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Research Report

Gloomy prospects: The Konstanz Inequality Barometer shows that inequality is perceived to have increased

Policy Paper, No. 12

Provided in Cooperation with:

University of Konstanz, Cluster of Excellence "The Politics of Inequality. Perceptions, Participation and Policies"

Suggested Citation: Bussemeyer, Marius R.; Lauritz Schönhage, Nanna; Baute, Sharon; Bellani, Luna; Schwerdt, Guido (2023) : Gloomy prospects: The Konstanz Inequality Barometer shows that inequality is perceived to have increased, Policy Paper, No. 12, University of Konstanz, Cluster of Excellence "The Politics of Inequality", Das Progressive Zentrum e.V., Konstanz, Berlin, <https://nbn-resolving.de/urn:nbn:de:bsz:352-2-19m98smt0dovk9>

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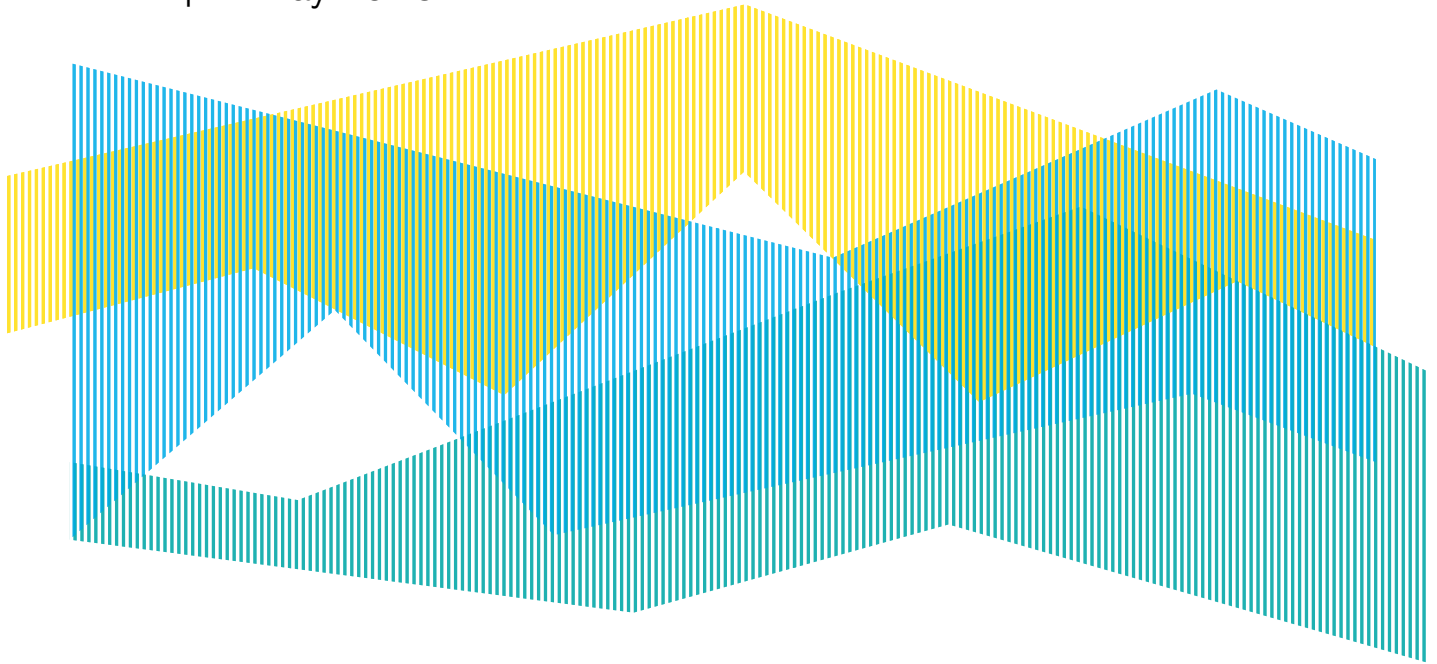
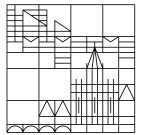
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Inequality Barometer – Inequality and Social Mobility

