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Article

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Dr. Charlotte Bartels, Research Associate at the Socio-Economic Panel Study at DIW Berlin)

SEVEN QUESTIONS TO CHARLOTTE BARTELS

»Development of Top Incomes in Germany since 2001«

1. Dr. Bartels, when is someone considered to be a top earner in Germany? To answer this question, of course we first have to decide who we would like to be included in this group. We mainly define the top one percent as very high earners. This top one percent is made up of those with a gross annual income of 150,000 euros or more.
2. How high is the income of the top earners as a share of total income in Germany? According to figures from the 2011 official income tax statistics, the top one percent earned approximately 13 percent of the country's total income. These are the most recent figures available.
3. How has this share of income developed in recent years? It was only approximately 11 percent in 2001 and then it increased rapidly from 2004 to 2008. Then the financial crisis arrived, accompanied by a major recession. Following this, incomes dropped slightly again to around 13 percent, which is still an unprecedented high, however.
4. Will concentration in the top income group slowly increase again because the shock of the financial crisis has passed now? After the financial crisis, income concentration did not return to the level observed in 2001 and over long periods of the postwar era but stabilized at a considerably higher level. If we now think about how income concentration is continuing to develop, of course, we have to consider the various factors affecting income concentration. One of these is economic growth. High economic growth usually leads to an increase in income concentration also at the upper margins of the distribution. At the moment, growth is not particularly high, so we should tread carefully here. At the same time, taxes for top earners were cut drastically as a result of the tax reform by the Social Democrat/Green coalition government, meaning that taxation of top incomes is proportionally lower. It could be concluded that high earners with a lot of business and capital income are also able to accumulate more and more income. This would suggest that we are likely to see a continuation of the upward trend.
5. What data basis did you use to obtain your results? We used two different data sources. One was official income tax statistics because these cover long periods of time and the other was the Socio-Economic Panel (SOEP) study because this has been conducted in Germany for many years now. Drawing on these two sources requires a lot of work to harmonize the data, however.
6. So the results are different depending on the data source? Exactly. If we didn't harmonize them now, it would be like comparing apples and oranges. So we have to bear in mind that we need to adjust one dataset to the definitions of the other. Since the SOEP tends to provide more information than in the income tax data, we decided to redefine the SOEP data so they match the income tax data and then we can compare the two sets of results directly.
7. How can inequality in Germany be evaluated using your findings? The Gini coefficient normally used as a measure of inequality frequently does not depict the very top end of the population. As is also shown in this issue of DIW Economic Bulletin, survey data such as the SOEP tend to underestimate the average incomes of the top one percent. Income tax data could provide a more accurate picture here. So if we look at these income tax data and see how incomes have developed at the upper margins of the distribution, and adjust the Gini coefficient accordingly, instead of stable inequality, as shown by the Gini coefficient since 2005, we would have inequality at a higher level, still increasing up until at least 2008.

Interview by Erich Wittenberg



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