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**Article**

## "Income inequality remains high": Eight questions to Markus Grabka

DIW Economic Bulletin

**Provided in Cooperation with:**

German Institute for Economic Research (DIW Berlin)

*Suggested Citation:* Grabka, Markus M.; Wittenberg, Erich (2015) : "Income inequality remains high": Eight questions to Markus Grabka, DIW Economic Bulletin, ISSN 2192-7219, Deutsches Institut für Wirtschaftsforschung (DIW), Berlin, Vol. 5, Iss. 25, pp. 340-

This Version is available at:

<https://hdl.handle.net/10419/111166>

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Dr. Markus M. Grabka, Research Associate at the Research Infrastructure Socio-Economic Panel (SOEP) study at DIW Berlin

## EIGHT QUESTIONS TO MARKUS GRABKA

# »Income Inequality Remains High«

1. Dr. Grabka, you have analyzed income inequality in Germany. Does your research show that the gap between rich and poor has widened even further? If we look at the development of income inequality since 2000, it is clear that the gap between the richer and the poorer income groups has widened further. During this period, real income gains of more than 15 percent were recorded among the top ten percent of earners, while real income in the broad middle class stagnated and the bottom 40 percent even suffered income losses in real terms.
2. How can this development be explained? There is no single reason for this development. For the top income earners, capital income and income from entrepreneurial activities play a key role. Compared with compensation for employees, these forms of income have increased significantly. For example, in the bottom income group pensions have not been adequately adjusted to reflect the development of inflation for some years now, which has led to income losses in real terms.
3. How have disposable household incomes developed? On average, disposable household incomes have followed an upward trend—since 2000, we have observed an increase of more than five percent. However, if the income bands are divided into deciles, that is, into ten equal-sized population groups, the development of disposable income varies greatly since the lowest income band in particular has suffered real income losses since 2000.
4. How high is the poverty risk in Germany? In Germany, the risk of poverty increased dramatically from over 10 percent to almost 15 percent between 2000 and 2005, and then stabilized at around 14 percent in recent years. However, if we take an alternative dataset such as the microcensus conducted by the German Federal Statistical Office, we can see that, since 2006, there has been a further increase in the poverty risk with current values as high as 15 percent.
5. Are there any differences between the federal states of the former East and West Germany? Yes, in eastern Germany, the risk of poverty is considerably higher with values persisting at around 20 percent.
6. Which population groups are most at risk of poverty? In Germany, those most likely to face poverty are single parents and the unemployed. Young adults in particular, that is, people just starting out in their careers, are increasingly at risk of poverty. Specifically, the poverty risk of young adults up to the age of 35 and living alone has increased by more than 12 percentage points since 2000.
7. What was the most surprising finding of your study? Between February 2005 and May 2015, the number of unemployed in eastern Germany fell by almost 60 percent. Usually an increase in employment goes hand-in-hand with a decline in poverty risk, or at least that had always been the case in previous years. Yet the risk of poverty in eastern Germany remains at around 20 percent. What is also interesting is the 55 to 65 age group which particularly caught our attention. The employment rate in this group has actually increased by 20 percentage points since 2000 but, despite this development, this group's risk of poverty rose by three percentage points.
8. What is the significance of the poverty risk in Germany from an economic and socio-political perspective? Our study did not analyze this separately but here we can refer to the experiences of the OECD which has just published a new report. The main conclusion of this report is that increasing income inequality may have a negative impact on economic growth. In the selection of OECD countries analyzed in the study, the bottom 40 percent of income earners invested less in their own education and that of their children. This has a negative impact on economic growth in the medium to long term.

Interview by Erich Wittenberg



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#### Translation

HLTW Übersetzungen GbR

#### Layout and Composition

eScriptum GmbH & Co KG, Berlin

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