategy to tender parts of the research work to scholars and research institutions has nourished an interdisciplinary collaboration of researchers from different backgrounds, e.g. from the CLA, the relative deprivation and standard of living research, quality of life experts as well as from the CA and other areas. This has contributed to the diffusion of the CA to applied researchers in Germany. It can improve a comprehensive understanding and assessment of poverty and wealth and at the same time provide new, valuable political insights.

For the public, the official reports provide a reference and an input that has increased the awareness and debate of challenges related to poverty and wealth. In principle, the introduction of a set of core indicators in the 3rd report has facilitated this task. Such a necessarily selective list of core indicators contributes to the consistent structuring of the poverty and wealth reporting and allows monitoring of the evolvments of aggregate poverty and wealth over time – in its different dimensions. With core indicators it has also become more difficult to politically hide current developments from the public.^{††††}

Integrating the CA as a theoretical framework for the reporting in Germany has contributed to perceive the importance of political freedoms to overcome poverty and strive for social justice. Immediate reactions to the CA arguments have been the integration of these issues already into the second report.

The necessity to go beyond a relative approach of poverty and to explicitly assess extreme poverty had already been discussed by German CLA researchers. The additional arguments provided by the CA, notably by Sen (1983), may have also had an additional impact for the decision to focus on the extremely poor in the third report. This illustrates how the CLA and

^{††††} However, the choice of core indicators should be improved as not all are really optimal to represent core capability dimensions. For core indicator results refer to the appendix.

the CA can complement each other also in a politically relevant way. Moreover, the traditional CLA in Germany may benefit from an improved coherence of the CLA, as some inconsistencies have emerged in the long history of the CLA. However, also the CA may benefit from further CLA insights. Besides the already mentioned strengthening of the role and contributions of social science, Leßmann (2009, p. 288) has recently argued that the CLA may also introduce time as a (rather) new dimension into the CA. Paying more attention to the importance of time is certainly interesting for the CA as well as for the CLA.

Independent of the underlying theoretical framework, we see the extension of the analysis from poverty to wealth, defined as an extensive capability set as a very promising point of departure, also for international researchers. It allows exploring a wide range of factors that prevent the poor from social mobility, personal success and from leading a life that they have reasons to value. This helps to identify social causes of poverty and restricted social mobility as well as adequate counter-measures that go well beyond a narrower poverty perspective.

5.2 Shortcomings and Debates

To identify a lack of capabilities or very extensive capability sets it is indispensable to know the beings and doings that are valuable for (poor) people. We argue that not experts, but the (poor) population and their values should determine what is valuable for them. The German reporting system has established institutionalized discourses, including a national poverty conference, that are expected to include the “organized poor”. Although these new institutions may provide important political inputs, they are not suitable to substitute the voice of the (non-organized) poor and other groups of the population. Therefore, the first step, an identification of valuable beings and doings by the (poor) population which requires the active integration of non-institutionalized people is still missing in Germany.

As a point of departure for further discussion, the prescribed determinants of capabilities have been proposed. Today, the reports’ major themes are these determinants of capabilities and (further) functionings. However, the attractiveness of the CA in Germany resulted also from its ambition to go beyond functionings and address capabilities which is a more complex issue. Hence, the assessment of capabilities (not only functionings) is necessary to further exploit the potential of the CA for German reporting.

In Germany, there is no sufficiently comprehensive micro data source available that suffices to analyze the multidimensionality of poverty and wealth in an optimal way. Therefore, a mix of data sources is used in the report, as for example OECD/PISA results are exclusively used to report on (access to) education. Unfortunately, this mix of data sources does not allow assessing multiple deprivation and privileges of certain persons and groups. A tendered feasibility study (Arndt et al., 2006) has explored how far these multiple effects can be identified, using GSOEP as a data base. While GSOEP was a useful source for this specific task, it is certainly not the best database for a benchmark by core indicators, although it is also used for this task in the report.

Moreover, the report only shows point estimates and does not provide confidence intervals. This bears the danger of overestimating the significance of the reported results which is

expected to be the case for comparisons across different sub-groups, where differences in point estimates often tend to be not significant.

Data and methods (and not poverty and wealth, or their extent, dimensions, causes and consequences!) were in the centre of public discussions, following the 3rd report. Public media and major social organizations were also challenged by the mix of databases. For example, the reported head count ratios of relative income poverty risk for the different data sources differ within a range between 13% and 18%, depending on the data used. Although this may also be due to a natural level of uncertainty, sampling error or different causes of data source biases, reporting very different results may confuse the public debate and also create political tensions. By switching from database (GSOEP) that was used to calculate income poverty in the second report to EU-SILC in the third report the increase in income poverty was substantially underestimated (13.5 % with EU-SILC instead of 17 % with GSOEP). The government was accused to have strategically changed the database too early as the EU-SILC might be promising in the long run, but not reliable at present.

At first glance it may be irritating that the German discussion does not focus on poverty and wealth, but on underlying methods and data. However, given the decades of political ignorance in Germany, this can also be interpreted as necessary catch-up processes of an official acknowledgement and public debates on methodological issues related to poverty and wealth that were missing in Germany until the 1990s.

