

# Poverty Watch Report 2023: Germany

## I. Introduction

The National Poverty Conference - Nationale Armutskonferenz (nak) – is an association of organisations, associations and initiatives being engaged for an active policy for combatting poverty. The conference was founded in autumn 1991 as the German section of EAPN. Beside national associations, people experiencing poverty and self-help organisations are contributing as well in the nak. The two latter integrate their personal experiences and perspectives and their approaches for solutions in combatting poverty and social exclusion. They have been doing this for 32 years now.

## II. Poverty in Germany

### (a) People at risk of poverty or social exclusion

After a significant increase in the proportion of people at risk of poverty or social exclusion between 2020 and 2021, from 20.4 per cent to 21 per cent, the proportion remained almost static between 2021 and 2022, at 20.9 per cent. Because the population has grown in the meantime, the absolute number of persons at risk of poverty or social exclusion has increased in 2022 by 100,000, from 17.3 to 17.4 million.

If we look at how different groups are affected by the risk of poverty or social exclusion, the **unemployed** are the first to catch the eye. The already high figure of 78.9 percent in 2021 was far exceeded in 2022. 83.8 percent of the unemployed are affected by the risk of poverty or social exclusion, which is by far the highest figure in the EU 27. **Single parents with dependent children** are almost traditionally highly affected by the risk of poverty or social exclusion. Here, too, the figure rose again, from 44.6 percent in 2021 to 46.8 percent in 2022. The risk of being affected by poverty or social exclusion also depends strongly on the **level of education**. Those with low educational attainment were affected at 38.3 percent in 2022, a slight decrease from 39 percent in the previous year. The inability of many persons with low educational attainment to earn a halfway adequate income radiates in extreme form to the children living in the same household. **Children of parents with low educational attainment**, i.e., under 18-year-olds living in the same household, were 61.3 percent at risk of poverty or social exclusion in 2022, up from 60 percent in 2021. **Citizenship** is another factor strongly associated with the risk of poverty or social exclusion. In 2022, 17.2 percent of German citizens were affected, a slight decrease compared with 2021 (17.4 percent). Citizens of an EU country were affected by the risk of poverty or social exclusion at 24.4 percent in 2022 (2021: 24.8 percent) and citizens of a non-EU country at 43.3 percent (2021: 45.8 percent). Other groups at a high risk of poverty or social exclusion include **families with 3 or more dependent children** (2021: 32.3 percent ; 2022: 33.7 percent), **tenants** due to steadily rising rent costs (2021: 29.1 percent ; 2022: 28.2 percent), and (often female) **single retirees** (2021: 29.7 percent ; 2022: 29.5 percent).

### (b) People experiencing monetary poverty

The share of people experiencing **monetary poverty** was almost constant in 2020 and 2021 at 16.1 per cent and 16 per cent respectively. In 2022, this share fell significantly to 14.7 per cent, or by close to one million persons to now 12.2 million. The proportion of people in **monetary poverty before social transfers** (excluding pensions) stood at 26.8 percent in 2021 and fell to 25.4 percent in 2022. Part of the explanation for this decline could be that the absolute income of some of those previously affected by monetary poverty hardly changed, but their relative income position did. For between 2020 and 2022, due to the crisis, the median income (1-person household) fell from 26,008 euros to 25,000 euros as well as from 54,620 euros to 52,500 euros (household with two adults and two children under 14) so that the at-risk-of-poverty threshold also decreased. An additional explanation

could be that, in the wake of rising energy and food prices in 2022, various one-time payments designed to mitigate price increases targeted low-income households.

If we look at the groups that were disproportionately affected by the risk of monetary poverty, they largely correspond to those already mentioned under (a). For the **unemployed**, the risk of being affected by monetary poverty was 47.9 percent in 2021 and 42.7 percent in 2022. This shows that the stability of social transfers may have played a greater role in reducing the risk of monetary poverty as median incomes fell. In 2022, 25.5 percent of **single parents** were affected by the risk of monetary poverty, after 26.8 percent in the previous year. Before social transfers, the risk of monetary poverty among single parents stood at 59.1 percent in 2022. In 2022, 24.9 percent of **people with low educational attainment** were affected (2021: 27.6 percent), their children at 37.6 percent (2021: 40.1 percent). **Citizenship** also played an important role again. 12.7 percent of German citizens were affected by the risk of monetary poverty, after 14.2 percent in the previous year. The corresponding values for citizens of an EU country were 19.1 percent in 2022 (2021: 19.6 percent) and for citizens of a non-EU country it stood at 31.7 percent (2021: 33.8 percent). In 2022, 18.3 percent of **people aged 65 or older** were affected by the risk of monetary poverty (2021: 19.4 percent), with women at 20.3 percent more often than men at 15.9 percent. Many retirees also earn an income that is only just above the poverty risk threshold. 29.3 percent of retirees earn an income that is less than 70 percent of the median income. **Single retirees** had the highest risk of monetary poverty at 27.6 percent. For **larger families**, i.e. households with two adults and three or more dependent children, the risk of monetary poverty amounted to 23.1 percent in 2022, after 23.7 percent in the previous year. **Housing costs** also played a big role. Rental households were affected by the risk of monetary poverty at 20.1 percent in 2022. After deducting housing costs, in 2022, 35.9 percent of households in cities, 31.9 percent in small towns and suburbs and 29.3 percent in rural areas were affected by the risk of monetary poverty.

Finally, the development of the **in-work poverty rate** is interesting. If you look at all employed people together, 7 percent were affected by the risk of in-work poverty in 2022. However, this risk is strongly linked to the respective level of training. With a low level of education, the in-work poverty rate in 2022 amounted to 16.1 percent, with a medium level of education it was 6.4 percent and with a high level of education it stood at 4.1 percent. Again, there is a strong connection with citizenship. In 2022, 5.6 percent of people with German citizenship, 11.6 percent of citizens of an EU country and 18.6 percent of citizens of a non-EU country were affected by in-work poverty. While the in-work poverty rate sounds relatively modest when all employees are considered, Germany remains a country with a disproportionately large **low-wage sector**. In 2022, 3.6 million or 16.5 percent of all full-time employees worked for low wages. Full-time workers in the low-wage sector are not necessarily affected by poverty. However, this is only true if they are either single or live in a household with two employed persons for the low-wage threshold stands at 2.431 euros per month. Moreover, their income is usually insufficient to cushion unforeseeably higher expenses, especially in an inflationary environment and with rising rent costs, so that they are constantly at risk of material or social deprivation or, as a rule, already meet some of the deprivation characteristics.

