



# LIFE SITUATIONS IN GERMANY

German Federal Government's Report on Poverty and Wealth

## THE GERMAN FEDERAL GOVERNMENT'S 5TH REPORT ON POVERTY AND WEALTH

### EXECUTIVE SUMMARY



Federal Ministry  
of Labour and Social Affairs

# **Life Situations in Germany**

The German Federal Government's 5th Report on Poverty and  
Wealth

## **Executive Summary**

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## **Executive Summary**

### **I. Life Situations in Germany**

Ten years after the start of the financial and economic crisis, Germany today is in a very solid position, especially by international comparison. Continuous economic growth, the highest employment and lowest unemployment levels since German reunification, together with rising real incomes, most recently for low-wage earners in particular, further underline this economic stability. National income has gone up significantly in the reporting period. At the same time, wages and salaries have also risen more sharply than profit income (income from business activities and assets). Social insurance systems and public budgets at federal, 'Länder' and local authority level are benefiting from this trend, with the result that improvements in social benefits and services could also be made during this legislative period.

The Report on Poverty and Wealth deals primarily with the upper and lower ends of the distribution scale in our society. However, we must not lose sight here of the broad middle section of society. The proportion of the population in the middle income bracket remained stable during the reporting period.

The proportion of materially deprived persons remained at a stable, low level, and is currently going down. By comparison, the proportion of persons who are considered to be at risk of poverty due to their comparatively low income has remained at roughly the same level in recent years, though it has recently gone up slightly. Taxation and social transfers significantly reduce the risk of poverty for children and young adults up to the age of 24, single parents and unemployed persons in particular, and in some cases by up to half. In terms of the population as a whole, the risk was reduced by around one third.

The population's widespread acceptance of the social market economy is based on the promise that participation in the prosperity generated by society as a whole is possible through one's own efforts, and that it is also offered to those who are not able to reach the socio-cultural subsistence minimum on their own. This also implies that society must take provisions to safeguard against general life risks and offer protection to those with special circumstances within the social state. Over and above this, it should also enable people to live (or get back to living) a self-determined life and at the same time help to create equal opportunities for everyone. Against the backdrop of globalisation, the social market economy will be faced with many challenges in the future, too. The question is how to secure fair jobs and create just living conditions. Germany has committed itself to this also as part of the universally applicable '2030 Agenda for Sustainable Development' and the development goals of the United Nations.

The present 5th Report on Poverty and Wealth picks up on the fact that national economic data on income, growth and employment (such as gross domestic product or the unemployment rate) do not always reflect the differences in the real lives of people in various social groups, professions and regions. It thus attempts to focus more on specific life situations and subjective evaluations. In a society such as ours, which is strongly characterised by the idea of performance-based equity, personal satisfaction and social cohesion are very closely linked to the question of whether performance pays off, and whether income distribution, opportunities for social participation and advancement and social security are altogether perceived to be 'fair'. Less privileged citizens, above all, perceive their efforts to be inadequately respected in many ways. Such persons consider it highly important to be able to improve or at least maintain the social status they and their children have reached. Any doubts which arise here may cause insecurity across all social strata. Moreover, concerns about 'keeping up' with modernization processes, such as globalisation and digitalization, and other sources of insecurity – like the fear of having to compete with refugees for a job, social benefits and housing, for example – cannot be adequately measured using quantitative data alone. The social space dimension has an additional role to play: the purchasing power associated with a person's income is heavily dependent on price levels and the consumer habits of the local environment. Differences in income across regions can be compensated or aggravated not only by varying price and rent levels, but by the quality and resources of the relevant infrastructure.

Consequently, a part of the Report is devoted to different developments and possible segregation trends within regions.

Special focus is likewise placed on the development of wages and types of employment, as one can assume that employment and its differentiation also play a central role in the way a person evaluates his or her own status compared to others.

Germany and Europe are particularly concerned with the issue of migrants seeking protection, especially in 2015, and this raises the question of what this means for social systems, the labour market and society. Managing integration successfully is also a major challenge in terms of limiting inequalities. A particular aim of the present Report is to provide clarification of facts and perspectives.

The analysis of life situations and social mobility in Germany, the results of research projects and the stocktaking of political measures in the current legislative period provide an indication of the tasks which lie ahead. If policies are to strengthen social cohesion in Germany and safeguard the principle of equity based on contribution and performance, then five action areas need to be considered.

Firstly, a continuous work history with performance-based remuneration is of vital importance, as this also helps to prevent poverty in old age. Those who have paid insurance contributions over many years should be able to live from their retirement income.

Secondly, the purpose of children, youth and education policies is to offer children and young persons improved individual support that is as independent as possible of the resources available in the parental home, so as to enhance their opportunities for social participation and advancement.

Thirdly, access to other socially necessary goods and services, in addition to a reliable system of social security, must be guaranteed. Alongside a secured level of subsistence, this includes medical care, affordable housing and an effective infrastructure.

Fourthly, the long-term financing of public expenditure and investments, fiscal sustainability and a fair, performance-based system of taxation must also be ensured in future. After all, the national economy as a whole benefits from investments in greater equality of opportunity, social cohesion and services of general interest – so if everyone benefits, then everyone must make their contribution to finance it appropriately.

Fifthly, political stakeholders, social partners and civil society must succeed in maintaining participation and the acceptance of democratic values in our country and strengthening them for new challenges to come.

The Executive Summary outlines the key findings of the 5th Report on Poverty and Wealth. In particular, it details the measures already taken by the Federal Government in the relevant areas and lists other possible steps, without anticipating their necessary coordination and approval within the Federal Government.<sup>1</sup> It does not follow the structure of the Report and, for the sake of easier reading, does not include references or sources from the Report. The key indicators used are placed in front.

## **II. Development of important indicators**

Both poverty and wealth are multi-faceted social phenomena. Neither can be easily or clearly measured. In its Report on Poverty and Wealth, therefore, the Federal Government takes a comprehensive analytical approach which is based on a selection of several indicators. These look at each aspect of poverty and wealth from a different angle and enable a balanced picture of the various dimensions and life situations to be presented within the overall assessment.

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<sup>1</sup> All measures and potential further steps mentioned must be within the scope of available resources.

Poverty is essentially understood here as a lack of resources and opportunities to live and shape one's life to the extent usually achievable in our society, based on the historically attained level of prosperity. By contrast, wealth is a circumstance in which those concerned have above-average opportunities to develop and shape their lives. If the differences between rich and poor in a society are too great, and if wealth is perceived as being mostly acquired through no effort, this may lower acceptance of the economic and social order.

Key data from the table of indicators in the Report on Poverty and Wealth are shown in brief below.

## **II.1 Labour market development**

Gainful employment figures have been continuously rising for over ten years and are at their highest level since 1990. The employment rate for 20-to-64 year-olds rose from 71.1 percent in 2006 to 78.0 percent in 2016, and from 48.1 percent to 66.2 percent for 55-to-64-year-olds. The labour market participation of women and older persons is far greater than it was ten years ago. It should be added that the number of employed persons subject to compulsory social insurance contributions rose from 26.5 million in June 2005 to 32.4 million in June 2015. Gainful employment figures continue to go up, rising to around 43.6 million persons in January 2017, an increase of 600,000 compared to the previous year. The number of mini jobs has been going down since the minimum wage was introduced.

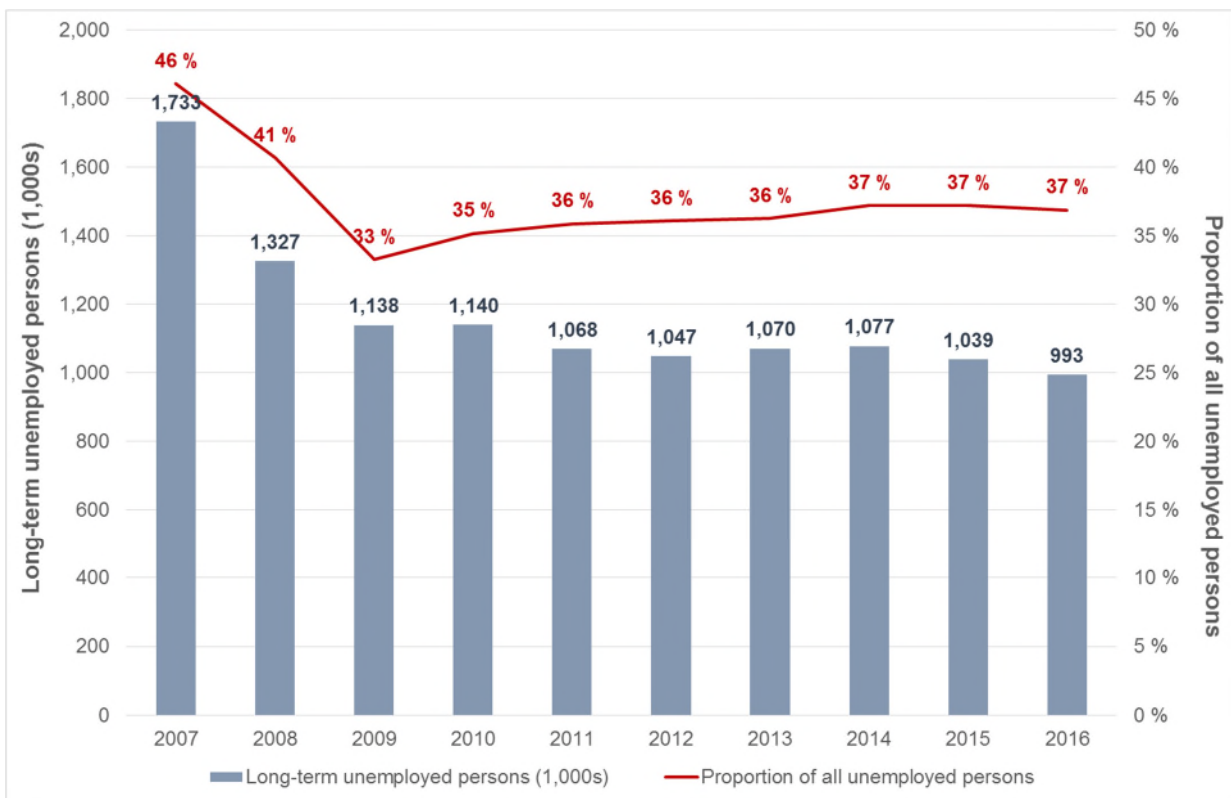
The number of unemployed persons has fallen significantly, from 4.9 million in 2005 to 2.7 million in 2016. That equates to a 45% reduction, despite the addition of figures relating to forced migration. The unemployment rate fell from 11.7 percent in 2005 to 6.1 percent in 2016.



## II.2 Long-term unemployment

The Federal Government has set itself the goal of reducing long-term unemployment in Germany. Starting from an annual average of 1.07 million in 2013, the average number of persons in 2016 who suffered a loss of income as a result of long periods of unemployment and were threatened by a loss of skills and social participation fell below the one million mark, the first time this has happened since 1993. By contrast, the proportion of long-term unemployed persons among all unemployed persons has remained unchanged in recent years, standing at around 37 percent; see also indicator A04 (Chapter C.II.4). Nevertheless, over the past few years long-term unemployed persons were not able to benefit proportionally from the simultaneous increase in employment. Although there are various reasons for this, it should be noted that with this group there is usually one or more serious obstacles that prevent such persons from taking up employment, with the result that long-term unemployment becomes entrenched.

**Chart I.1.1:**  
**Development of long-term unemployment over a ten-year period**



Source: Federal Employment Agency statistics; compare indicator A04.