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Gloomy prospects: The Konstanz Inequality Barometer shows that inequality is perceived to have increased

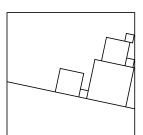
Abstract

Data from the new wave of the Konstanz Inequality Barometer shows that people in Germany perceive a widespread increase of inequality in income and wealth and barely distinguish between income and wealth inequality. This is despite the fact that wealth inequality is significantly larger than income inequality. At the same time, the actual level of inequality is still underestimated in some respects. Concerning the prospects of the younger generation, many people, especially supporters of the right-wing populist AfD, are rather negative. Less pessimism is found among supporters of the center-right parties, CDU/CSU and FDP.



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Our data

The data presented in this policy paper was collected in an online survey of the German adult resident population implemented by the survey company Kantar. The survey was conducted between November 14 and December 2, 2022. The sample consisted of 6,319 respondents. The data is quasi-representative; any remaining deviations are offset through weighting.

Whenever the survey refers to income, this concerns the household net income in Germany, which includes income from work, old-age pensions, child benefits, and other sources of income, after taxes and social security contributions. By wealth, we mean the wealth of households in Germany as the sum of savings, bonds, shares and other equity, real estate, and other assets, minus the total value of liabilities (loans, mortgages). Respondents were informed about these definitions during the survey.

Introduction

Economic inequality in Germany continues to increase. This is a key insight of the 2022 Distribution Report published by the Economic and Social Research Institute (WSI) of the Hans Böckler Foundation.¹ How is this trend perceived by the population? Is pessimism the prevailing mood? Are people expecting the situation to improve or do they think the trend will continue in the future? And lastly, do their assessments differ by political party preference?

Answers to these questions are provided by the Inequality Barometer, a survey of individual perceptions of inequality and their political effects. Data for the Inequality Barometer is collected every two years and were first presented in the fall of 2020. The second survey wave focuses on the following aspects: the comparison of perceptions of income and wealth inequality, perceptions of long-term inequality trends, assessments of the prospects of subsequent generations, and the link between these perceptions and political preferences. This policy paper reports key findings from the second wave of the survey in fall 2022.

Biased perceptions of income and wealth inequality

With respect to income inequality, the first wave of the Inequality Barometer already highlighted a pattern of biased perceptions also found in other research.² When respondents are asked to self-assess their relative position on a ten-step income ladder, a clear bias toward the middle of the scale emerges: Respondents with higher incomes tend to rank themselves lower on the scale compared to their actual income position, whereas low-income respondents overestimate their relative position. Therefore, a much larger share of respondents self-identify as middle class than objectively justified. The actual level of inequality is thus underestimated. This might lead to less overall support for redistributive policies.³

In the second survey wave, we wanted to know whether these biased effects also occurred when individuals were asked about their relative position in the distribution of wealth—in addition to their relative income position. We made sure that respondents were asked only one of the two self-ranking questions, meaning they were either asked to assess their income or their wealth position. Thus, respondents could not automatically choose the same answer category, which is important for an accurate analysis. Figure 1 shows how respondents self-assessed their relative position in the distribution of income and wealth.