### (c) People experiencing severe material and social deprivation

In complete contrast to the trend in monetary poverty, the proportion of people experiencing **severe material and social deprivation** (experiencing 7 or more of the 13 items of deprivation) has increased significantly, from 6,9 per cent in 2021 to 8,2 per cent in 2022. This shows that monetary poverty measured with the help of nominal amounts of money loses some of its informative value in times characterised by high inflation rates, especially of the basic goods food and energy, which are particularly important for households with low incomes. Real incomes fell by an average of 7.2

percent between 2020 and 2022. **While a decreasing nominal median income and poverty threshold seems to suggest a reduction in monetary poverty, material hardship actually increased significantly due to substantially higher prices.** This development is also responsible for the appearing contradiction between a constant proportion of people at risk of poverty or social exclusion and a significantly lower rate of people experiencing monetary poverty. The increase in the number of people affected by severe material or social deprivation corresponds almost exactly to the decrease in the number of people experiencing monetary poverty.

The price increases observed in almost all areas of life resulted in a rise in the number of people experiencing deprivation across all deprivation items, which was particularly pronounced among those experiencing poverty. The **inability to keep one's house or flat warm** affected 7.8 per cent of those in poverty in 2021, rising to 13.6 per cent in 2022. Carrying **unforeseen financial burdens** was already impossible for 61.5 per cent of people experiencing poverty in 2021, this figure rose again to 62.2 per cent in 2022. Even in the population as a whole, more than a third - 33.5 per cent - are no longer able to cope with surprising additional financial burdens. Almost a quarter of those in poverty - 24 per cent - are **unable to afford a meat-based meal or vegetarian equivalent** once in two days, up from 22.5 per cent in the previous year. **Meeting with family members and/or friends once a month** for a small get-together with a meal and drinks is not possible for 17.2 per cent of people experiencing poverty, up from 14 per cent in the previous year. **Participation in paid leisure activities once a month** was not conceivable for 27.1 per cent in 2022, a significant increase from 22.2 per cent in the previous year. With regard to digital exclusion, it is relevant that 11.2 per cent of people experiencing poverty cannot afford a computer (2021: 11 per cent) and 8.3 per cent cannot afford to pay for internet connection (2021: 6.8 per cent).

#### (d) **People living in households with very low work intensity**

The share of people living in households with **very low work intensity** (only people aged 0-64) increased from 8.3 to 9.5 percent between 2020 and 2021. In 2022, a further increase to 9.7 per cent was observed. While the sharp increase in 2021 may also be due to the pandemic, the further increase in 2022, which was much less affected by the pandemic, may indicate more difficult labour market access for certain groups of persons, as the unemployment rate fell from an already low level (from 3.6 to 3.1 per cent for 20-64 year olds) during the same period. One explanation could be the increase in persons who are likely to be in Germany only temporarily because of their residence status due to the Russian war of aggression on Ukraine. However, the share of persons with very low work intensity among citizens of non-EU-27 countries has decreased, albeit at a high level, from 25.5 to 22.2 per cent. On the other hand, the share of persons with very low work intensity has increased in the groups of single parents (from 27.4 to 28.8 per cent) and among persons with basic education from 9.1 to 9.4 per cent. In addition, there are people who do not have to work because of assets. Among homeowners, an increase in the number of persons aged 18 to 64 living in households with very low work intensity can be observed, from 4.8 to 5.6 per cent. Finally, among the groups of persons of working age living in households with very low work intensity, one should not forget the early retirees, 59.3 per cent of whom live in such households.

### **III. Austerity Measures or Financing Social Rights, A Choice to be Made**

#### **III.1. PEP-Demands and discussed Strategies**

At various regional and national meetings of people experiencing poverty in addition to formulating content-related focal points and demands, also strategies were discussed to generate a higher responsiveness for topics relevant to people experiencing poverty in the public and political spheres

and to sustainably correct the stereotyping image that is drawn in the public of people experiencing poverty.

The following areas can be identified as the main focus of these discussions : "Bürgergeld" resp. "Citizen's Income" (which has largely replaced the previous "Grundsicherung" as the basic social transfer in Germany since January 2023), "Purposeful exchange with politicians," "Digitization in the context of access to institutions, social benefits, and social services," "Social participation" and "Housing and discrimination."

The **citizen's income**, which was initially announced as a major sociopolitical gamechanger in the area of basic benefits, ultimately caused disappointment due to various watered-down elements during the legislative process, despite some improvements compared to the previous state of affairs, and also led to unequal treatment of different groups of people affected by poverty. The demands of people experiencing poverty do not only refer to higher cash benefits, as is often portrayed in the public opinion. In fact, the demands are very differentiated and relate to the still deficient overall system of administering basic security benefits.

In addition to various improvements in the design of benefits beyond the amount of payments, the main focus of people experiencing poverty is on **improvements in the area of institutional access to benefits and the urgent need to train and sensitize the staff who decide on benefit applications**. With regard to the latter point, supervision, and training opportunities for employees of the social administration are demanded. A related demand is to include classism alongside other forms of group-based hostility to human beings in the catalog of the German General Equality Act, so that corresponding actions can be legally sanctioned. A large number of studies have shown that discrimination against people experiencing poverty is one of the most widespread forms of discrimination in Germany and often occurs in connection with the staff of state authorities.