### II.3 Income distribution

Income distribution in Germany was stable during the reporting period.<sup>2</sup> The proportion of income allocated to the top and bottom half of income earners has remained at a stable ratio of around 70:30 since 2005. The Gini coefficient, which describes distribution inequality, has been around 0.3 for the same long period of time. The Palma ratio, which is the income share of the top 10 percent of earners relative to the income share of the bottom 40 percent, also fluctuates within a relatively narrow band of between 1.0 and 1.1. At the beginning of the 2000s, however, incomes were far more evenly distributed. At that time the aforementioned indicators from the G01 indicator group, see Chapter C.II.1, were noticeably below current values. By 2005 these indicators had increased significantly within just a few years, and have since remained at their now higher level.

The at-risk-of-poverty rate measures the share of the population with an equivalent income below 60 percent of the mean equivalent income and, as such, is chiefly a measure of income inequality. It does not provide information on possible individual levels of need, as only the amount of equivalised income is considered. Looking at all data sources together, the at-risk-of-poverty rate has remained at approximately the same level since 2005. It is currently showing more of an upward trend, despite the positive economic situation and the significant rise in employment. The increases in both employment and incomes over recent years have presumably not led to a decrease in income inequality as they took place across the entire income distribution spectrum, therefore the relation between high/low incomes and average incomes has remained roughly the same.

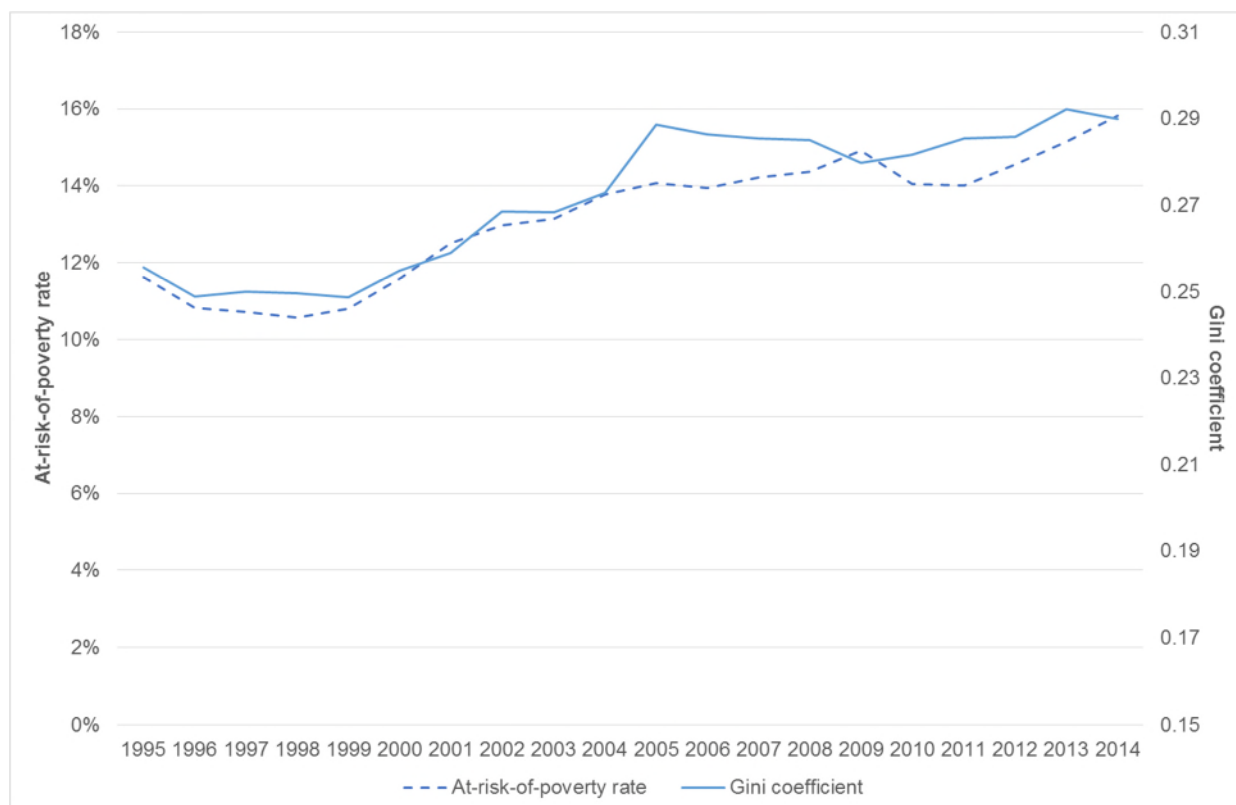
Chart III.1.2 shows an example of the development of the at-risk-of-poverty rate and Gini coefficient for a selected long time series, based on the SOEP; further data can be found in the tables for indicators G01 (see Chapter C.I.1) and A01 (see Chapter C.II.1).

The at-risk-of-poverty rate is considerably lower for gainfully employed persons than for the population as a whole. By contrast, higher values can be found not just with unemployed persons but with single parents, low-skilled persons and persons with a migration background. An analysis of the data based on life phases shows that children and young adults are likely to be affected by a relatively low income to an above average degree, while the proportion of persons of middle or late-middle age is more likely to be below average.

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<sup>2</sup> For income distribution, on which the facts and trends shown here are based, gross incomes, comprising income from gainful employment, assets, as well as rental and lease income, are calculated first. Net household income is derived from this, taking transfers, income tax and compulsory social insurance contributions into account. To ensure the net incomes of households which vary in size and composition are comparable with each other and can be assigned to groups of persons, household income is converted into equivalent income using a needs weighting system. The last step is to sort the income according to amount.

**Chart I.1.2:  
Development of at-risk-of-poverty rate and Gini coefficient 1995–2014**



Source: SOEP v32; compare indicators A01 and G01.

## II.4 Other poverty-related indicators

In addition to the at-risk-of-poverty rate, which is based on income distribution, other indicators must also be taken into consideration in order to obtain a comprehensive picture of the poverty risks in Germany.

The rate of recipients of minimum social security benefits identifies persons who are only able to reach the socio-cultural subsistence minimum, guaranteed under constitutional law, by means of basic income support for job seekers in line with Book II of the German Social Code (SGB II) and social assistance as per Book XII of the German Social Code (SGB XII), or by means of benefits paid in accordance with the Asylum Seekers Benefits Act.

The proportion of minimum social security benefit recipients remained relatively stable at around 9 to 10 percent during the period 2013-2015 (see indicator A05 in Chapter C.II.5). This corresponds to around 7 to 8 million people. Recipients of benefits pursuant to SGB II made up the largest group here – almost 6 million persons at the end of 2015. This includes gainfully employed persons who had to claim SGB II benefits (known as top-up benefit recipients) in addition to their own earned income.

The aforementioned indicators measure the extent to which persons do not attain a specific level of income – be it a specific percentage of an average income, as with the at-risk-of-poverty rate, or a set amount of the socio-cultural subsistence minimum, as with the rate of recipients of minimum social security benefits. The 'material deprivation' indicator looks at the phenomenon of poverty from a different angle: the focus here is shifted away from a person's financial position and associated consumption opportunities towards individual situations of deprivation. The concept is based on a specified catalogue of goods and activities which characterise the average standard of living. The rate shown in indicator A09 (see Chapter C.II.9) measures the extent to which persons cannot afford these goods and activities, which are generally considered to be standard, in other words, persons who are forced to cut back on certain things, for example owning a car, taking holidays or heating their home.

The proportion of persons affected by significant material deprivation fell from 5.4 percent in 2013 to 4.4 percent in 2015. This positive trend can be identified in almost all types of household. Single parents, who make up around 11 percent (2015) of this figure, have to forgo the goods and activities which are taken as a reference guide more often than other groups for financial reasons. This also applies to persons with a low level of education (9 percent), unemployed persons (around 30 percent) and persons living alone (around 10 percent). By contrast, gainfully employed persons rarely have to cut back on things. The proportion of persons in this group who are affected by significant material deprivation is, at 2.2 percent, well below average.

Another aspect of the risk of poverty is over-indebtedness. High debts can severely restrict the scope for economising, regardless of how high a household's market income is. Over-indebtedness can be a source of economic pressure and of social and psychological stress for those affected. The indicator measures the level of intensity of over-indebtedness at which several features of high indebtedness appear together, such as, for example, ongoing problems with paying debts to various creditors or other legal issues, and non-fulfilment of payment obligations on a continual basis. The number of persons aged 18 and over with an intense level of over-indebtedness rose from 3.79 million in 2013 to 4.17 million in 2016. According to estimates, persons from this group live in around 2 million households. Men make up almost two thirds of this figure and thus the majority of persons with over-indebtedness (indicator A07, Chapter C.II.7).

## **II.5 Top income earners**

As well as looking at poverty, a dedicated aim of the Report on Poverty and Wealth is to shed light on the subject of wealth. Another fact included in the key findings on wealth based

on the indicators is that income in Germany in the 1990s and in the period following was increasingly concentrated at the top end of income distribution. In 1995 the top one percent of income distribution accounted for 9 percent of income (here: taxable gross income of tax units, see indicator R06 in Chapter C.III.6), but by 2008 this figure had risen to around 13 percent. At the same time the average income of this group went up from 250,000 euros to approximately 430,000 euros. The effects of the financial crisis meant the proportion of this top group of income earners in Germany went down slightly and has fluctuated between 11 and 12 percent since. The average income of this group fell to around 380,000 euros following the crisis, however in 2011 and 2012 it again broke the threshold of 400,000 euros. It is true to say that with all data sources the proportion of the population whose income is at least two or three times the average income is higher than it was in the 1990s. However it has remained at a relatively stable level of between 7 and 8 percent (twice the average income), and 2 percent (three times the average income) respectively, for some years now (indicator R01 in Chapter C.III.1).

## **II.6 Asset wealth**

Wealth is also particularly associated with assets. It is for good reason, therefore, that high levels of assets which differ to varying degrees among the population – in the same way that incomes differ – are also considered as an aspect of distribution and distribution and performance-based equity. While income-based wealth is usually defined in relation to the average income and the ratio between the two is taken as a benchmark, asset wealth focuses more on the absolute level of assets. Chart III.1.3 shows possible definitions of income and asset-based wealth.