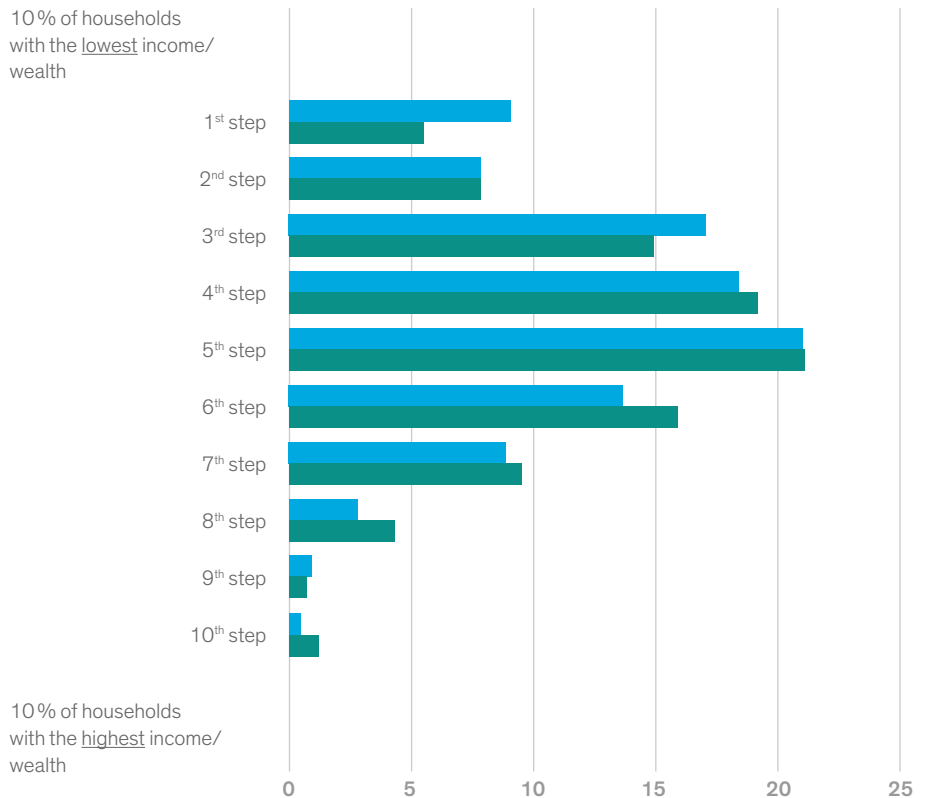
¹ <https://www.wsi.de/de/verteilungsbericht-2022-30037-gini-koeffizient-30069.htm>

² Bellani, L., Bledow, N., Busemeyer, M.R. and Schwerdt, G. (2021): "When everyone thinks they're middle-class: (Mis-)Perceptions of inequality and why they matter for social policy". Policy Paper 06: Inequality Barometer – Inequality and Social Mobility, p. 3

³ Bellani et al., 2021: p. 8.

Figure 1: Self-placement of respondents regarding their position in the distribution of income and wealth (in percent)

● Wealth
● Income



This figure shows that the self-ranking of respondents across the income and wealth ladders is quite similar across the different steps of the respective ladder, with somewhat larger discrepancies found at the first, third, and sixth steps. This means that respondents by and large do not distinguish between income and wealth distribution when asked to assess their own relative position.

Given that the upper classes, especially in Germany, hold disproportionately large shares of wealth, this finding suggests further bias in individual perceptions. As a comprehensive comparative study by Pfeffer and Waitkus on wealth and income inequality has shown, the “top 5 percent” in Germany own 41.6 percent of the total wealth (real estate assets, securities, and other financial assets) but “only” 15.8 percent of the total income.⁴ The distribution of wealth is thus significantly more unequal in favor of the upper classes than the distribution of income. Yet respondents’ knowledge of this fact is (on average) very limited, or so it seems.

This finding is also supported by Figure 2. Here, respondents were asked directly to rate the level of income or wealth inequality in Germany. Again, each respondent was given only one of these two questions. Figure 2 shows the distribution of responses to the question of whether income or wealth inequality is too strong “in our society.” Again, the response patterns are quite similar regardless of whether respondents were asked about income or wealth inequality. This is despite the fact that wealth inequality is much more pronounced in reality than income inequality.