Moreover, the public has heavily criticized the lack of data actuality. As most of the data stems from national surveys, they typically have a time lag of one or more years. Hence, the observations of the most current cross-section used from the GSOEP are dating to the year of 2005 – while the report was published in late summer 2008. The suspicion emerged that the government tried to hide some most recent problems in its own interest. This controversy could be avoided by an update of available core indicators immediately before publishing the reports.

Political influence was also criticized by the public with respect to the choice and interpretation of major social science findings. In principle, governmental influence shall be limited by the division into a first analytical part of the report building much on tendered studies by independent researchers and a second political part. However, as the government is responsible for the whole report, it influences also the first part. One newspaper comment titled “The Art of Omitting”^{§§§§} argued that some very critical parts of one of the tendered studies (which would have been relevant for the analysis in the first part) had been omitted in the final report. To avoid such a political influence, an independent report would be an alternative. However, in this case, the reporting would not indicate the political acknowledgement and responsibility that are important regarding the last decades of political ignorance. It is worth mentioning that the tendered studies by independent researchers are normally published after the reports, some of them gaining remarkable attention in the media. Therefore, it may be better to maintain the public responsibility of official reports,

^{§§§§} Berth, F. (2008) „Die Kunst des Weglassens.“ *Süddeutsche Zeitung*

accompanied by independent studies than to publish a neutral, but politically less important report.

6 Conclusions and Perspectives

The long way to poverty and wealth reports in Germany shows that international (for Germany notably the EU) poverty perceptions do influence national concepts and frameworks of poverty and wealth.

In Germany, the compatibility of the broad informational base that the CA provides with other researchers' theoretical backgrounds (notably with the long-standing CLA experiences) has made it easier to accept, adopt and implement the CA as a guiding framework for official poverty and wealth reporting. It has helped quite a number of different researchers from other theoretical backgrounds to join this effort. However, given the complexity of the CA and its terminology (which is sometimes hard or even impossible to translate adequately into German language) it may not always be easy for researchers to understand and apply the new framework in a consistent way. Therefore, preserving the stringency of the CA – as a major advantage in comparison to the older CLA – will be a challenge for the application of the CA in Germany.^{*****} This problem is also emerging in international CA discussions where competing terms are used without clarifying their relation to existing terms, e.g. social (and environmental?) conversion factors versus instrumental freedoms.

German experiences confirm Sen's (1999a) position that CA-oriented reporting in affluent countries is not only possible but also very useful. For the international CA community the German approach indicates that a comprehensive CA analysis of poverty *and* wealth can provide important value-added.

However, there is still a long way to go to achieve a satisfying CA-based poverty and wealth reporting system. To get there, not only the shortcomings described above have to be overcome. Missing dimensions and issues have to be included, specifically in some fields of wealth analysis. For instance, tax evasion and corruption have not been treated yet. Furthermore, the "missing dimensions of poverty data" (employment of the poor, agency and empowerment, physical safety, ability to go about without shame, psychological and subjective well-being) described by Alkire (2007) are also still missing in the German reporting system.

Up to now the German reporting system has not devoted much attention to the ethical foundations of the CA. However, as ethical issues like social justice are part of Germany's main reporting goals there is still a lot of potential to find in the CA in favour of the reporting process.

Since 2005, the new EU Statistics on Income and Living Conditions (EU-SILC) covers 25 European Union (EU) countries as well as several non EU countries and is aimed at becoming

^{*****} In the reports this challenge becomes obvious as the agenda and terminology of the report does not apply a straightforward concept but is derived from various political and theoretical positions and interests.

the EU reference source for comparative statistics on poverty. It includes not only information on income poverty but also on non-financial dimensions of poverty and social exclusion. Both, the German and the European reporting systems can be mutually beneficial in testing the relevance and suitability of different dimensions and indicators for poverty assessment, while Germany, at the same time may provide information on the value-added and limitations of an assessment of very extensive capability sets. In the end such a European approach may be broadened to a global scale helping to achieve what the German reporting system was also aiming at – a better integration of the German debate into the international discussion. This goal has not at all been reached yet, and our paper can be seen as a first step towards this goal.

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Appendix

Determinants of Capabilities and Selected Indicators	Indicator Value	Types of Further Disaggregation	Source
Individual Potentials			
Financial Means			
Income			
Below 60% of median net household income after transfers (equivalence scales) (at-risk-of-poverty threshold")	13%	Over time, sex, age, employment status, region, families, poverty gap	EU-SILC 2006
Percentage of persons with income above 200% of median income (equivalence scales) (not accounting for privately used and owned real estate)	6%	Over time	EU-SILC
Share of 'In Work Poverty' on total income (persons aged 18 and older, who have been working for at least 6 months) (not accounting for privately used and owned real estate)	6%	Over time	EU-SILC
Wealth and Debts			
Wealth share of the poorest 50% of society (including business and tangible assets)	2%	Over time	SOEP
Wealth share of the wealthiest 10% of society (including business and tangible assets)	56%	Over time	SOEP
Number of heavily indebted households (income and wealth insufficient to meet payment obligations over a long period even with reduced standard of living) (in millions)	1.6	Over time	Zimmermann, G. E.: based on SOEP 2006
Commodities			
No data			