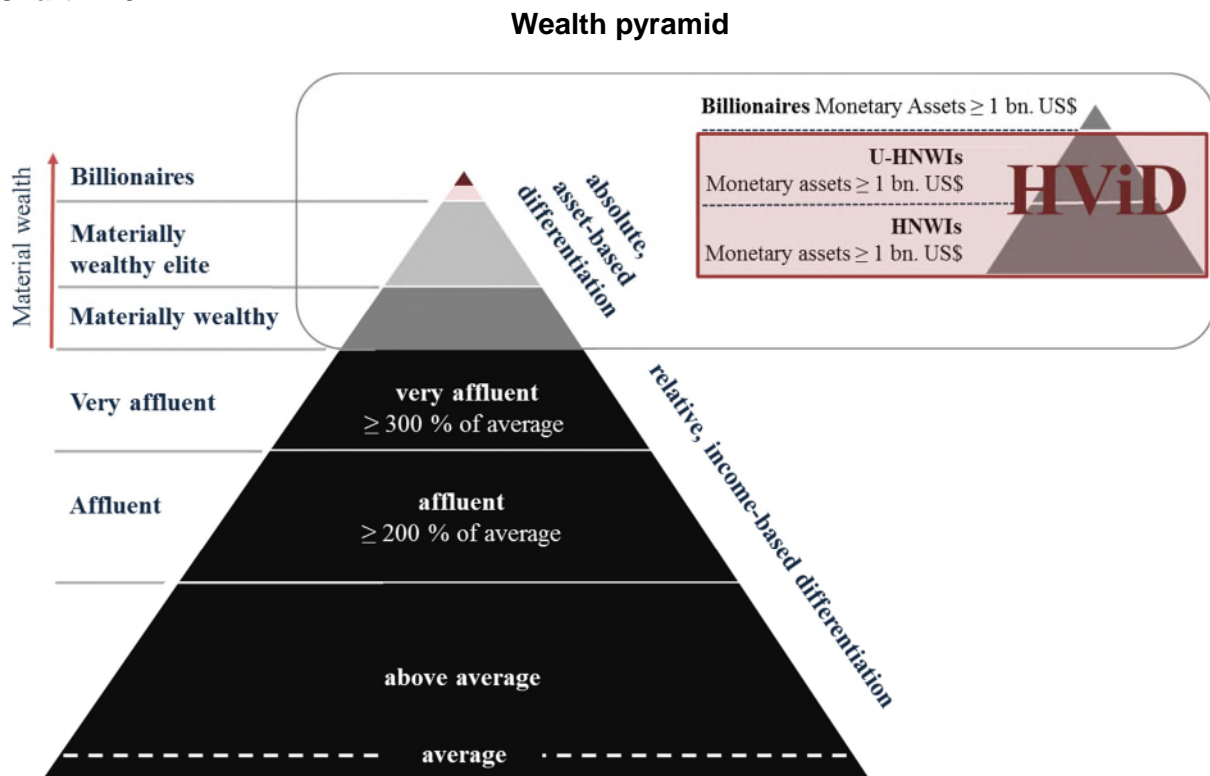
According to data from the sample survey of income and expenditure, the sum of all total net assets in Germany was 4.9 trillion euros in 2013, equating to an average of 123,000 euros per household. Households in the lower half of the distribution scale account for just over one percent of total net assets, while the asset-rich ten per cent of households own over half of total net assets; see indicator G02, Chapter C.I.2). The share of this top decile continued to rise from 1998 onwards, however it currently remains at a constant level.

The proportion of persons with individual assets of more than half a million euros (see indicator R03 in Chapter C.III.3) went down slightly between 2002 and 2012, falling from approximately 2.8 percent of the population to around 2.5 percent. The proportion of younger persons with net assets of at least half a million euros was below average: only the over-50-years-old group was above this threshold with a higher than average share. The figure for high income earners who have assets of more than 500,000 euros was well above average.

Persons with income from assets totalling at least 5,000 euros per year were among the top asset-based income earners. At around 7 percent their share of the population has remained quite stable since 1995. Further data can be found in indicator R02, see Chapter C.III.2.

According to experts, the data mentioned underestimates the concentration of wealth. It is the Federal Government's view that more work needs to be done to improve the data basis. The 5th Report on Poverty and Wealth sheds a little more light on research into wealth and the generation of high levels of assets on the basis of a non-representative survey of 150 asset-rich persons. The results may be seen as an indication that, with two thirds of those surveyed, gifts and inheritances are a relevant reason for their asset wealth. The chart illustrates the area on which the 'Asset Wealth in Germany' ('HViD') survey was focussed.

Chart I.1.3:



Source: Lauterbach et al. (2016a): p. 76

### **III. Policy action areas to strengthen social cohesion and performance-based equity**

#### **III.1 Action area 1: Reinforcing continuous work histories with performance-based remuneration**

##### **III.1.1 Boosting earned income and securing broad-based prosperity**

A good level of earned income ensures participation, independence and social recognition of one's performance. For broad-based prosperity it is crucial that there are sufficient incentives to take up work and maintain a continuous, uninterrupted work history, and that productivity-related progress in all professions and sectors is translated into higher wages. In the lower income bracket, in particular, changes in wages have a significant impact on the need for redistribution via taxes and transfers. These can boost incentives for increasing labour force participation and for investments in education and skills, which are an increasingly important prerequisite for employability and active participation in the labour market.

Germany's good economic situation is remarkable given the fact that the recovery in Europe is only moderate and that there is considerable global uncertainty and a fragile global economy. The solid economic development in Germany has helped employment figures and the number of people in employment covered by compulsory social insurance contributions reach new record levels. Compared to 2012 there were approximately 1.4 million more persons in gainful employment in Germany, and over 4 million more than the 2005 figure. The number of employees covered by compulsory social insurance contributions has gone up by almost 2.1 million, or 7.2 percent, since 2012.

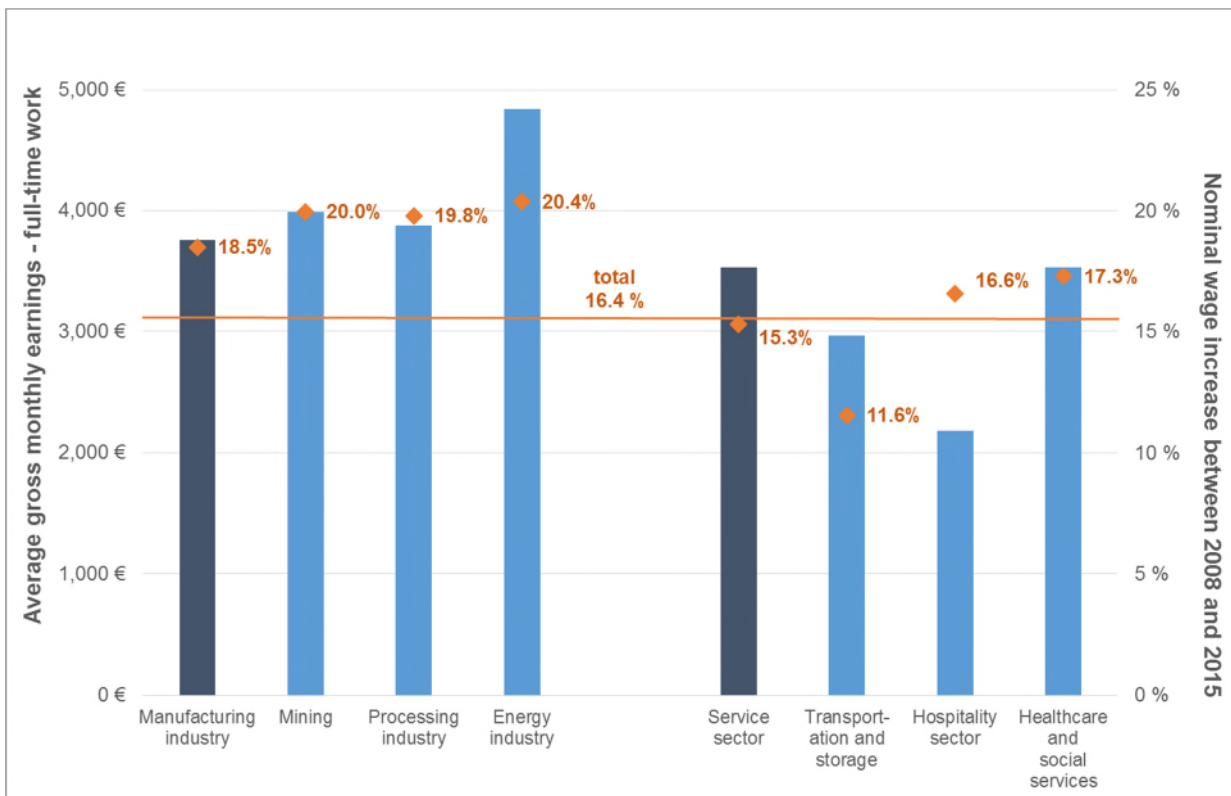
This positive trend was accompanied by rising wages in the reporting period. 2015 saw the highest rise in the real wage index within the reporting period. Employees with less than average earnings, in particular, benefited from significant increases. The introduction of the statutory minimum wage on 1 January 2015 may well have had a substantial impact here. For example, nominal wages for unskilled workers went up by 4.1 percent in 2015, whereas average nominal wages rose by 2.7 percent. There were above-average wage increases not only for unskilled workers but for persons in part-time and marginal employment, and for persons in employment in the new German Länder. The positive trend was mirrored by the results from the first three quarters of 2016.

Nevertheless, wage growth was slowed down by the weak development of remuneration levels in sectors which are of considerable and growing significance for an increasingly service-oriented society (see Chart I.1.4). Nominal gross monthly earnings for persons in full-time employment in manufacturing industries rose by 18.5 percent between 2008 and 2015, which was higher than the overall average (16.4 percent). The service sector, on the other hand,

lagged behind the average trend, with a wage increase of 15.3 percent, and continues to remain at a low level. There is a variety of reasons for this wage restraint in the service sector. Important aspects include a low level of collective bargaining coverage and traditional wage structures. The introduction of the minimum wage is also reflected in the trend in the hospitality sector – relatively high nominal wage increases with low earned income levels – as shown in the chart below.

**Chart I.1.4:**

**Gross monthly wages for 2015 based on economic sector and their development in percent since 2008**



Source: German Federal Statistical Office, Earnings and Labour Costs – Earnings Indices, 3rd quarter 2016.

During the reporting period, wages and salaries rose slightly higher in relation to functional income distribution than income from business activities and assets. They were thus partly able to make up for years of wage rate decline. The positive labour market development and a looming shortage of skilled labour offer a good starting position for a further reduction in unemployment and for wage increases in future.

To be able to make adequate use of the scope created from rising corporate earnings, it is vital that there is a high level of collective bargaining coverage. At the same time, collective agreements – as shown by the financial and economic crisis – also provide the basis for flexible adjustments to working hours during difficult economic periods.



Performance-based income and social security are elementary conditions of decent work. Gender-specific differences must also be reduced. The aim of 'decent work' is emphasized in the coalition agreement for the current legislative period. In terms of international policies, 'decent work' is stipulated in Sustainable Development Goal 8 of the United Nations '2030 Agenda for Sustainable Development' and is the focus of international projects, such as the ILO's 'Future of Work' centenary initiative and the OECD Jobs Strategy. At an international level, the Federal Government is also pursuing the goal of promoting decent working conditions worldwide as part of bilateral cooperation and in multinational forums, such as the G7, G20 or ASEM Asia-Europe Meeting.

### **What is already being done:**

The legislature has reformed the legal framework for the labour market with the aim of ensuring fair conditions for workers with regard to wages and other quality-related aspects of work.

- The introduction of the comprehensive statutory minimum wage from 1st January 2015 was a significant contribution towards improving pay in the lower wage bracket. The minimum wage is helping around 4 million citizens to better participate in value creation without having any manifestly negative effects on employment. In doing so it is also making an important contribution towards the harmonisation of market incomes. This is particularly evident in the report compiled by the Minimum Wage Commission, whose recommendation led to the minimum wage being increased to 8.84 euros per hour from 1st January 2017.
- The Law on Greater Pay Transparency is aimed at counteracting the pay gap between men and women for the same or equivalent work.
- The Law amending the Act on Temporary Agency Work (AÜG) and other acts aims at preventing abusive contracts to produce a work and gearing the supply of temporary workers towards its core function. Clearer structures for the supply of temporary workers as well as for contracts to produce a work are to be provided in future. The situation of temporary workers is to be improved after an assignment of nine months in the user firm by regulations governing equal pay (between temporary and regular workers), among other things.
- The Federal Government is actively undertaking public relations work to ensure greater appreciation of professions in the service, care and education sectors.

### **What remains to be done:**

- When it comes to creating and shaping working conditions, social partnerships and co-determination are core elements of the social market economy. That is why the level of collective bargaining coverage needs to be reinforced. On this basis, opportunities for shaping policies and conditions within companies can be improved.

