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## **The Fight Against Poverty**

*Policy Options and Reality*

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## Executive Summary

Ghettos of poor and unemployed people, homeless people, families relying on food banks, sick people without health insurance.... There is a long list of people which comes into our minds when we think about poverty and people who are affected by it.

If we search for an exact definition of poverty we will not find a single, universally accepted standard definition of it. Poverty is hardly measurable. Every interpretation is affected by credos of value. The ethical correctness of these trails to valuate poverty is scientifically not concluding appraised (Floren 2007, p. 120). The European Union's working definition of poverty is (1985, [http://ec.europa.eu/employment\\_social/social\\_model/6\\_en.html](http://ec.europa.eu/employment_social/social_model/6_en.html)):

"Persons, families and groups of persons whose resources (material, cultural and social) are so limited as to exclude them from the minimum acceptable way of life in the Member State to which they belong."

This definition is the basis of the valuations of poverty in this assignment.

The variety of poverty shows how many groups of people in particular are at risk of becoming poor.

In Germany the gap of income and the number of poor people in the society increased from the year 2000 to the year 2005 faster than in any other country of the OECD. Causes are the high unemployment rate in the year 2005 and a significant gap of income.

Nobody can be excluded if we talk about the poor ones in future. High income during employment does not mean that there is enough money for times of unemployment or old-age-pension.

When thinking about poverty we should never forget of what advantage it is to have a high old-age pension when you are lonesome and you have to pay for every help you need?

Policy options have to be divided in to groups:

1. Actions to prevent poverty
2. Actions to help people out of poverty

From a scientific point of view there is only one thing needed to stay out of poverty: enough money to sustain your expenditures.

Therefore a well paid job is necessary. Minimum wages are a controversially discussed topic during the last months. Only an occupation with an adequate salary is good for covering all costs.

Another crucial point is to secure the old age pensions. Due to this the Federal Government promotes a 3-layer programme. The tax policy is also a point which can be influenced by the state. Prevention of excessive indebtedness and a adequate asset accumulation are also important topics.

Proper education is a crucial point to prevent poverty and likewise the core measure to get out of poverty. Only good education opens the doors to the well paid jobs.

Some social groups are usually not able to get out of poverty on their own. Therefore help is needed. Especially for single parents, families with many children, drug addicts and disabled people as well.

Proper programmes for social housing or for improving language skills are often helpful for the poor.

Here, the government has countless options to help people, but the reality is often different...

In the fight against poverty the Federal government starts several actions to avoid and to help people out of poverty. The central statements behind these actions are:



1. Every person should secure his life by gainful employment at first.
2. Furthermore specific social transfer benefits should help to secure basic needs, especially for families.

They directly stress the responsibility of the successful fight against poverty lying in the hands of everyone. Especially one aspect implied in the first statement is important for every citizen: Gainful employment, everyone himself is responsible for, gives the chance to secure life.

In the past poverty and employment were inseparably connected and mutual exclusive. As employment was taken poverty was banned, in case of unemployment poverty threatened. Today especially the first statement is no longer true without restrictions. The effectiveness of employment as major driver in avoiding and helping out of poverty was weakened. The reason is the increase of low-wage employees. The belief gainful employment can always secure life is no longer true.

The actual problem in Germany is a high amount of fully-employed people becoming poor. The expression “working poor” describes working full-time in one and even more jobs earn wages under the existence minimum. Labour unions claim legal minimum wages in the different lines of business. The Confederation of German Employers BDA demands the negotiation of minimum wages by the bargaining parties, employer associations and labour unions. The free social market economy of Germany may not be influenced by law.

The Federal Government established and renewed the “Mindestarbeitsbedingungs-gesetz” and “Arbeitnehmer-Entsendegesetz”, which do not give legal minimum limits. The laws ease the establishment of minimum wages in business lines.

Low wages and the difference of income are one reason of the gap between rich and poor. To even this income differences the federal government introduce the progressive income tax rate. It attenuates the inequality of the gross incomes. But the gap between rich and poor is only less affected by the tax policy.

The other reason for the gap between rich and poor is the difference of assets. The gap increases because the middle-class decreases. More and more people become

poor. Poor people are not able to establish coverage by accumulating asset. People who are able to accumulate asset need the right strategy. Capital investments offer different strategies to accumulate asset, from conservative to risky.

In the actual financial crises many people and companies have lost much asset. The trust of savers in the banking system and especially in shares hits the rock bottom. To-day every possibility to accumulate asset is questioned.

The coverage in old-age was formerly granted by legal pensions. But legal pensions are no longer safe, as it was belief for a long time. The “three-layer-concept” of retirement provision offers possibilities to close the increasing gap. The intention is to support the conventional public old-age pension by two additional layers. Nevertheless every layer and every kind of provision has its own particularities which should be considered.

Poor and unemployed people are often threatened by indebtedness. Especially unemployed people are not able to pay back their bills and become excessively indebted soon. To leave this hopeless way debt relief and employment are the best means. In insolvency proceedings the debt relief is pronounced. From the year 2002 until now the annual increase of insolvency proceedings decreases. Additionally the average amount of indebtedness decreases in these years too.

The basic requirement for employment and therefore a central driver to avoid and to help out of poverty is education. Federal Chancellor Angela Merkel proclaimed the “Educational Republic of Germany.”

One reason for her reaction is secondary general schools are in trouble. After graduation many youngsters stay in the transitional system for too long. They don’t find a vocational education.

Another reason is even the vocational education has a problem. The participation in the Dual System in the vocational education decreases from 51.2 percent to 42.6 percent in 2005. This is an alarming development. Although the tendency is declining in the year 2005 to 2006 the efficiency of the Dual System should be improved even more.

Forecasts of the employment market show a growing demand for highly qualified employees between 2003 and 2020. The demand for low qualified people will reduce. Ac-