Determinants of Capabilities and Selected Indicators	Indicator Value	Types of Further Disaggregation	
Personal Conversion Factors			
Education			
Share of people without graduating secondary education stage II (percentage of persons aged 18-24 who are not currently receiving an education and who have neither finished secondary school nor completed vocational training)	13.8%	Over time, sex, old & new federal states (absolute)	Mikrozensus 2006
Share of people with higher education (persons not currently attending school or university and who hold a university degree)	12.6%	Over time, sex, old & new federal states, age	Mikrozensus 2006
Skills			
Share of people without professional training (percentage of population aged 15-65 not currently attending school or university, which has neither finished vocational training nor holds a university degree)	16.4%	Over time, sex, old & new federal states (absolute)	Mikrozensus 2006
Health			
Share of people in good health among lowest income group (People with an income below 60% of median net household income in equivalence scales, who are healthy and without disabilities)	39%	Over time, sex, education, employment status, family status, unemployment, nationality	SOEP
Share of people in good health among highest income group (People with an income equal to or above 60% of median net household income in equivalence scales, who are healthy and without disabilities)	50.9%	Over time, sex, education, employment status, family status, unemployment, nationality	SOEP
Share of people with health issues among lowest income group	9.5%	Over time, sex, education, employment status, family status, unemployment, nationality	
Share of people with health issues among highest income group	5.1%	Over time, sex, education, employment status, family status, unemployment, nationality	
Life expectancy (at birth, age group 2004/2006)	79.4	Over time, sex, old & new federal states	Periodic mortality table of the Statistisches Bundesamt

Determinants of Capabilities and Selected Indicators	Indicator Value	Types of Further Disaggregation	
Disabilities			
Share of disabled people with employment (persons aged 15 to 65)	22,9%	Over time, age, sex	Mikrozensus 2005
Share of non-disabled people with employment (persons aged 15 to 65)	54,9%	Over time, age, sex	Mikrozensus 2005
Sex			
For most indicators there is disaggregation on sex level but no particular tabulating			
Age			
For many indicators there is disaggregation on age level but no particular tabulating			
Nationality			
Poor data			
Instrumental Freedoms			
Social Opportunities			
<i>Individual Level (Access)</i>			
Health Care System			
No data			
Educational System			
Share of the GDP spent on education by public authorities (including schools, school administration, universities, promotion of the educational system and other, excluding youth centers and day care centers for children)	3,35%	Over time, types of education, funding	Statistisches Bundesamt

Determinants of Capabilities and Selected Indicators	Indicator Value	Types of Further Disaggregation	
Decent Housing			
Estimates of homeless or potentially homeless people (people without an accommodation assured by a lease contract, for example in emergency accommodation, in thousands)	240-290k	Over time, families	Bundesarbeitsgemeinschaft Wohnungslosenhilfe e.V.
Social Nets			
Share of children enrolled in day-care centers (children aged 11 or younger)	37.1%	Over time, age	Statistisches Bundesamt
Share of GDP spent on youth work by public authorities	0.06%	Over time, funding	Statistisches Bundesamt
<i>Economic Facilities</i>			
Access to Employment			
Unemployment rate (based on all dependent employable persons)	10.1%	Over time, sex, old & new federal states	Bundesagentur für Arbeit
Share of long-term unemployed among the unemployed (persons unemployed for at least 12 months)	41.7%	Over time, sex, old & new federal states	Bundesagentur für Arbeit
Share of executive positions in the economy (persons with extensive managerial functions and decision-making power) (persons answering 5 out of 5 on a self-assessment scale)	1.9%	Over time	SOEP
Access to Capital			
No data			
<i>Protective Security</i>			
Social Security			
Rate of persons receiving social security transfers (yearly average) (all transfers according to SGB II)	8.8%	Over time, type of social security transfer	Bundesagentur für Arbeit

Determinants of Capabilities and Selected Indicators	Indicator Value	Types of Further Disaggregation	
Share of people below poverty level prior to social security transfer (Below 60% of median net household income (equivalence scales)) (not accounting for privately used and owned real estate)	26%		EU-SILC
Total share of private households receiving social security transfers (all transfers according to SGB II)	9.6%	Over time, type of social security transfer	Bundesagentur für Arbeit
Protection from Violence			
No data			
<i>Political Freedoms</i>			
Political Rights			
No data			
Political Participation			
Share of politically interested persons from the lower income quintile	28%	Over time, social background, education	SOEP
Share of politically interested persons from the upper income quintile	58%	Over time, social background, education	SOEP
Share of political party membership from the lower income quintile	2.5%	Over time, social background, education	ALLBUS
Share of political party membership from the upper income quintile	6.7%	Over time, social background, education	ALLBUS
Transparency Guarantees			
Corruption Level			
No data			
Bureaucracy Level			
No data			

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