- Additional scope for applying collective agreements should also be considered with draft legislation in future, so as to offer incentives for a higher level of collective bargaining coverage and take into account the fact that collective agreements precisely meet the needs of both employers and employees.
- Increasing the level of collective bargaining coverage in the service, care and childcare sectors could help improve social standards in these sectors.

### **III.1.2 Specific support for continuous work histories**

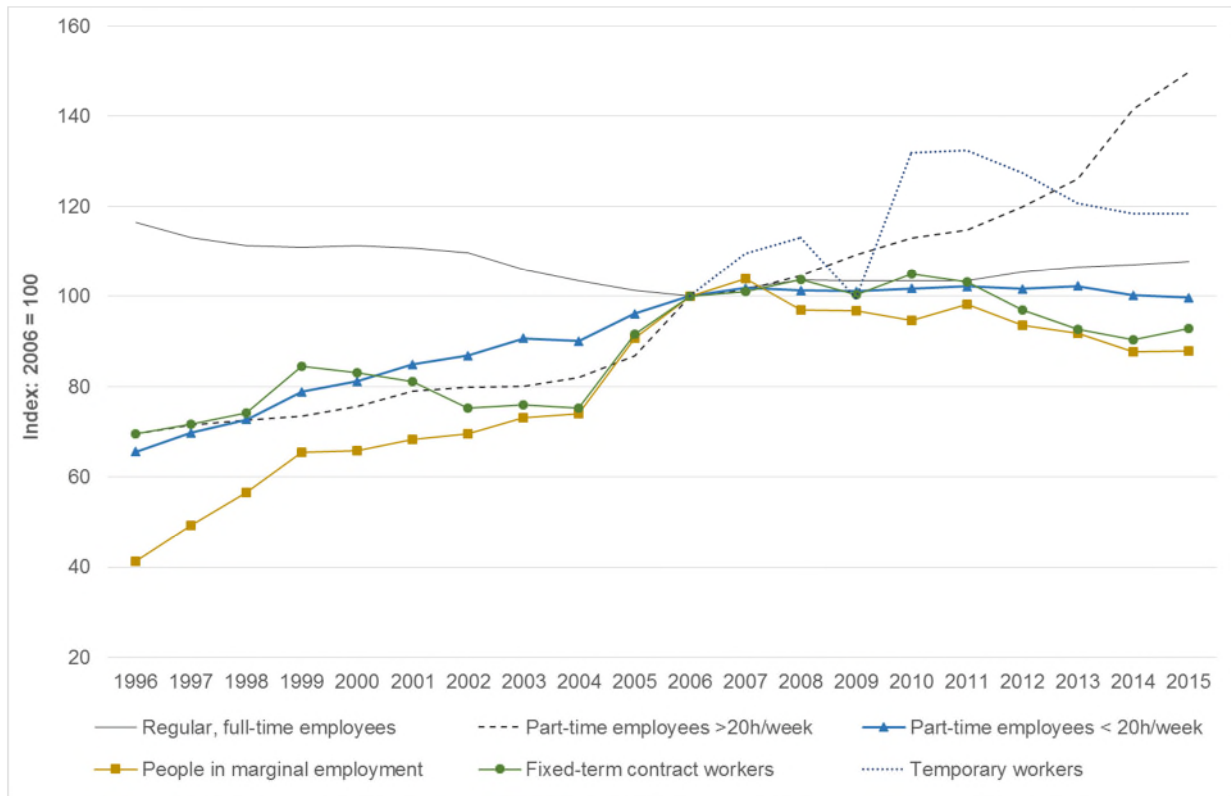
Decent work is the key to prosperity and the prevention of poverty. Working life in Germany has become more diverse. Older persons are staying in employment longer, and it is now much more common for mothers and persons with caregiving responsibilities to remain in employment, with far more choosing to do so than previously. Immigrants from EU countries, third countries and war-torn regions are bringing in their skills and experience and want to work as quickly as possible. A number of citizens are also gaining a foothold on the labour market again after (in some cases) prolonged periods of unemployment. Demographic developments are leading to an increase in the average age of the working-age population. In the decades to come, the number of persons of working age is set to fall. Digitalisation together with technological and structural changes are further trends driving the transformation of the working environment.

The number of 'regular employment relationships', i.e. persons with permanent, full-time employment contracts who do not fall within the scope of temporary employment, went up in the reporting period and is roughly at the same level as it was twenty years ago. As the chart below shows, the number of employees in part-time or fixed-term employment is higher than in 1996. The number of workers in temporary employment (also agency and contract work) has shown a slight upward trend, in conjunction with significant economic fluctuations, since the Federal Statistical Office started collecting such data. An evaluation of these atypical types of employment in terms of social and labour market policies also depends on individual circumstances. On the one hand, atypical types of employment meet the specific needs of both employees (for more flexible working hours or more family time) and companies (greater flexibility with production processes) and thus allow for employment relationships which would have not otherwise been possible. Furthermore, these types of employment (particularly fixed-term and temporary employment) can offer easier (renewed) access to the regular labour market for job seekers with few qualifications or other obstacles preventing them from being placed in work. However, there are hidden risks with these types of employment: in many cases persons in atypical employment have to accept a loss of income as well as fewer entitlements to benefits that make up for lost wages. On top of this, it can be more difficult for persons in fixed-term employment to find another job subsequently. In certain cases temporary workers

may not be treated as equally as permanent members of staff. Atypical types of employment can also indirectly put pressure on regular employees if they perceive that their own working standards are being compromised.

**Chart I.1.5:**

**Development of types of dependent employment**



\*) Data on persons in temporary employment is only available for the year 2006 onwards.

Source: Federal Statistical Office, Status and Development of Gainful Employment in Germany - Technical Volume 1 Series 4.1.1 - 2015

In terms of regular employment relationships, there have also been many changes with regard to the professional status and income situation of employees. A study commissioned for this Report shows that intergenerational professional upward mobility has declined from one generation to the next. Those born around 1960, in particular, succeeded more often in surpassing the low vocational or educational status of their parents' generation and attaining at least middle-level status. By contrast, the probability of attaining such social advancement is almost half this for the youngest age group studied, those born between 1970 and 1986. There are also greater disparities than before within this age group.

Employment histories, however, have changed as a result of longer training periods and a change in the way partnerships are viewed. The number of gainfully employed mothers with small children, in particular, has gone up since the introduction of the parental allowance in 2007 and the expansion of childcare. Mothers are going back to work (in most cases part-

time employment) after the birth of their child. However many men also wish they could split their time and responsibilities between work and family/caregiving duties. More young fathers have been taking advantage of these benefits since the parental allowance and parental allowance 'Plus' were introduced. More than one third of fathers of children born in 2014 received parental allowance, with the majority (79 percent) claiming this allowance for up to two months. Current studies indicate that the take-up of 'months of parental allowance' also has a lasting effect on the active involvement of fathers in childcare. However, not all parents are able yet to realise fully their desire for an even distribution of family duties and work. That is why family-conscious work time models that are geared towards the phases of a working person's life and allow mothers and fathers to achieve a family/career balance are all the more important.

Demographic developments are another reason why more persons in gainful employment will be faced with the task of having to balance their career with care responsibilities towards family members in the future. The balance between career and care responsibilities should therefore be supported and the workload reduced for persons caring for relatives. In particular, benefits and services which support persons caring for relatives and relieve their workload must be provided, and it must be possible to mitigate income losses resulting from a leave of absence or reduced gainful employment.

Due to the digital transformation taking place in the economy and working environment, in conjunction with longer working lives, many people are worried whether they can keep pace with technological changes and whether their skills are still needed in an increasingly digitalised working world. The continuing development and expansion of skills throughout people's working lives help them, in contrast, to retain their employability and reduce the risks of unemployment.

The overall rate of participation in continuing vocational education and training measures rose to 51 percent in 2014 and is thus higher than the 50 percent target set by the Federal Government. In addition, the rise among low-skilled groups of persons in gainful employment is, contrary to the trend up to now, higher than among skilled workers.

The degree of participation in continuing qualification and training measures, however, differs widely across different social groups: for the respective levels of education, the rate of participation rises from 36 percent (low formal qualifications) to 53 percent (middle or vocational qualifications) to 62 percent (high formal qualifications, academic degree). However, the size of companies and the type of employment contract also play a role. The results of surveys show that one third of all persons in regular employment, and less than one quarter of persons in atypical employment, completed a course of continuing qualification and training last

year. Unemployed persons are less likely to take part in continuing qualification and training measures than gainfully employed persons (32 percent compared to 58 percent). However, it is unemployed persons who complete continuing vocational education and training measures which are geared towards gaining a qualification who particularly stand a good chance of finding work. Leaving the aspect of necessity aside, the principle of lifelong learning does not always have positive connotations, particularly for low-skilled workers and job seekers, but also for older workers. Greater consideration should be given to this with regard to employment promotion activities and counselling for continuing education and training, and when devising and organising related measures. Particular attention must be paid to ensuring that education services are perceived as an opportunity, that a person's fears of being overburdened are taken seriously, and that a range of low-threshold support services is offered at an early stage.

The Federal Government is committed to the goal of opening up rewarding employment opportunities for all persons in Germany which meet their desires and skills. Continuing vocational education and training and, where necessary, professional reorientation must be a natural part of working life and independent of any social stratum. This is where one ought to call into question the linear career model, in which careers are built and earning prospects are determined within just a few years. People are living longer in good health, the qualifications and skills level of the working population is high and roles are continually changing, and this may promote the implementation of these objectives.

**What is already being done:**

- The promotion of continuing education and training was further advanced when the Law to Strengthen Continuing Vocational Education and Training and Unemployment Insurance Protection (AWStG) came into force on 1st August 2016. In particular, the Law improves access to continuing vocational education and training (CVET) for low-skilled long-term unemployed persons and for older workers. Against the backdrop of a changing working world, continuing education and training is an important factor in terms of employability and decent work.
- The Continuing Education Grant programme run by the Federal Government is aimed at increasing the level of participation in continuing education and training, particularly among those groups of gainfully employed persons who have not undertaken such training before for financial reasons.
- In 2013 a total of 14.4 billion euros was spent across the economy as a whole on continuing education and training measures, such as CVET, continuing training for teachers and other continuing education and training programmes including support for participants of such training courses; this corresponds to an increase of 3.3 billion euros compared to 2005.

- Expenditure on promoting CVET within the scope of Books II and III of the Social Code totalled around 2.7 billion euros for 2015. Well over 3 billion euros in total have been projected for 2017.
- The Federal Employment Agency is promoting continuing education and training with its 'Initiative to Support Structural Change' ('IFLAS') and 'Further Training for Low-Skilled and Older Workers in Business' ('WeGebAU') programmes.
- The amendment to the Upgrading Training Assistance Act (AFGB) saw the well-established Meister-BAföG (financial assistance for master craftsmen trainees) being developed into a modern financial programme for educational and vocational advancement. The upgrading training benefits and services were extensively improved, support and funding were expanded and the bureaucracy in funding structures was reduced.
- The amendments to the Care Leave Act (PflegeZG) and Family Care Leave Act (FPfZG), which came into effect in 2015, improve the career / care balance with the introduction of the care support allowance, financed by long-term care insurance, and the legal entitlement to family care leave.
- With its 'Success Factor - Family' business programme and related network of businesses with around 6,500 members, the Federal Government is working closely with trade unions and associations of trade and industry to create a family-friendly working environment and is supporting companies by offering, among other things, best practice examples and practical guidelines for implementing family-friendly HR policies.
- With the help of the action programme "Back-to-Work Perspective" and in cooperation with the Federal Employment Agency, the Federal Government is supporting men and women to return to work that secures their livelihood after periods of caring for their children or relatives.
- The parental allowance 'Plus' with partnership bonus, introduced on 1 July 2015, offers more targeted support to parents in realising their ideas of a partnership-based family/career balance.