The problem of an increasingly difficult "analog" access to the institutions where advice can be sought, social benefits applied for, and appeals lodged has arisen from the confluence of the prolonged infection control measures during the pandemic, the increasing digitalization of the administration, and the lack of personnel in public institutions. As shown in Section II (c), many people experiencing poverty do not have a computer and/or Internet access. Many also do not have a scanner, printer, or copier. Not everyone finds digital tools easy to use either. These problems particularly affect the most vulnerable groups, such as the homeless, the elderly or people with disabilities. Moreover, contentious issues in particular can be better clarified in a face-to-face situation than via an exchange of e-mails, which often leads to misunderstandings. And whether meaningful social counseling can and should take place purely online at all is another question. Analog access to social administration with joint appointment coordination instead of appointment dictation is therefore one of the most fundamental prerequisites of a people-oriented social infrastructure. Systems that lead to **digital exclusion**, on the other hand, are at best thoughtless, at worst another example of the authorities' disregard for the interests of those affected by poverty.

The **difficulties in representing the interests of people experiencing poverty vis-à-vis politics** in general and politicians in particular is likely to be a problem that EAPN staff in Brussels are also aware of. People experiencing poverty are only too aware that the problems actually start elsewhere: At their portrayal in the media, which, if one disregards the worst classist broadcast formats, also affects the so-called quality media. There is probably no other group of people about whom so many negative stereotypes circulate and are taken for granted as true by many fellow citizens. While, rightly, the diversity of people is increasingly recognized and respected in public, this does not seem to apply to people experiencing poverty. All too often, euphemisms such as "people in difficult circumstances" or "people in need of a helping hand" lose sight of the individuality of those

affected by poverty, and with it the ability to perceive and recognize them in their unique individual life situations and to provide support where it is really needed. Poverty statistics, as they have also been listed here in the second section, also contribute to this, but unfortunately cannot be completely avoided. What can be avoided, however, is so-called statistical discrimination, i.e. forgetting that the people behind individual statistical characteristics are not nearly entirely described on this basis.

It can be assumed that politicians, who are particularly attentive to public opinion expressed in the media and who deal with statistics on a daily basis, are especially susceptible to - in part presumably unconscious - stereotyping and statistical discrimination against people experiencing poverty. In addition, politicians are unlikely in most cases to have professional or private contact with people experiencing poverty, quite the contrary. Therefore, contact on a real eye level will be difficult even for well-meaning politicians if they do not have a high degree of self-reflection. Nevertheless, it is highly important to seek this contact, and it is to be hoped that each and every one of them will contribute to the perception of people experiencing poverty not simply as further lobbyists, but as experts in their own right by politicians. Lobbyists represent the interests of others in return for payment and bend the truth in the process; those affected by poverty represent themselves and counteract a bending of the truth. But there is still the problem of getting this message across to the men and women in politics. Some tactical considerations were developed in this regard in the discussions of people experiencing poverty:

- People have to learn how to deal with poverty as a taboo subject and with their own shame. Good examples and reports from other experts on their own experiences can help. The expertise of the group members/the experts in their own right, which is more pronounced in different areas, must also be used in a targeted manner.
- Discussions with politicians must be well prepared. The people involved in the conversation should stick to the jointly developed templates and stay on the prepared topics.
- Publicly available information about politicians can be obtained in advance, e.g. about club memberships, special areas of interest, etc. This can provide starting points for discussions with the aim of making politicians co-participants. This can lead to points of contact for discussions with the aim of establishing a personal basis and turning politicians into stakeholders.
- Role clarity: Personal experiences can and should be shared, but it must be made clear that the participants in the conversation are not concerned with solving an individual case but are telling their story as an example of the experience of many others.
- It requires a lot of patience and persistence on the part of the experts on their own behalf (reactions from politicians often take a long time or are only forthcoming on request).
- The role as an expert in one's own cause is not an end in itself. The overriding goal must always be to make clear the need for people experiencing poverty to participate in the preparation of political and other decisions that directly affect them. And genuine participation cannot be limited to window-dressing without actual influence but must be institutionalized and underpinned with rights.

With regard to **social participation**, improvements are being called for in a variety of areas. In the area of participation in the labor market, demands have been made for years that taking up a job in addition to receiving basic welfare benefits, through which earnings exceeding a marginal amount can be earned, should not immediately lead to a severe reduction in the amount of basic welfare benefits (so-called transfer withdrawal rate). The new citizen's income introduced improvements, but from the point of view of those affected by poverty, they are far too limited. In addition, the

opportunities for people who do not receive the citizen's income but another basic income support benefit to earn additional income have not been improved. Another aspect of social participation is enabling affordable mobility. During the pandemic, the so-called 9-Euro-Ticket made it possible to use local public transport throughout Germany for nine euros a month. In the meantime, a relatively inexpensive successor product is available in the form of the 49-Euro-Ticket, but this is still a large amount of money for those affected by poverty. In addition, it is not always possible to pay for this ticket in cash, which makes it impossible for those affected by poverty to purchase it if they do not have a bank account or are excluded from purchasing tickets online due to low creditworthiness.

A fourth area of social participation concerns the simplification of application procedures for social benefits and the possibility of receiving assistance directly from social welfare agencies and administrations instead of having to wait months for applications to be approved. A fifth and innovative demand is that adult recipients of basic benefits receive a so-called participation package that serves to enable social participation. In Germany, children who or whose parents receive various forms of social benefits receive 14 euros per month, which they can use, for example, to pay fees for sports clubs or music schools. But membership in a sports club, for example, is also an important element of social participation for adults affected by poverty, which they often cannot afford due to the low basic benefits. In addition, it is demanded that those affected by poverty should participate in health promotion programs free of charge, a measure that would make particular sense due to the poorer health status of those affected by poverty on average compared to the population as a whole.