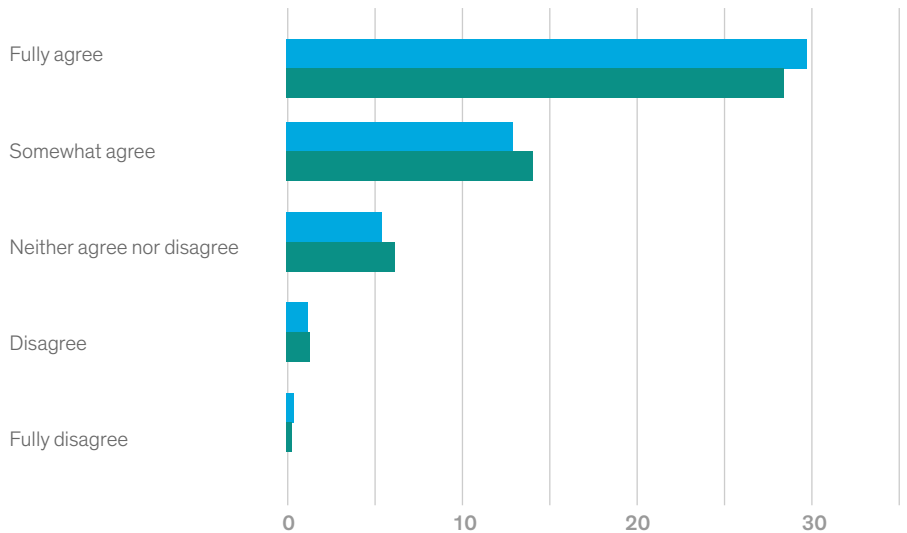
⁴ Pfeffer, Fabian/Waitkus, Nora, 2021: The Wealth Inequality of Nations, *American Sociological Review* 86(4): 567–602, p. 594.

⁵ The same is found in Cruces, G., Perez-Truglia, R., & Tetaz, M. (2013). Biased perceptions of income distribution: Evidence from a survey experiment. *Journal of Public Economics*, 98, 100–112.

However, what the results also show is that a relative majority of around 28 percent “fully” agrees with the statements and around 14 percent agrees “somewhat”. In other words, we observe a high level of awareness concerning the issue of inequality, which would perhaps be even higher if respondents’ assessments of the actual level of inequality were closer to reality.⁵

Figure 2: General assessments of the degree of income and wealth inequality (in percent)

● Wealth
● Income



Perceptions of long-term trends in the evolution of inequality

A rather pessimistic view also emerges when respondents are asked about their perceptions of long-term trends in income inequality. As mentioned above, income inequality has objectively increased over the last 30 years. However, a detailed analysis also reveals some positive developments, especially in recent years: After strong increases in the 1990s and early 2000s, income inequality has now stabilized somewhat; wages have been on an upward trajectory—including in the low-wage sector due to the introduction of the minimum wage—and unemployment rates have remained low.⁶

When it comes to perceptions, however, a negative trend clearly dominates, as shown in Figure 3. The corresponding question was whether, from respondents' subjective point of view, inequality had increased or decreased over the past two decades. Figure 3 shows that 45 percent believe that inequality has increased "strongly", and a further 23 percent believe that it has increased "somewhat". Again, we observe a high level of awareness concerning the issue of inequality.

⁶ Grabka, Markus M., 2021: Einkommensungleichheit stagniert langfristig, sinkt aber während der Corona-Pandemie leicht, DIW-Wochenbericht 18/2021.

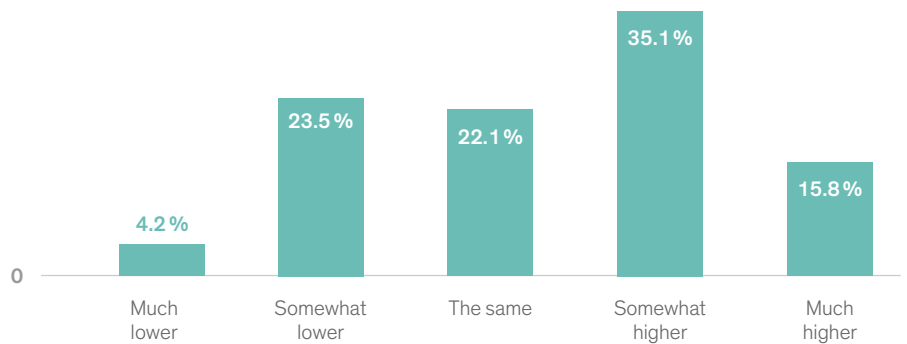
Figure 3: Assessment of long-term inequality trends in Germany and Europe