**What remains to be done:**

- An entitlement to fixed-term part-time work should be put in place. Once the fixed term has elapsed, the employee returns to the working hours he or she had before the part-time employment.
- Against the backdrop of an ever-changing working environment, the development of skills and the improvement of prospects for advancement must be made an integral part of all phases of a person's working life. The public continuing education and training system must be focused more on securing employability and avoiding mismatches between supply and demand.

- Phases of continuing education and training should be a more natural, integral part of a person's whole working life. Being entitled to fixed-term part-time work can also make an important contribution here.
- In terms of initial and further training for persons with a low level of skills or qualifications, the teaching of basic skills (e.g. writing, maths and IT skills) should be intensified to compensate for any disadvantages and allow them to acquire skills for the future. What's more, digital and interactive tutorials are often offered for these areas (free online courses, or trainers, frequently have high professional and didactic skills). The advantage of these is that they keep the threshold to new learning environments low and learning units short. This means additional digital qualifications can also be regarded.

### **III.1.3 Developing employability, providing for participation, fighting the entrenchment of (long-term) unemployment**

Long-term unemployment is one of the most serious risks of poverty and is often associated with entrenched poverty. All persons who have been out of work for one year or more are considered to be long-term unemployed. Long-term unemployment is a threat to social participation and recognition due to the central social significance of employment. It has an adverse impact on people's opportunities of realising their own ideas of living, not just for those affected but also for their family, particularly children and young persons living in the household. Reducing long-term unemployment, therefore, is a particular challenge for all social and labour market policy stakeholders.

An important reason for the stagnation in the number of long-term unemployed persons is that the characteristics or life circumstances of a rising share of persons in this group are unfavourable for labour market integration – in some cases even several unfavourable characteristics meet. These include, for example, health problems, old age, a lack of language skills, poor vocational qualifications or a lack of childcare or support options when caring for relatives. If systematic action that is geared towards opportunities and participation is not taken to counteract this, there is a risk of long-term unemployment becoming further entrenched.

Accordingly, it is important to tailor integration strategies to individual cases. In this, long-term commitment to developing a person's employability is essential.

**What is already being done:**

- With its 'Creating opportunities – Safeguarding social participation' concept, the Federal Government is supporting the promising work being done by the job centres in the fight against long-term unemployment. Key elements of this concept are:
  - a package of services and benefits for long-term unemployed persons with complex problems in Networks for Activation, Advice and Opportunities;
  - the ESF federal programme aimed at integrating long-term unemployed persons into the general labour market by specifically addressing employers and by offering coaching and wage subsidies (number of participants by end-2016: 14,200; total planned 23,000);
  - the federal programme 'Social Participation in the Labour Market', aimed at long-term unemployed persons at the far margins of the labour market who either require special support due to health impairments, or who are living with children in one joint household. The programme has been successfully launched: 8,600 places in the programme have been taken up so far. For 2017 and 2018 the federal programme has been expanded so that 20,000 people in total are able to benefit from it.
- The integration work being done by the job centres takes into account prevention and health promotion through health-related components of activation measures (e.g. dealing with stress) or financial compensation for reduced work capacity for health-related reasons. A pilot project is looking at how the range of health-promoting services offered by the health insurance funds (e.g. addiction prevention) can be better interlinked with the benefits and services offered by the job centres and employment agencies. Consultations headed by the Federal Government have been initiated with the aim of improving the rehabilitation process for long-term unemployed persons.
- To support the skills development of younger adults without vocational training, the Federal Government and Federal Employment Agency launched a joint three-year 'Initiative to provide Initial Vocational Training for Young Adults' ('Training Works – Looking for late starters') in February 2013. This initiative has been developed and extended to 2020 under its new name 'Future Starter Initiative'.
- With the ESF programme 'Supporting Young People in their Neighbourhoods', the Federal Government is helping 177 local authorities to develop stronger youth social work structures, aimed at stabilising young persons who have had a difficult start in school and showing them what the world of work has to offer.

**What remains to be done:**

- Based on the evaluations of the ESF federal programme for long-term unemployed persons and the 'Social Participation in the Labour Market' programme, a decision can be taken as to whether the approach to facilitating the vocational integration and social participation for persons at the far margins of the labour market can be further pursued.



- The results obtained from the federal programme, in terms of how social participation in the labour market can be realised, are to be developed over and above the programmes.

### **III.2 Action area 2: Targeted and effective support for children and their families**

#### **III.2.1 Providing material security to safeguard children's chances for participation**

A child's well-being depends on many factors. These include the feeling of security that a child experiences within the family, as well as its health, home environment or the educational participation opportunities it has. The financial situation in which a child grows up influences these factors to a greater or lesser degree. Inadequate material conditions have a particularly negative effect on children's well-being if they persist for a long period of time and thereby shape a person's childhood years.

In Germany social transfers and family benefits are used to ensure that, in almost half of all cases in which incomes would otherwise be below the at-risk-of-poverty threshold, the net equivalent income of households with children and young persons is raised above the statistical at-risk-of-poverty threshold of 60 percent of the median income. As a result, the at-risk-of-poverty rate for the under-18s is reduced from its previous level of around 36 percent to approximately 21 percent, according to SOEP results.

Depending on the data source used, the trend observed over recent years shows there has been a slight drop in the at-risk-of-poverty rate for children (according to EU-SILC data), or an increase to a greater or lesser degree (according to data from the microcensus and SOEP). An increase does not necessarily mean that children in Germany have to make do with less money than in previous years, or that there are more children with limited financial opportunities. What it clearly means, however, is that the distribution of income across the whole economy has shifted at the expense of children from low-income families.

Only few children in Germany, however, are living in conditions of substantial material deprivation. If we look at the proportion of households with limited access to average living standards and the goods associated with this, we see that around 5 percent of children and young persons under 18 years of age in Germany are affected.

The reasons for child poverty can be found above all in the limited employment opportunities of the parents. There is a 64-percent risk of child poverty if neither parent in a family is working. If one parent is in full-time employment, the poverty risk for children falls significantly to around 15 percent. If both parents are working, with one parent working full-time, the child

poverty risk drops to 5 percent. Correlations can also be observed between family forms and the risk of poverty, as families with at least three children or single-parent families are particularly frequently affected by low net equivalent incomes. Likewise, the risk of poverty is far higher for children with a migration background than for children with no migration background, particularly for those who have personal experience of migration. The level of work intensity in the family forms mentioned is regularly – either voluntarily or involuntarily – lower than in couple families with one or two children without a migration background. Ensuring parents have decent and adequate work is key to reducing child poverty.

### **What is already being done:**

- State family-related benefits play a significant role in providing financial security for families. A cornerstone of this is child benefit, which the Federal Government raised by 4 euros in 2015, and by 2 euros per month and per child in 2016 and 2017. In addition to this, it is to be raised by a further 2 euros per month for each child from 1st January 2018.
- The Education and Participation Package (funding volume for 2015: 569.5 million euros) secures the specific socio-cultural subsistence minimum of children, adolescents and young adults in need through social assistance and basic income support for job seekers, aimed at families in receipt of supplementary child allowance or housing benefit and in line with the Asylum Seekers Benefits Act.
- As part of its reform of housing benefit in 2016, the Federal Government raised housing benefit significantly to ensure that lower-income households are able to bear the costs of adequate housing that meets families' needs with an income that is above the basic income support level.
- The supplementary child allowance is a benefit paid to families who are particularly at risk of poverty. On 1st July 2016 it was increased by 20 euros per month for each child, and on 1st January 2017 by a further 10 euros to 170 euros per month for each child. As a result, it will be possible to move roughly 100,000 children out of basic income support and into the supplementary child allowance.
- For single parents the Federal Government has set aside two target group-based benefits to stabilise their financial position: the maintenance advance and the tax relief amount for single parents. The maintenance advance was raised in 2015, 2016 and 2017 in line with the allowance for dependent children and child benefit increase. Payments of between 150 and 201 euros were set from 1st January 2017. From 1st July 2017 the maintenance advance is expected to be guaranteed in principle up to a child's 18th birthday, with no limitation on the duration of receipt of the maximum benefit level. The maintenance advance will total up to 268 euros per month for children and young persons aged twelve and over.

- On 1st January 2015 the tax relief amount for single parents with one child was increased by almost 50 percent, from 1,308 euros to 1,908 euros each year, and a new system of graded payments from the second child onwards was introduced, with an additional 240 euros paid for each further child. This means single parents receive more in net terms from their gross income.
- Since the parental allowance was enhanced to include the parental allowance 'Plus' and partnership bonus months, it is now more worthwhile than before for parents to go back to work early while jointly looking after their newborn child at the same time. This consolidates the family's income situation and helps to provide good conditions for the child's growth.
- The 'Strong in the workplace - Migrant mothers get on board' programme helps to provide financial stability for families by encouraging mothers with a migration background to take up work and by supporting them in finding the right balance.
- The ongoing expansion of child daycare and the legal entitlement, introduced in 2013, to a daycare place for children from their first birthday has led to a further improvement in children's opportunities for participation and in the balance between family and career.

**What remains to be done:**

- More efforts need to be made to reduce the risk of child poverty, especially in terms of improving the integration of parents into gainful employment.
  - Active labour market policies must take into account parents' diverse support needs and offer solutions. This is particularly important if neither parent in a family household is working.
  - In addition, social and family benefits, together with the parents' income from gainful employment, should be aimed at ensuring there is a steady flow of income for the family.
  - The childcare infrastructure also needs to be improved further, including hours beyond normal working hours and services for children at school.
- The level of awareness of family-related benefits like the supplementary child allowance should be increased and the existence of the benefit mentioned should be pointed out to low-income families. The introduction of an online service relating to the children's allowance is also targeted at this, in order that a quick check can be made to see whether a person is eligible for it and whether it would be worthwhile applying for it.
- Benefits such as the education and participation package should also reach more children in low-income households. The Federal Government, the Länder and the local authorities will raise awareness of this and check for any bureaucratic obstacles that can be removed.
- Family benefits should provide greater support than before in securing the individual livelihoods of both parents and in helping mothers and fathers to participate equally in both

areas of life, i.e. family and career. An equal distribution between both parents strengthens families, prevents risks of poverty and is viable from a macroeconomic point of view.

### **III.2.2 Creating opportunities through education**

The levels of education and participation in education of the population have continuously improved in recent decades. Looking at the school leaver and school-leaving qualification rates, it can be seen that the trend towards higher levels of school-leaving qualifications remains unbroken. There have been significant increases in those obtaining a general university entrance qualification. The rate of persons starting a course of study was again 58 percent of the age-specific population in 2015. Despite this progress we have still not succeeded in breaking the link between social background and educational success on a long-term basis. All age groups display a strong link between income, a person's own educational background and that of his or her family, and the (further) participation in education and successful completion of education or training courses. This already starts at an early age: public child daycare services are more frequently used by children from homes where the parents have obtained higher formal educational qualifications. The proportion of children who attend a child daycare facility and are from households with relatively low income and formal education levels, as well as those with a migration background, is below average. This is linked to the low work intensity of the parents and the low level of recognition of the importance of early childhood education and childcare services. Nevertheless, good child daycare services not only offer parents the freedom to take up gainful employment, they also help to promote and support children through their families. As such they provide an important foundation for a child's later educational path, which may be a way out of poverty. At the same time, children from families where parents are not able to offer the best possible support also benefit from the education and stimulating social environment provided by child daycare facilities.