**Discrimination against people experiencing poverty in the housing market** is widespread in Germany. In addition, there have been generally **high increases in rental prices** in recent years, especially in the cities. In this regard, people experiencing poverty make a variety of demands, some of which would also help non-poverty-affected persons and especially families with children. Demands are:

1. a right to a living space should be anchored in the German constitution or in the constitutions of the federal states
2. more residential units should be in public ownership; in particular, there should be no more disposals of public housing units
3. more council homes are needed. Construction can be stimulated by tax incentives and a permanent social commitment in the case of public funding
4. a rent cap, i.e., maximum amounts for rent increases, should be enforced in a legally secure manner, at least in the cities
5. reducing vacant residential space by ensuring simplified legal access or conversion of no longer used hotels and office buildings
6. access to residential space even with low creditworthiness or a negative entry in the "Schufa" creditworthiness register, e.g. by not making an entry in the register in the case of rent debts and/or by landlords not being allowed to demand information about the creditworthiness of potential tenants.
7. reliable statistical recording of the number of homeless people
8. no obligation for approval of the adequacy of the living space by either the employment agency or the social welfare authorities

### **III.2. European Pillar of Social Rights Action Plan: State of Play of the German Targets for 2030**

In June 2022, Germany formulated its targets of the European Pillar of Social Rights Action Plan and - as in similar plans in the past - consistently in relation to the labor market. It does not include an explicit target for reducing poverty or social exclusion. The targets are:

1. by 2030, 83 percent of all persons between the ages of 20 and 64 should be in employment.
2. by 2030, 65 percent of all people who are between 25 and 64 years old should be participating in Adult Learning each year.
3. by 2030, the number of people living in households with very low work intensity should be reduced by 1.2 million.

The extent to which the targets have been met so far is as follows.

1 Germany is on track to meet the first target. In 2022, 80.7 percent of 20- to 64-year-olds were in employment, an increase compared to 2020 (76.2 percent) and 2021 (79.4 percent). The fact that 27.9 percent of all labor market participants worked only part-time in 2022, a significantly higher figure than the average for the EU 27 (17 percent) or the euro zone (19.9 percent), is not a factor here.

2. The fulfillment of the second target is currently not verifiable because the relevant data from the Adult Education Survey are only available every 5 to 6 years. In 2016, 52 percent of 25- to 64-year-olds participated in Adult Learning each year. Some indication of trends is provided by the participation rate in education and training, which indicates participation in the recent 4 weeks. Between 2021 and 2022, the participation rate in education and training in Germany rose from 14.2 to 14.6 percent, although this was due to the very low participation rate during the pandemic. In the last decade, the participation rate in education and training fluctuated between 14.5 and 15 percent without any visible trend, which does not indicate an increase in annual participation since 2016.

3. As discussed in section II (d), the share of persons living in households with very low work intensity has increased significantly since 2020, from 8.3 to 9.7 percent. This corresponds to an increase of 984,000 persons, although the increase between 2021 and 2022 is the smaller part, by 0.2 percentage points or by 118,000. In any case, there is currently no discernible trend in the opposite direction, which may of course change once the Russian war of aggression on Ukraine ends and the economic consequences of the pandemic and the war subside. For example, between 2015 and 2019, the number of people living in households with very low work intensity dropped by almost 1.1 million, so achieving the target is not unrealistic from today's perspective - which is, after all, probably why Germany chose this target instead of aiming to reduce the number of people at risk of poverty or social exclusion.

### **III.3. Use of German ESF+ funds**

Germany has 6.56 billion euros in ESF+ funding available for the funding period 2021 to 2027. 2.2 billion euros will be used for federal programs, 4.4 billion for programs of the federal states. The funds are to be used for the following measures:

- Neighborhood-specific measures in structurally weak, disadvantaged areas: Interlinking labor market promotion measures with urban development investments.
- Individual support for young people within the legal scope of SGB VIII (= Code that regulates social assistance to children and young adults) with the goal of achieving a more stable lifestyle and secure living conditions.

- Internships abroad for disadvantaged young people/young adults with multiple integration barriers in the labor market.
- Testing of model information/training offers on the topic of the transition from school to vocational training for the immediate caregivers of immigrant young people or the young descendants of immigrants.
- Support for families in disadvantaged circumstances to strengthen their educational and child-rearing skills; establishment of sustainable preventive structures close to home for the support of families.
- Measures to improve the lives of families and children affected by social exclusion, poverty, including parents with disabilities.
- Counselling, qualification, company-related activation, and placement in work/training/schooling of refugees
- Measures to support the most disadvantaged persons (ex-EHAP), especially the homeless, those at risk of homelessness and newly arrived EU citizens and their children.
- Promoting micro-projects to overcome loneliness/social isolation.
- Development and testing of social innovations/specific measures to strengthen the social participation of older people and the labor market integration of young men with particular difficulties in accessing education/training/employment.

Even though the funds available through the ESF+ are relatively small compared to the German social budget, they flow into measures that would probably not otherwise take place due to the strong path dependency of German social policy and the always scarce funds of the federal states and municipalities. One problem, however, is getting the temporary funded programs to become permanently financed in the long term. A major advantage, however, is that the use of ESF+ funds follows clear guidelines and cannot be reallocated within the state budget once more austerity measures are decided, as is planned in many other areas of social policy over the next few years.

#### **III.4. The German National Reform Program 2023**

To call the German National Reform Program unambitious would be an exaggeration. With regard to the implementation of the European Pillar of Social Rights, reference is made in part to measures that have already been implemented in 2022. With regard to future measures, vague announcements are made. There is no direct reference to fighting poverty or social exclusion. There are also few new or concrete plans on the funding side of the state.

#### **Implementation of the European Pillar of Social Rights**

With regard to the implementation of the European Pillar of Social Rights, reference is made to the increase in the statutory minimum wage to 12 euros per hour from October 2022, which corresponds to an increase of 14.8 percent. This increase was a key promise of the government elected in 2021 and is a welcome development, even if the level of the minimum wage remains at only 53 percent of the median wage. In addition, the price increases of last year (7.9 percent) and this year (forecast by the EU Commission in September 2023: 6.4 percent) made the minimum wage increase extremely small in real terms.

Due to the increase in the minimum wage - at least according to the official justification - the remuneration limits of so-called mini- and midi-jobs were raised. This means that, up to certain earnings limits, less social security contributions can be paid when performing marginal employment - if employees want to. In this way, they receive a higher net wage. Marginal employment is controversial, however, because it is often more advantageous for employees to work in the low-wage sector at low wages than to take up regular employment with full compulsory social security contributions.



In addition, reference is made to the immediate supplement of 20 euros per month for needy children, adolescents and young adults introduced on July 1, 2022. This immediate supplement is intended to serve as a transitional measure until the introduction of the "basic child allowance", which is now planned for 2025 and will be discussed elsewhere in this report. Around 2.9 million children benefit from this. This benefit is also welcome, but it does not change the fact that the basic security benefits for children are systematically calculated too low.

For the future, a strengthening of collective bargaining coverage is planned. In recent years, the number of employees working in companies covered by collective agreements has continued to fall, making it more difficult to enforce collective agreements and ultimately leading to lower wages. However, the announcements envisage only very moderate measures, such as allowing public contracts to be awarded only to companies that are bound by collective agreements. Another announcement - which, however, also relates to a project that has ultimately been planned for a long time - is the safeguarding of a minimum pension level, which should not be undercut.

On the government financing side, the announcements also concern projects that have long been in the planning stage. For example, tax avoiding by supranational companies is to be made more difficult and it is announced that the German government will step up its efforts to introduce a global effective minimum taxation of companies. In addition, measures to combat sales tax fraud are announced. While these measures may possibly generate somewhat higher tax revenues, on the other hand the German government announced, "further targeted relief for companies, in particular to strengthen investment in the modernization and transformation of the German economy and thus also contribute to its competitiveness." These are then likely to be subsidies (e.g. via lower energy prices for companies) or corporate tax cuts, which will presumably be far higher than the higher tax revenues based on the fight against tax avoidance and tax fraud.

### **III.5. The German Reconstruction and Resilience Plan (DARP)**

Only 4.5 percent (1.26 billion euros) of the nearly 28 billion euros available to Germany are spent on the area of "social participation" and here on programs that are virtually useless in terms of combating poverty or social exclusion. For example, the lion's share of the funds used for investment purposes flows into the expansion of childcare and thus into an area whose expansion had already been decided anyway. The federal government rightly states that reliable childcare improves the opportunities for taking up gainful employment and that socially disadvantaged children in particular can benefit from childcare. Both could be interpreted as contributing to improving opportunities for social participation. However, the measures are in no way directly aimed at this goal. If this were the case, childcare services for single parents or shift workers, for example, would have had to be improved in a targeted manner, and new and, not least, high-quality childcare services would have had to be created in areas where the proportion of socially disadvantaged people is particularly high. However, this was simply not done.

Another part of the funds was used for the so-called "social guarantee". This refers to the intention that, with the help of tax subsidies, the combined contribution rates of the social security systems should not rise above 40 percent. This measure is also not targeted, but (a) tends to help people with higher earnings more than people with lower earnings, some of whom, if they are only marginally employed, pay only reduced social security contributions anyway. The social guarantee also helps (b) companies, which pay about half of social security contributions in Germany and are relieved in this respect if contribution rate increases are prevented with the help of taxpayers' money.

During the pandemic, a further part of the funds flowed into the "Securing apprenticeships" program. The aim was to use subsidies and bonus payments to help ensure that apprenticeships

were not discontinued under the more difficult conditions of the pandemic. This was a sensible measure, especially for the apprentices. However, it is not a targeted measure for strengthening social participation in the future, especially for vulnerable groups.

The program "Support for Pupils with pandemic-related Learning Backlogs" was certainly a useful measure as well. According to official figures, around one million children with learning delays were supported through this program. It is not known whether this ultimately reached the already better-off children, as is often the case in the German education system, because their parents were presumably more likely to have known about the program in the first place and to have taken advantage of it, or whether it reached more socially disadvantaged children. In any case, this measure was also not targeted at strengthening the future social participation of vulnerable groups.

The last program, which falls under the heading "Strengthening social participation," is designed to set up a digital pension overview. The aim is to provide people insured under the compulsory pension scheme with a simple way of finding out about their pension entitlements in the future. This program has even less to do with strengthening social participation than the programs already mentioned.

It can therefore be concluded that Germany missed the opportunity to use funds from the Reconstruction and Resilience Plan - perhaps in addition to ESF+ funds - for targeted and innovative programs that help persons whose social participation is actually at risk. Such programs could, for example, have served long-term goals such as preventing homelessness, improving debt counseling, funding additional social workers, or generally improving the social infrastructure.

### **III.6. Relevant administrative measures in 2022 and 2023 and planned measures concerning people experiencing poverty**

#### **(a) Relevant administrative measures in 2022**

As early as 2021, easier access to basic security benefits was decided as part of the "social protection packages" during the Corona pandemic. Initially limited to Dec. 31, 2021, this regulation included a suspension of the examination of the adequacy of expenses for housing and heating as well as a limited asset examination for new applications for basic security benefits. These regulations were initially extended until March 31, 2022, and finally until December 31, 2022.

In June 2022, it was decided that needy children, adolescents and young adults would receive a child supplement of 20 euros per month, as already discussed in section III.4. In addition, it was decided that adult recipients of basic benefits would receive a one-off payment of 200 euros to compensate for the additional expenses associated with the Corona pandemic. In addition, it was decided that war refugees from Ukraine with a residence permit would be included in the basic welfare system and thus not have to receive the lower benefits under the Asylum Seekers' Benefits Act.

In July 2022, sanctions for violations of obligations by basic income support recipients were suspended for a period of one year (until July 1, 2023). This so-called sanction moratorium came in response to a ruling by the German Constitutional Court in 2019 that the previous sanctions regulations were not suitable for ensuring the state's constitutional duty to secure the minimum subsistence level of its citizens, in particular because sanctions of up to 100 percent of basic welfare benefits were possible and were also imposed. However, the Constitutional Court did not consider sanctions as a whole to be unconstitutional, and even during the moratorium on sanctions, sanctions remained possible in the case of repeated failures to report by basic income support recipients, but only up to a maximum rate of 10 percent of the basic welfare benefit.