These unequal starting conditions affect the future educational path of a child. The need for language promotion for children between the ages of 3 and 5 is around 20 percent in cases where the parents have at least a university entrance qualification, and almost 40 percent if the parents have a lower secondary school-leaving certificate at most. A clear link between the level of education of parents and the choice of school in class 5 can be seen when pupils pass from primary school to secondary school. For children from homes where parents have a low level of education, the transition to a grammar school represents a far greater obstacle than for other children. This also continues throughout their time at school. True, the Länder have expanded transitional and developmental opportunities within the education system, however these are used to varying degrees depending on the family background.

Equal opportunities require permeability of the education system. Against the backdrop of the general rise in education levels, continuous improvements and a focus on new developments and challenges, in particular, are and will continue to be important. The more success we have in offering children the best possible support to match their individual talents, regardless of their family background, the more effectively their opportunities for participation can be improved.

A young person's family background still plays a defining role, even when he or she is no longer of compulsory school age. On average, young persons from families where neither parent works leave the education system sooner. These school leavers are subsequently far more likely to go through transitional stages than persons of their age who have at least one working parent. One in seven is inactive, i.e. neither in training nor working, in the fifth year following compulsory school education. This applies to only one in seventeen in the comparison group.

Young persons who have obtained a university entrance qualification and have at least one university-educated parent, continue to be far more likely to take up a course of study. However, young persons from other parental homes are also increasingly moving in the direction of higher education studies. The proportion of students who have gained entrance to a university through a vocational qualification has been rising for a number of years.

Employment and income opportunities are improved by preventing situations where young persons have no formal training and where there is a risk of poverty being inherited and becoming entrenched. Increasing permeability, including in the tertiary education system, offers an effective second chance for academic and professional mobility.

#### **What is already being done:**

The Federal Government is promoting increased equality of opportunities and participation in the education system from birth onwards:

- Since 1st August 2013, every child aged one and over has been legally entitled to early-years support in a day centre or in child daycare. The costs are largely covered by public funds.
- In recent years, the Federal Government has offered huge support to local authorities in expanding child daycare services and has made investments to improve quality. The Federal Government is supporting the expansion of childcare by providing funds of around 3.3 billion euros between 2008 and 2018, 6.3 billion euros for operating costs between 2009 and 2018, and 22.5 million euros from 2016 to 2018 for the training of child daycare personnel. Furthermore, an investment programme entitled 'Childcare financing' is to receive around 1.1 billion euros for the period 2017 to 2020.

- The ESF federal programme 'Opportunities for parents II – getting families involved in education early on' improves the conditions for individual educational opportunities and social participation by getting parents involved in their child's education at an early stage.
- In the area of health and long-term care insurance, statutory special regulations, which were introduced with the Child Daycare Promotion Act on 1st January 2009 and will apply until 31st December 2018, are enabling daycare staff to take out non-contributory family insurance or lower-contribution voluntary insurance.
- Since 2000, public expenditure on schools and schools administration has gone up from 568 to 764 euros per capita per year.
- 'Educational Chains leading to vocational qualifications': In order to reduce the proportion of young persons with no school-leaving qualifications, the Federal Government and Länder have put together the 'Educational Chains' initiative, in which existing measures are expanded and interlinked such that the entire spectrum, from career counselling through vocational qualifications to college or university studies, is optimised on the basis of concepts proposed by the Länder. The career counselling programme is currently helping to motivate around 250,000 school pupils every year to think about and look into their future choice of career. As part of the 'Career entry support' ESF federal programme, individual mentoring is offered to around 113,000 poorer-performing young persons from the 2014/2015 to 2018/2019 groups of entrants, in order to help them achieve school-leaving qualifications and go into training. The Federal Government is providing a total of around 500,000 potential analyses to prepare for career entry support measures.
- The instrument of Assisted Vocational Training in employment promotion legislation was introduced on 1st May 2015 and is aimed at helping more disadvantaged youngsters successfully complete a course of initial training within the dual system. Young persons in initial training are offered ongoing, individual support and socio-educational mentoring. The company offering the training is also closely involved in the support process.
- The Upgrading Scholarship programme is creating important incentives for those with vocational experience, either with or without a university entrance qualification obtained at school, to take up studies that run parallel to work or family life.
- The Federal Government has been fully funding cash benefits based on the Federal Training Assistance Act since 2015. This saves the Länder around 1.17 billion euros every year on an ongoing basis and gives them additional scope for education funding, particularly for universities. As a result of the 25th Law amending the Federal Training Assistance Act, the financial framework conditions for students and apprentices have been improved significantly.

**What remains to be done:**

- The focus should continue to be placed on expanding child daycare and nursery facilities with good quality standards which address the needs of children from all family backgrounds.
- All children from low-income households ought to be able to benefit from the support given in child daycare and afternoon care in schools.
- The range of all-day schools should be further expanded. To reduce inequality in education further, access and development opportunities in schools must be strengthened and individual support offered to slow-learning and disadvantaged pupils. This is the responsibility of the Länder.
- In order to weaken the link between social background and educational success further, the promotion of language and reading skills, in particular, must be improved, and interest in science, maths and technology must be encouraged. Children and young persons from homes which are out of reach of the educational process should be offered greater access to extracurricular cultural education services.
- Educational research is aimed specifically at promoting individualized learning and increasing the quality of teaching, in order to reduce the disparities in participation in education.
- Vocational education and training is of vital importance for the educational and labour market integration of young persons and their placement in skilled work with good developmental and career prospects. Further optimisation of transitions to vocational education and training with 'In-house training comes first' as a key objective, together with improved equality and access to a university education are important action areas for the Federal Government, and also help to reduce inequality in education.
- The Federal Government is continuously and consistently adapting the promotion of training as per the Federal Training Assistance Act in line with demand and the needs of families, and will continue to refine it. This ensures that families who are less well-off have fair access to vocational education and training by putting in place a reliable and calculable system of training promotion.

**III.3 Action area 3: Securing access to socially necessary goods and services**

**III.3.1 Reviewing and adapting basic income support systems and higher-ranking benefits**

The benefit systems providing basic income support for job seekers (SGB II) and social assistance (SGB XII) combat poverty and deprivation. They secure the socio-cultural subsistence minimum by recognising necessities, particularly basic needs, housing and heating needs, as well as health and long-term care insurance requirements which cannot be met by

a person's own financial resources alone. In special situations, for example when a single parent is responsible for the upbringing of a child, additional needs are taken into consideration. Added to this are one-off benefits and education and participation benefits for children, young persons and young adults. Under the provisions of Book II of the Social Code, job centres offer both employment support services and socio-integrative assistance, and thus provide comprehensive help for those seeking work.

The reforms of the basic income support systems, that is, the introduction in 2003 of basic income support in old age and for reduced earning capacity, as well as basic income support for job seekers in 2005, may possibly have also reduced what is known as shame-related poverty, i.e. the number of persons who have not claimed any benefits to secure their livelihoods due to a lack of awareness of such benefits, shame, or because they were afraid that the social assistance agency may take recourse to relatives obliged to contribute towards maintenance costs. This is indicated by the high increase in the number of recipients of benefits after the reforms.

With the introduction of basic income support for job seekers, recipients of social assistance who are able to work have for the first time gained access to labour market integration benefits pursuant to Book III of the Social Code. The rates of recipients of basic income support and minimum social security thus include the majority of persons who need state benefits to cover their living costs.

The SGB II rate fell from 9.5 percent (2011 average) to 9.3 percent (2015 average). It last stood at 9.1 percent (in September 2016). All persons eligible for benefits are shown in relation to the population of newborn children up to the standard retirement age.

Older persons are currently far less likely than younger persons to be dependent on state benefits to secure a minimum subsistence level. In 2015, around 3 percent of all persons over the age of 65 claimed basic income support benefits in old age or for reduced earning capacity. The proportion of persons eligible for benefits in this age group is thus far lower than the proportion of all recipients of minimum subsistence security benefits across the population as a whole (approx. 9 percent).

Persons are only eligible for basic income support benefits if they are in need of assistance. For this reason, income, assets and benefits from other social benefit agencies should be used preferentially. Prior-ranking benefits include, in particular, pensions from the statutory pension insurance fund (old-age pensions and pensions paid on account of reduced earning capacity), housing benefit and the supplementary child allowance for gainfully employed persons. Any available income helps to avoid claiming basic income support.



#### **What is already being done:**

- The Law on the calculation of standard needs and the Law amending Books II and XII of the Social Code resulted in standard needs being redefined in Book XII and Book II on 1 January 2017, on the basis of the consumer expenditure data obtained from the 2013 sample survey of income and expenditure. There has only been a slight change in standard needs following this re-calculation. The only significant increase applies to children in the 6-to-under-14-year-old age group.
- As a result of the amendment to the regulation on the implementation of Section 90 (2) Number 9 of SGB XII, the value of cash assets exempt from income testing for social assistance purposes was increased substantially to 5,000 euros in each case for every adult person who is eligible for benefits. Instead of an allowance of 614 euros, spouses and civil partners receive the same 5,000 euro tax allowance on assets as persons eligible for benefits; this means that, for example, the total tax allowance on assets for those in a civil partnership on basic income support is increased from previously 3,214 euros to 10,000 euros.
- As part of the reform of housing benefit in 2016, housing benefit was adjusted in line with the trend in rent and incomes, the first such adjustment since the 2009 housing benefit reform.

#### **What remains to be done:**

- Standard needs are to be updated and reviewed regularly when a new sample survey of income and expenditure (EVS) becomes available.
- As a basic rule, labour market, education, family and social policies must continue to take into account changes in society and help to prevent or reduce the level of need in the basic income support systems.

### **III.3.2 Securing living standards in old age**

Persons in the over-65-year-old age group are less at risk of poverty on average than the population as a whole. In fact, the material provision of those now aged 65 and over is actually very favourable overall. Nevertheless, citizens perceive the threat of poverty in old age as a problem. This perception may be connected to the fact that the rate of those entrenched in poverty in old age is high, since the opportunities for changing our income or asset situation by our own efforts diminish as we get older. Furthermore, many people understand that poverty in old age may be the result of external circumstances which an individual has little influence on. This is how the upheavals in East Germany following reunification, for example, are perceived, and in many cases this has resulted in gaps in people's employment histories.

A person's retirement income, however, serves other purposes than merely fighting poverty. Rather, the old-age security provision systems – that is, statutory, company and private provisions – reflect a person's previous working life and are aimed at interacting with each other to ensure previous living standards can be largely maintained in old age. The statutory pension insurance, with which the majority of the population is insured, has a key role to play here. An important principle of statutory pension insurance is that the pension develops in line with the wages and salaries of the active labour force and thus enables people to participate in the income-based progress being made in society. Alongside individual security in old age, pay-as-you-go pension insurance also offers security in the event of reduced earning capacity as well as a survivor's pension.

Nevertheless, societal ageing places growing demands on the social security systems. In an ageing society, adequate security against basic life risks has to be guaranteed just as much as the financial sustainability of the social security systems. The Federal Government's pension policies are aimed at achieving a balance of interests between both those who pay their contributions, and those who receive a pension, and between generations. In doing so, those paying the contributions must not be financially overburdened and there must be no unacceptable drop in the income replacement rate.

The Federal Government has initiated significant improvements to old-age security benefits in this legislative period.

**What is already being done:**

- The age limit for old-age pensions for persons who have paid insurance contributions over a particularly high number of years was temporarily reduced to 63 years.
- The Flexible Retirement Act, which will come into force on 1st July 2017, is helping to simplify the legislation governing partial pensions and additional earnings. It is becoming more attractive to work in addition to receiving an old-age pension or after reaching the statutory retirement age.
- For mothers or fathers of children born before 1992, the child-raising period imputed for the calculation of the old-age pension was extended by twelve months to a total of 24 months (known as the 'mothers' pension').
- Since 1st July 2014, two measures have been providing better security for persons who are in receipt of a reduced earning capacity pension. Firstly, they are treated as though they had worked for a further two years at their previous average income level: the non-contributory supplementary period for calculating the reduced earning capacity pension was increased from 60 years of age to 62. Secondly, the four years preceding the start of a reduced earning capacity pension are no longer counted if this added period were to

reduce the value of the pension as a result. The draft Act to improve reduced earning capacity pension benefits, which is currently under parliamentary review, is aimed at implementing further improvements in terms of the amount of reduced earning capacity, as it is this very group of people which is particularly affected by poverty. An extension of the non-contributory supplementary period up to a person's 65th birthday will be gradually implemented until 2024 and should ensure that pensioners again see a tangible increase in pension payment levels.

- Pensions in the east and west of the country are also to be harmonised. The submitted draft Act concluding the extension of pension legislation to the east German Länder provides for the full harmonisation of pension values in seven annual stages, as a result of which uniform, all-German values will apply from 1st January 2025 for calculating pensions in the east and west.
- On 1st July 2016, the most generous pension adjustment in 23 years took place, based on the key figures of 4.25 percent (west) and 5.95 percent (east); the average increase in pensions from 2012 had been approximately 2.1 percent for western Germany and around 3.3 percent for eastern Germany. This ensured pensioners could also have a share in growing prosperity.
- The aim of the submitted draft Law to improve company pension schemes is to provide targeted measures in employment, social and tax legislation to strengthen the prevalence of company pension schemes in small and medium-sized businesses. Furthermore, in the case of old-age basic income support benefits, an exempt amount is to be introduced for additional retirement provisions. This also sends a signal that it is always worthwhile to make voluntary, supplementary provisions for old age. The basic allowance in the tax-funded, additional scheme of old-age provision based on invested capital (known as the Riester pension) is also to be increased from 154 euros to 165 euros per year.

**What remains to be done:**

- Social security in old age is to be improved for persons who are not already covered by other means of security. For the period after 2030, the aim is to further develop the statutory guidelines for the income replacement rate and the contribution rate.
- With regard to the statutory solidarity pension, which was agreed in the coalition agreement and is aimed at keeping those who have paid insurance contributions over many years at some level above the basic income support level when they reach old age, we are continuing to review various models.

### **III.3.3 Improving the opportunities for participation for persons with disabilities**

Securing basic material, social and cultural needs is of crucial importance for persons with disabilities or health impairments. The UN Convention on the Rights of Persons with Disabilities guarantees the right to a life which is as autonomous as possible and to participate in society on a self-determined basis. The Federal Government's goal is to create an inclusive society and remove the barriers faced by persons with disabilities.

The risk of poverty for persons with disabilities is higher than the average for the population as whole. The unemployment rate in this group is almost twice the average. Health impairments or disabilities continue to pose a risk to social mobility. The risk of poverty is particularly high for those with chronic illnesses.

A core objective of the Federal Government's National Action Plan to implement the UN Convention on the Rights of Persons with Disabilities (NAP) is to develop an inclusive working environment: having work means personal autonomy and self-affirmation. Education and training are crucial for social participation, particularly for young persons with disabilities. They have a special need for support when making the transition from school to training or employment. This need and any potential, too, have to be identified as early as possible.

Low-barrier equipment and accessibility or reachability of housing and immediate surroundings are crucial for ensuring autonomy and participation in old age as well as for persons with disabilities. At present, less than 2 percent of the total stock have been adapted for accessibility.

#### **What is already being done:**

- The Federal Government supports career counselling and improvements in the opportunities of persons with disabilities for integration in the general training and labour market, particularly as part of the employment-related activities of the National Action Plan, such as the 'Inclusion Initiative' and 'Inclusion Initiative for Training and Employment'.
- The rights of persons with disabilities have been enhanced with the Federal Participation Act in light of the UN Convention on the Rights of Persons with Disabilities. This includes the following aspects:
  - Benefits and services for participation in working life have been enhanced on a person-centred basis. Persons with disabilities who are permanently unable to work are offered the opportunity of working either in a workshop for disabled persons or for another service provider, or taking up a job on the general labour market while claiming the 'Budget for Work'.

- Pilot projects to strengthen rehabilitation and early prevention measures are being promoted with the aim of keeping people employable and thus offering them important access to social participation.
- Recipients of integration assistance will have to ante up considerably less of their own income in the future and as to their savings, up to 50,000 euros in assets will be exempt from deduction. Incomes and assets of partners remain fully exempt from deductions.
- In the future, assistive services will also be provided for continuing vocational training at school or university, such as a Master's degree, in order to improve participation in education.

An inclusive social environment which has a good infrastructure and amenities close by also promotes old-age-appropriate living environments and reduces barriers:

- The First Act to Strengthen Long-Term Care brought about a significant expansion of subsidies for living environment improvement measures inside the home using long-term care insurance funds. On top of this, measures from the 'Social City' urban development assistance programme are being funded. The promotion of pedestrian-friendly areas and local public transport also contributes to an inclusive social environment.
- The Federal Government is funding the barrier-free and low-barrier conversion of housing via the KfW 'Age-Appropriate Conversion' programme by offering interest-subsidised loans and investment grants.

**What remains to be done:**

- The efforts being made to integrate persons with disabilities into vocational training and into the general labour market are to be continued.
- The implementation of the Federal Participation Act is to be monitored scientifically. In addition, integration assistance is to be evaluated from 2017 up to 2022.
- Pilot projects will be run from 2018 onwards to strengthen rehabilitation within the scope of SGB II and SGB VI.
- The efforts being made with regard to the further expansion of barrier-free or low-barrier housing are to be stepped up.

### **III.3.4 Health and care**

The German social security system ensures that low-income persons also have access to an effective health system that offers them not only care in the event of sickness, but also prevention and health promotion services and security if a person needs long-term care.

This comprehensive care is reflected in life expectancy rates which have been going up for years now. Moreover, people are ageing in good health. The proportion of persons over the age of 65 who describe their state of health as being at least good is rising continuously and currently stands at around one quarter.

Causal conclusions, according to which low income leads to poor health, for example, are only possible to a certain extent. A low income may entail poor health. However, poor health can also impact an individual's income-earning opportunities, particularly as a state of health that is considered to be poor has a significant influence on the average time a person works.

The question of individual health may be connected to the material opportunities available to a household. The findings presented, however, are influenced and reinforced to a substantial degree by other factors, above all by differences in education. A higher level of education is an essential prerequisite for improving an individual's income and advancement opportunities, which in turn has a positive effect on a person's subjectively evaluated state of health. Age differences, alcohol and nicotine consumption, personal characteristics or the career or sector in which a person works also play a role. Different levels of physical and psychological load in the workplace are also a factor. The statutory health insurance fund, with which most people are insured, guarantees comprehensive social protection in the event of illness. Insured persons receive all the necessary medical services, irrespective of their economic productivity. Where entitlement is equal in principle, therefore, special importance is attached to the target group-specific organisation of prevention and health promotion services, in order that persons with special needs, in particular, can be better reached. Long-term care insurance lightens the burden for those needing care and their families by covering a substantial portion of care-related costs, and ensures the provision of care services and facilities.

**What is already being done:**

- In recent years, a subordinate compulsory insurance for persons who have no cover for illness in the statutory health insurance has been introduced as well as obligatory follow-on insurance schemes, a general insurance obligation and a basic tariff for private health insurance. These measures have led to a significant reduction in the number of persons without health insurance cover.
- Three Acts to strengthen long-term care have led to the implementation of the most extensive improvements in benefits since the introduction of long-term care insurance. A new definition of the need for long-term care in conjunction with significant improvements in welfare legislation strengthens the autonomy and self-determination of those in need of long-term care and promotes the provision of care in the individual's own home. Long-term care insurance reduces the level of care-related dependence on social assistance

considerably over the long term. It also offers relatives with care responsibilities extensive support and a range of social security benefits and services.

- Under the Prevention Act, health insurance funds and long-term care funds were obliged to spend at least 300 million euros per year on prevention and health promotion services in all areas of life from 2016 onwards. All persons can be easily reached, without being stigmatised, within their living environments, for example at work, in daycare, at school, in a nursing home or in their local area. A range of services for the early detection of illnesses was and continues to be expanded.
- The Federal Centre for Health Education has for many years been focusing on particularly vulnerable groups of the population and providing targeted measures.
- Reports on health and systems of health monitoring, which also deal intensively with the connection between health and social situation, generate knowledge which improves the conditions for implementing targeted measures over the long term.
- Long-term recipients of SGB II benefits who have limited health are one group targeted by the federal programme 'Social Participation in the Labour Market'.
- Healthcare for older persons, in particular, has to be provided close to home. For this reason, the Federal Government has created specific incentives to boost medical services, especially in structurally weak, rural areas.
- With its IN FORM National Action Plan the Federal Government is promoting a healthy lifestyle with adequate physical activity and a balanced diet in all walks of life and for all age groups.

**What remains to be done:**

- The efforts being made to improve equal opportunities in healthcare are to be continued, and not just in health policy.
- Prevention and health promotion in the healthcare sector are particularly suitable for promoting equal opportunities in healthcare. The Prevention Report from the National Conference on Prevention, which is scheduled to be published in mid-2019, will offer a basis for evaluating any need for developmental work.

### **III.3.5 Affordable, integrative and barrier-poor housing**

Having a roof over one's head that offers protection, heat and space for good living is a basic human need. In order to ensure older persons and persons and persons with disabilities are able to participate, it is also important for them to be able to move around their home and surrounding environment without any barriers, or at least with few barriers. The housing situation in Germany is good overall. More and more people (almost 98 percent in 2014) are living in housing which is in good condition or requires only minor renovation work. The figure for persons in low per capita income households is over 93 percent. The situation is rather more problematic in residential areas in which almost 9 percent of people in Germany feel severely affected by air pollution or noise. This proportion fluctuates between nearly 7 percent for persons in high per capita income households and just over 12 percent for those with a low per capita income.

For many people the costs of housing, including associated costs, represent one of the biggest blocks of expenditure in the household budget. The average housing cost burden among the population, shown as a proportion of the housing costs in relation to a household's disposable income, stands at around 22 percent. In the 2015 income year 16 percent of households spent more than 40 percent of their disposable household income on housing costs, which is defined as an overburden. One half of lower-income households are affected by this, with numbers continuing to rise. This trend varies widely from region to region. There was a significant rise in rent prices in economically strong areas with growing populations and in many major cities and university towns. As a result, there is a risk of social space becoming segregated: there is an increasing concentration of low-income households within defined areas of larger towns and cities.

Having a permanent place to live is a prerequisite for gaining access to the education system and labour market. Yet the number of homeless persons has gone up in recent years. According to estimates from the National Federation for Help to the Homeless, 335,000 persons did not have their own place to live in 2014. It is estimated that of this figure around 39,000 had no accommodation at all and were living on the street. There are many reasons for homelessness, including separation, leaving the parental home, and rent and utility debts, in particular.

#### **What is already being done:**

- The introduction of the rent control mechanism, the 2016 housing benefit reform and the reinforcement of the '*Bestellerprinzip*' for rented accommodation, whereby the party engaging the letting agent must also pay the agent's commission for facilitating the tenancy agreement, are helping to make housing affordable.