## **(b) Relevant administrative measures in 2023**

On January 1, 2023, the Citizen's Income Act (Bürgergeld-Gesetz) became effective. It replaced the previous basic benefits for jobseekers ("Arbeitslosengeld II") and the social benefit ("Sozialgeld"). It did contain some improvements over the previous system, although many of the demands of people experiencing poverty, social associations and other stakeholders were not (fully) implemented.

### **Improvements**

- An important improvement was the abolition of the placement priority ("Vermittlungsvorrang") for persons who would have received the basic income for jobseekers under the old legal status. The placement priority stipulated that placement in work or apprenticeship took precedence over the payment of basic income support, placement in a skill enhancement or retraining program, or the promotion of a business start-up. The consequence of this regulation was that many jobseekers were placed in low-paid, temporary, or other forms of precarious work (e.g. hired labor), became unemployed again after only a short time period and, in addition, lost individual professional qualifications because they were placed in jobs that did not meet their qualifications. It is to be hoped that the new regulation will actually be implemented in practice in such a way that maintaining professional qualifications or placement in a meaningful further training measure will be the first objective of any measure taken by the responsible authority or its employees.
- Another positive measure was that the "Participation in the Labor Market" instrument, which was newly introduced with the Participation Opportunities Act 2019 and was limited until the end of 2024, is now a permanent component of active labor market policy. This instrument promotes the placement of the long-term unemployed in employment subject to social insurance contributions by means of wage cost subsidies.
- Improvements in the way assets are taken into account: Within the first twelve months from the start of the initial receipt of basic welfare benefits, assets are now only taken into account or must be consumed as a priority before receiving citizen's benefits if they are substantial. In this context, a self-declaration stating that one's own assets are not substantial is initially deemed sufficient. Assets are only considered substantial if they exceed 40,000 euros (single persons). Owner-occupied residential property and an owner-occupied car are no longer considered assets. After the 12 months, a stricter consideration of assets applies, but this is still an improvement over the previous legal status. For example, an owner-occupied house with a living space of up to 140 square meters does not count as an asset, nor does a passenger car with a market value of less than €7,500.
- Improvement regarding the appropriateness of housing: Previously, recipients of basic benefits had to either move to a smaller dwelling or pay part of the rent themselves if they lived in an inappropriately large home. In the first twelve months of receiving benefits for the first time, any dwelling is now considered adequate so that at least first-time recipients of the citizen's income are not immediately confronted with the question of the adequacy of their housing. In the case of a too large home, however, benefit recipients may have to pay part of the heating costs themselves.
- Sanctions are now only possible up to a maximum of 30 percent of the basic security benefit. The payment amounts for housing costs may no longer be reduced as a result of a reduction in benefits. At the same time, however, the moratorium on sanctions, which should have run until July 2023, ended on January 1, 2023.
- In the case of employment in addition to receiving basic benefits, the amounts that can be earned as income without being offset have been slightly increased.

- The previous obligation to claim an old-age pension as soon as an entitlement to it exists respectively as soon as a minimum age is reached is no longer applicable. The previous rule meant that old-age pensions had to be claimed with high deductions due to the early start, which then often resulted in old-age poverty.
- Since July 2023, the previous integration agreement, which was ultimately a dictate of the basic benefits authority regarding the obligations of basic benefits recipients, has been replaced by a cooperation contract. Since this also contains the obligations of the basic benefits recipient, the practical difference to the previous regulation remains to be seen.
- Basic income support recipients who take part in a further training measure recommended to them by the responsible authority receive a bonus payment of 75 euros per month during the further training.

No genuine improvement resulted from the increase in the basic benefit amount paid under the Citizen's Income to 502 euros (for single persons) from the previous 449 euros. In fact, only the rule for adjusting the standard rate increase was changed to take into account the high inflation rate in 2022. According to the previous calculation, 70 percent of the increase would have resulted from the change in prices and 30 percent from the increase in the disposable remuneration of employed persons on average *over the previous two years*. The standard rate would thus have been increased by only 4.54 percent to 469 euros in 2023. Under the new regulation, this "basic adjustment" is combined with a "supplementary adjustment" that takes into account the expected development of the price index relevant to the standard rate *in the year in which the adjustment is calculated*. The expected inflation rate was 6.9 percent in 2022, so that the standard rate resulting from the basic adjustment was increased by a further 6.9 percent to 502 euros. Overall, the increase in the basic benefit thus amounted to 11.75 percent. This method of calculation shows that there was no arbitrary increase, but basically only an adjustment for inflation.

**Although some improvements have been introduced overall with the citizen's income, there are still some things to criticize:**

The calculation of the amount of the Citizen's Income is basically derived, as before, from the so-called statistical model. Only the interannual adjustments are made according to the model described above. In the basic calculation according to the statistical model, the expenditures of the lowest 15 percent of the population stratified by income are added up for countless budget items. This is then supposed to yield the amount of money that is sufficient to cover the subsistence minimum. There are various problematic aspects to this. The most important criticism, however, is that the calculation arbitrarily deviates from the statistical model by classifying various household items as irrelevant (e.g. expenses for alcohol or tobacco) and deducting them from the calculated total amount. Apart from the paternalism involved, this deduction lacks any logic. All the budget items counted are average expenditures. Some spend far more on tobacco than the average, others nothing at all and more on fruit and vegetables. However, it is pretended that the average amounts spent on certain items represent the actual expenditures of an actual person in the lower income range, who is allowed free use of the expenditures because no state benefits are received, but not the recipients of basic benefits. However, this person does not exist, only a statistic. Therefore, if one assumes that the subsistence minimum is based on the standard of living of low-income recipients, then one cannot arbitrarily cut items from it just because some low-income recipients do not use their money as the state pleases. If the cut items were taken into account in the calculation, the citizen's income would have to be significantly higher.

Originally, it was planned that in the case of the citizen's income benefit, there would be a period of trust in the first six months after the first benefits were paid, during which sanctions would be

inadmissible. This was intended to reduce the power imbalance between the employees of the administration and the recipients of basic benefits, which was decisive for the fact that the so-called integration agreements were not real agreements, but a dictate of the obligations of the recipients of basic benefits. This regulation was not introduced. It is therefore questionable whether the lists of obligations of recipients of basic benefits, now called cooperation contracts, will be significantly different from the previous integration agreements.

If there is a disagreement between a recipient of the citizen's income and an employee of the administration regarding compliance with the "agreements" of the cooperation contract, a conciliation board is now supposed to help. However, this is also part of the same administration. What are the chances that the work colleagues of the person responsible for the cooperation contract will put him in his place? It would have been far better if a truly independent person would mediate in disagreements. Also, because there will continue to be sanctions, which, while smaller, can still amount to one-third of subsistence minimum needs, the institutional power imbalance will remain almost intact.

The improvements largely benefit first-time recipients of the citizen's income. In the case of longer or repeated receipt, for example, the regulations on the adequacy of housing apply largely as before, so that many recipients of the citizen's income must either move or pay part of the rent themselves from their low standard rates if their home is perceived as inadequate.

From the perspective of those affected by poverty, the problem will thus remain that they are granted little or no say in shaping their future. Anyone who is uncomfortable or even doubts the usefulness of individual measures for their specific situation in life remains the object of uniform institutional rules and their interpretation by individual officials. If this power imbalance had at least been significantly mitigated with the introduction of the citizen's income, much would have been gained without having to increase cash benefits by a single cent.

### **(c) Planned administrative measures in the next few years**

#### **The basic child allowance („Kindergrundsicherung“)**

According to statements by the current German government, the introduction of a so-called basic child allowance is to be "one of the central family and social policy projects of the Federal Government". The basic child allowance has been discussed for many years and the necessity of its introduction arises from a variety of reasons that are hardly transparent without a deeper understanding of the fragmented German social law as well as the constitutionally required "family services and family burden equalization" ("Familienleistungs- und Familienlastenausgleich").

In simple terms, the introduction of the basic child allowance is intended to merge two previously separate areas: The first area concerns the "child benefit" ("Kindergeld") and the "tax child allowances" ("Steuerliche Kinderfreibeträge"). In principle, the subsistence minimum of a person is not taxable in Germany. This applies to the subsistence minimum of the taxpayer himself or, in a two-earner family of the two taxpayers. And it also applies to the children of the taxpayer(s). A tax allowance is therefore granted per child, the monetary effect of which is greater the more the taxpayer or taxpayers in a family earn. In addition to this tax allowance, however, there is also the associated child benefit. *Families receive a fixed amount of money per month from the state for each child, unless the tax allowances result in a monetary amount that exceeds the child benefit.* In this way, most families receive the child benefit, respectively a fixed amount of money per child, while high earners can virtually deduct their children from their taxes and receive a higher amount. This regulation has been criticized for years because the state should value each child equally, but it is constitutionally required. One way out of this dilemma would be to pay out child benefits per child in

the amount corresponding to the maximum amount that can be saved in tax payments per child through the tax allowances. The original plan was to do just that when the basic child allowance would be introduced. A "guaranteed amount" of around 362 euros per child would then have been paid out to all families - needy or not. This step would have been correspondingly costly but would have resulted in many poorer families overcoming the relative poverty threshold simply through the higher child benefit. This original plan has now been scrapped. A much lower "guaranteed amount" of 250 euros will now to be paid out per child, so that high earners will continue to receive more money from the state for their children via the tax allowances.

The second area that will be reformed by the introduction of the basic child allowance concerns the various social benefits that needy families can receive for their children. Until now, these have been distributed among different systems and often have to be applied for separately. As a result, needy families have often failed to apply for and receive benefits to which they are entitled because they were unaware of the benefits or because the various application procedures are burdensome and complicated and always involve families proving their neediness. These various benefits are to be bundled - at least in part - so that only one application for these benefits is necessary. In detail, this concerns the benefits of basic security for job seekers for children, social assistance for children, the Asylum Seekers' Benefits for children, the child supplement of 20 euros per month and child introduced in 2022, the benefits for the purchase of school supplies for school-age children, and a benefit of 14 euros that is intended to serve social participation. The combined benefits are to be called the "supplementary amount" and will be paid on the basis of income, i.e. primarily to needy families. In addition to bundling benefits, the original plan also envisaged benefit improvements by recalculating the basic security benefit, social assistance, or asylum seeker benefits for children (only one of these benefits can be claimed), which account for the largest share of the "supplementary amount". This is because the current calculation has the same deficits that have already been described in the previous section for the Citizen's Income. In addition, children's needs are ultimately derived from adult needs. This new, independent calculation of children's needs would have resulted in basic security benefits, social assistance or asylum seeker benefits being about 80 euros higher than they are now. However, this part was also eliminated. In addition, asylum seekers' benefits were removed from the system of basic child benefits, so that the children of asylum seekers (and other migrant groups) do not receive an "additional amount" but the previous benefits.

The child benefit, which is lower than originally planned, and the failure to recalculate child needs are mainly responsible for the fact that the introduction of the basic child benefit system, which is now planned for 2025, will not result in additional costs of 12 billion euros, but only 2 billion euros. The fact that additional costs will be incurred at all is not due to a few benefit improvements not described here, but quite mainly to the fact that families in the new system will claim a higher proportion of benefits under the "additional amount" than they have in the past. However, they were already entitled to these benefits beforehand.

The fact that the basic child allowance is now to be introduced in this watered-down form has caused great disappointment. It is certainly an improvement on the previous situation if families in need now actually receive the benefits to which they are entitled more frequently. However, even the goal of ensuring that all families in need actually receive these benefits is more or less deliberately torpedoed by unnecessary complications in the application process. For example, families can have a family benefit check carried out by a newly created authority, in which all the necessary data is automatically recorded, and families are told whether they can receive the "additional amount" and, if so, how much. However, this does not automatically lead to an application for this benefit. This must be done at another authority, and the data collected during the family benefit check cannot be used. In addition, the social participation benefit of 14 euros requires a proof of intended use.