- The substantial increase in the compensation received by the Länder for the discontinuation of past federal financial assistance for the promotion of housing improves the framework conditions for the construction of affordable housing. Low-income households, in particular, stand to benefit from this.
- The urban development assistance programmes are contributing to social cohesion, integration and participation in neighbourhoods.
- Under the KfW 'Age-Appropriate Conversion' programme, private property owners and tenants especially are able to apply for subsidies to remove barriers in residential properties and implement building measures that provide homes with anti-burglar protection. In particular, owner occupiers who are not able to take out loans due to their age or do not wish to take on new debt are able to benefit from this subsidised support.

**What remains to be done:**

- The 'Alliance for affordable living and building' was created together with the Länder, national associations of local authorities, housing and construction industries and other social stakeholders as a central instrument for intensifying housing construction work. The goal is to create better conditions for the construction of affordable housing. The framework conditions for investments in housing construction are to be improved further, as this is the only means of creating affordable housing for a wide section of the population.
- The Federal Government is working closely with the Länder to examine whether a nationwide system of official statistics on homelessness can be developed, if necessary by means of a statutory regulation.

### **III.3.6 Offering protection and employment opportunities to refugees**

Depending on their residence status, persons seeking protection receive subsistence and accommodation benefits during their stay in Germany, as well as access to healthcare and the education system, including language-building skills and support in finding work.

890,000 and 280,000 persons seeking protection migrated to Germany in 2015 and 2016 respectively. It is expected that a portion of those seeking protection will be dependent on basic income support benefits, especially in the first few years following their arrival. Nevertheless, the Federal Government's aim is to enable asylum seekers with good prospects of remaining in Germany permanently as well as persons entitled to protection to earn their own living through gainful employment. In most cases this is also the personal goal being pursued by those who have sought refuge in Germany.

If the level of labour market integration and risk of poverty for asylum seekers who have recently migrated to Germany progresses in the same way as that for migrant refugees in recent decades, then the employment rate in 15 years could be close to the level for the resident population in Germany. As with the overall population, there are considerable differences in the probability of those seeking protection finding employment and in their earning prospects, depending on their qualifications and skills.

Integration policies can make an essential contribution in terms of language learning, education, vocational training and gainful employment for refugees. As most persons seeking protection in Germany are relatively young, this opens up a wide range of opportunities to influence their successful integration through education and training measures in early childhood, at school and at work, and thereby prevent poverty risks. Targeted support in acquiring language skills and educational qualifications can significantly improve a person's prospects in the labour market.

**What is already being done:**

- Persons seeking protection are benefiting from the Federal Recognition Act ('Act to Improve the Assessment and Recognition of Foreign Occupational Qualifications'), and especially from the opportunity of having existing skills ascertained by means of expert interviews or sample work if formal proof of such skills cannot be provided.
- The 'Integration through Qualification' ('IQ') funding programme was expanded in January 2015 to include the priority area 'ESF training and qualifications within the context of the Recognition Act'.
- The waiting time during which persons whose deportation has been suspended and asylum seekers are not permitted to work has been uniformly reduced to three months. As a result of the Regulation on the Integration Act coming into force on 6 August 2016, 133 of a total of 156 employment agencies of the Federal Employment Agency are, as a general rule and for a fixed period of three years, dispensing with the employment priority review, i.e. the review which checks whether employees with priority status (German nationals, EU citizens or foreign nationals who have the same legal rights as the former to take up employment, e.g. recognised refugees) are available.
- The Federal Government is funding around 100,000 subsidised jobs through refugee integration measures as an effective way of bridging the waiting time until a decision on the recognition of a person's qualifications has been taken. The aim is for participants to undertake activities that are meaningful and geared towards the common welfare, in order for them to be brought closer to the labour market, acquire language skills, and at the same time gain an insight into social and working life in Germany.
- For young adult refugees who are able to work and are eligible for benefits within the scope of Book II of the Social Code, the federal programme entitled 'Social participation

through work for young adult refugees and persons who are able to work and eligible for benefits' ('STAFFEL') subsidizes jobs subject to compulsory social insurance contributions and associated measures, such as instruction, support, counselling and mentoring. The aim of the programme is to introduce participants to work or training, in order that they can be placed in the German labour market on a long-term basis and integrated into society.

- Integration course capacities have been expanded significantly and courses opened up to both asylum seekers with good prospects of remaining in Germany and persons whose deportation has been suspended for humanitarian reasons. Moreover, the obligation to participate in integration courses has been strengthened, job-related German language learning has been fixed in the Residence Act as a policy instrument, and capacities have been expanded considerably.
- For a fixed period up to the end of 2018, asylum seekers who have good prospects of remaining in Germany and have already been in the country for at least three months have easier access to specific instruments of employment promotion.
- The Integration Act created greater legal certainty for foreign nationals who are required on principle to leave the country and for companies providing vocational education and training qualifications. Rejected asylum seekers and persons whose deportation has been suspended who are not subject to a work ban, are entitled to a temporary suspension of deportation, irrespective of their age and for the entire duration of their vocational training in a state-recognised or similarly regulated occupation, and to a residence permit for two years following this employment.
- The Integration Act has opened up various benefits and services that promote training to specific groups of refugees for a fixed period of time.

#### **What remains to be done:**

Work is the key to successful integration. In view of public budgets and demographic change, improving the employment prospects of persons seeking protection is also an opportunity for our society as a whole. Integration as a holistic process can only succeed if the measures and instruments of various stakeholders and action areas are aligned with each other. For this reason, the Federal Government has built on a series of laws already passed by enacting the Integration Act, which came into force on 6 August 2016, in order to accelerate the asylum process and improve the social integration of asylum seekers with good prospects of remaining in the country and persons seeking protection and their integration into the labour market, in particular. Refugees who have good prospects of remaining in Germany should be integrated into society and into the labour market as quickly as possible.

The task we are now faced with is to implement these integration policies and instruments at all levels on the basis of the new laws and regulations. At the same time, the principle of

'challenge and support' should be put into practice and enforced more consistently. The overall goal is to ensure that persons whose deportation has been suspended are also able to take up work as early as possible.

### **III.4 Action area 4: Strengthening the sustainability of public finances, performance-based equality and transparency in the tax system**

Fiscal policy that can be sustained over the long term is an essential prerequisite for creating a reliable, lasting system of social security, as solid and sustainable state finances provide the foundation on which scope for distributive policy moves can be obtained, educational opportunities secured and emerging crises effectively managed. Past years have shown that the consolidation of public budgets, additional investments and more social participation can go hand in hand. The structure of the social state in Germany reflects the fundamental conviction that measures which enable greater equality of opportunity and safeguard services of general interest are more than just benefits and services for those in need. Society as a whole benefits from the social infrastructure and decent education system of a developed social state. They are therefore investments in a society's productive capital which are equally as important as expenditure on the establishment and maintenance of fixed assets (e.g. roads, public buildings and institutions).

Public institutions and public sector activities must continue in the future to be financed on a sound basis of intergenerational equity. At the same time and against the backdrop of demographic change and technical progress, social security systems must be organised such that they remain not only reliable, but financially feasible and resistant to demographic trends on a permanent basis. This applies in equal measures to persons who are eligible for benefits and to those who pay contributions and taxes. Fiscal consolidation, which also ensures favourable conditions for growth and employment, and systems of taxation and contribution-based financing which are as broad-based and close to the principle of commensurability as necessary, are fundamental to this.

The types of taxes with the broadest taxation basis are value added tax and excise duties. They make up almost half of tax revenue. Lower-income and younger households make up an above-average proportion of this revenue, as a large portion of their income is spent on consumer goods. Income taxes take the economic productivity of individuals or families into consideration by means of progressive taxation. Lower-income households pay only little or no income tax. This is ensured by the basic tax-free allowance and the tax scale, which are adjusted at regular intervals. Higher incomes make up an above-average proportion of tax revenue. Since 2009, capital income has been subject to flat rate withholding tax and not, as a basic rule, to the progressive income tax scale, as is the case with other types of revenue.

Guaranteed fairness in the tax system and the effective collection of taxes are key to ensuring the long-term acceptance of the economic and social order.

Debates around taxation and redistribution go to the core of what is individually and socially regarded and felt to be fair. As difficult as it is to prevent such debates being driven by emotions, it is equally important that a solution is found which covers a broad social base. For this the available data must be clearly processed and discussed on the basis of facts. The issues and uncertainties of citizens with regard to the effects this has on them personally and on society as a whole must be taken into account; statistical records of the relevant data which are as representative as possible and cover the entire spectrum of income and wealth distribution are conducive to this goal.

**What is already being done:**

- The balanced budget rule has provided Germany with the legal basis for sustainable public finances. These build the foundation on which scope for distributive policy moves can be maintained, educational opportunities secured and emerging crises effectively managed. In terms of its current debt/GDP ratio, Germany is on course again to meet the Maastricht criterion of a total state debt level of 60 percent towards the end of the decade.
- By increasing the basic tax-free allowance and allowance for dependent children for 2015, 2016, 2017 and 2018, and by making several adjustments in the tax scale, the effects of what is known as 'cold progression', which had developed in recent years, have been cushioned.
- The Federal Government has rendered the imposition of tax revenue more effective by implementing measures to combat tax evasion and curb tax avoidance. Together with its European and international partners, Germany has paved the way for more equity and fairness in the taxation of cross-border transactions. Significant steps include the agreement on and implementation of new global standards in corporate taxation, as well as the automatic exchange of information on financial accounts which will come into effect from September 2017.

**What remains to be done:**

- Growth and employment-oriented budgetary and financial policies to secure sound state finances over the long term are to be continued.
- As stipulated in the coalition agreement, the Federal Government is supporting the introduction of a financial transaction tax with a broad assessment basis and low rate of tax as part of its increased cooperation at European level. In this, negative effects on old-age

provisions, on small investors and on the real economy must be avoided. The EU Member States involved share a basic common understanding of the core elements of this tax, though not of all the issues relating to it.

- On an international level, a new standard on the cross-border sharing of account-related information for tax purposes has been agreed. Its technical implementation is now in progress. Once the process of exchanging information is up and running, the question of the system of taxation for capital income may need to be picked up again.

### **III.5 Action area 5: Strengthening democratic participation and acceptance of democratic values**

The proportion of low-income persons taking part in politics or elections is significantly lower and in recent decades has fallen at a greater rate than with higher-income and middle-class persons. By comparison, therefore, they have less impact on political decisions. Moreover, scholars of international political science have for years been discussing how the positions of political stakeholders have become increasingly homogeneous, and how in many ways persons from the lower income bracket are not taken into consideration when decisions are being made.

The Federal Government is keen to encourage political affirmation across all sections of society and to enter a dialogue with many people on how to shape living standards in Germany. To this end it has been conducting, among other things, the 'Living well in Germany' dialogue with citizens during this legislative period. The 'Work 4.0' dialogue process is another example of how we must engage in an early dialogue with citizens with regard to social trends, their consequences and expectations in terms of the regulations required, because in doing so we can also confront any fears of potential job losses as a result of automation and digitalization. An intensive dialogue with the scientific community and professional associations and with those affected by poverty was also held as part of the process of producing the present 5th Report on Poverty and Wealth.

The causes for the connection between social position and democratic participation are complex and cannot be reduced to one simple denominator. They lie partly outside the scope of the analyses and range of topics dealt with in the present 5th Report on Poverty and Wealth. Policies which attempt to bring about equity based on performance and merit, and improve opportunities for participation may not be sufficient, but they are an essential prerequisite for strengthening cohesion and trust.

Furthermore, the aim of this Report is to present a differentiated picture of the social situation and point out effects and developments, while at the same time addressing existing need for action.

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