Another point of criticism is that the "supplementary amount" is approved for a period of 6 months and cannot be changed during this period if a family's income situation changes. If the income situation deteriorates, the additional payments is too low. If the situation improves, any excess amounts received must be repaid at the end of the six-month period. Finally, the non-inclusion of the children of asylum seekers and other groups of migrants is a point of criticism, because their needs correspond to those of German children.

The basic child benefit is still in the legislative process. Even if the major changes to the original plan are unlikely to be reversed, as the saving of 10 billion euros is already part of the federal government's budget for 2024 (see next section), it is at least not ruled out that the difficulties in applying for the "supplementary amount" will still be mitigated.

### **III.7. Planned austerity measures beginning in 2024 concerning people experiencing poverty**

During the pandemic, Germany had suspended the so-called debt brake, which limits the government in taking on new debt and thus also the permissible government deficit. However, the debt brake will come into force from 2024, resulting in significant savings in the national budget. In 2024, the German government plans to cut spending by a good 31 billion euros, or 6.4 percent, compared with the previous year. Adjusted for prices, the cuts will be as much as 9.4 percent. The Federal Ministry of Finance has also already announced that from 2025 onwards there will probably be even more cuts than previously planned. In addition, politicians have committed themselves to repaying the debt incurred since the Corona crisis from 2028 onwards, which will deprive the national budget of billions of euros in additional funds every year, which will no longer be available for other tasks.

Many of these cuts affect spending that was earmarked for vulnerable groups. The cut of 10 billion euros, or 80 percent, in the funds earmarked for the basic child allowance has already been described in the previous section and will mean that many families who, according to the original plan, would have been able to overcome or at least greatly mitigate their neediness will hardly be in a better financial position than before.

Other cuts that affect those in poverty and vulnerable groups are:

- The original plan was to provide significant financial support for asylum process counseling. The funds earmarked for this were cut by 75 percent.
- Federal funding for youth migration services, including the "Respect Coaches" subprogram, will be cut from the current 83.9 million euros to 63.8 million euros, or by 24 percent
- Funding for the voluntary service and the federal voluntary service, in the context of which young people carry out social projects, for example, will be cut by 20.8 percent and 25.6 percent respectively
- Federal funding for migration counseling for adult immigrants will be cut from the current 81.5 million euros to 57.5 million euros, a reduction of around 30%.
- Federal funding for "counseling and support for foreign refugees," which also finances the work of the psychosocial centers, will be cut from 17.5 million euros to 7.1 million euros.
- Integration assistance for the unemployed will be cut by 900 million euros
- Project and campaign funding for addiction prevention will be cut by 30 percent

It is incomprehensible that, as part of the austerity measures, cuts are being made in the very services that serve prevention and integration and thus prevent high follow-up costs. This involves further cuts in the area of social infrastructure, which is already completely underfunded. The very substantial cuts in the area of basic child benefits will also mean that many children from families affected by poverty will lack funds for a good education and training as well as for ensuring social participation, which is also associated with follow-up costs. The fact that cuts are being made to

poverty-stricken and vulnerable groups also dampens the hope that there will be improvements in benefits in the area of the citizen's income or the basic child allowance in the coming years. The opposite is more likely to happen when the social-liberal government currently in office will probably be replaced by a conservative government at the next federal election.

#### **IV. Recommendations at the National Level**

1. The citizen's income for single adults must be increased immediately by €200, and the benefits for additional household members increased accordingly. In addition, a recalculation must be carried out promptly that is based on reality and does not involve arbitrary cuts under the statistical model.
2. Energy costs will remain high even after the end of the war in Ukraine. The energy transition cannot be implemented free of charge. Electricity costs must therefore be removed from the calculation of the citizen's income and, like heating costs, must be covered in full.
3. Housing costs, including heating costs, must be covered in full following the recognition introduced with the Citizen's Income for the first 12 months after initial benefit receipt, even for households whose housing costs were already considered inappropriate before the Corona crisis and have therefore been covered only in reduced amounts for years. It cannot be that own residential property is generously not considered in the asset assessment, but poverty-stricken tenant households have to spend a good part of their existence-securing citizen's allowance for housing and heating costs.
4. The introduction of a basic child allowance that does not require an application must lift children and young people out of poverty and enable them to actively participate in society. To this end, a recalculation of the child subsistence minimum is just as essential as a concept that reaches all children, including those living in hidden poverty as well as the children of asylum seekers and other migrant groups.
5. To improve the situation of children and young people, there is also an urgent need to expand free educational and leisure facilities, as well as, for example, free lunches in daycare centers and schools.
6. The minimum wage must be increased to at least 14 euros.
7. In order to prevent more and more people from falling into the basic security system in old age, the statutory pension must be increased accordingly, and a poverty-proof minimum pension should be introduced.
8. We need an expansion of the provision of public services, especially in the areas of social infrastructure, health, education, housing, mobility, energy supply, etc., instead of further privatization and austerity measures in these areas of all places.
9. The German education system is light years away from ensuring equal opportunities for all students. Investments in education must be targeted to provide equal educational opportunities for students from poorer households. This applies equally to childcare and adult education.
10. If the debt brake already limits the state's ability to raise funds on the capital market, it is urgently necessary to consider alternative means of increasing the state budget. By reintroducing the wealth tax and by tightening the inheritance tax, especially for the heirs of business assets, high amounts in the billions can be raised without burdening employees and companies with tax increases.



11. it is urgently necessary, that the state counteracts the massive discrimination against people experiencing poverty instead of participating in the dissemination of negative stereotypes.

#### **V. Recommendations at the EU Level**

1. The goals of the European Pillar of Social Rights Action Plan must become much more ambitious. Binding targets should be set for the development of a social infrastructure worthy of this name.

2. The implementation of the European Pillar of Social Rights Action Plan must become more legally binding. This applies to the formulation of targets by individual states as well as to appropriate measures to achieve them.

3. The same applies to the National Reform Programs. Succinct and vague announcements are no substitute for real reforms.