● Percentage of respondents

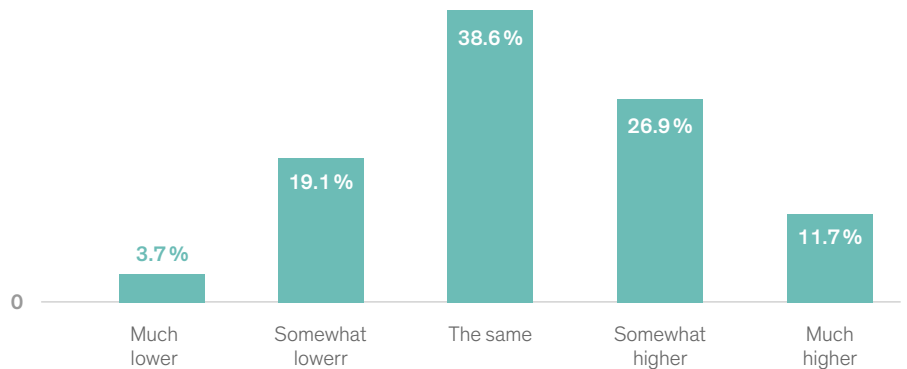
If you think of the long-term development of income and wealth inequality in Germany (roughly since the year 2000), do you believe that inequality ...



If you compare Germany to other European countries, do you think that inequality in Germany is ...



If you compare your home region to the rest of Germany, do you think that inequality in your region is ...



In addition to assessing the long-term trend, respondents were asked to compare cross- and sub-national differences in inequality levels. When asked whether inequality is lower or higher in Germany than in other European countries, a relative majority of 35 percent believes it is “somewhat higher” in Germany. This is quite close to reality.⁷ Finally, when comparing inequality levels in their home region to those in the rest of Germany, the largest group (38 percent) believes they are about the same as in other regions. This suggests that subjective perceptions of inequality become somewhat less pessimistic the closer the “object of comparison” is to people’s everyday environment.

⁷ According to the 2021 Eurostat data, the Gini index in Germany was 31.2 compared to 30.1 for the EU average. See https://ec.europa.eu/eurostat/databrowser/view/ILC_DI12__custom_5226486/default/table?lang=en

These two regional comparisons in particular reveal interesting differences between East and West Germany. More people in East Germany believe that inequality in Germany is “somewhat” or “much” higher than in other European countries (a total of 54 percent in the East compared to 49 percent in the West). As expected, the difference is even bigger when it comes to regional inequalities: here, 53 percent of respondents in the East believe that inequality in their home region is “somewhat” or “much” higher than in other regions of Germany—in the West, this figure is only 34 percent.

Assessing the prospects of future generations

The tendency towards pessimism is also particularly evident in the assessments of the younger generation’s prospects. Respondents were asked whether they thought the younger generation would have fewer or more opportunities, measured on a five-point scale. Figure 4 shows that only 32 percent believe that opportunities for the younger generation are improving “significantly” or “somewhat.” In contrast, 47 percent expect opportunities to decline “significantly” or “somewhat.” On the one hand, such pessimism is plausible considering the multiple crises of recent years; on the other hand, it is also surprising, given the ongoing expansion of education as well as economic and technological progress.

Figure 4: Assessment of the prospects of the younger generation

● Percentage of respondents

If you think of the future of the younger generation in Germany, do you think this generation, compared to their parents in terms of social mobility, will have...

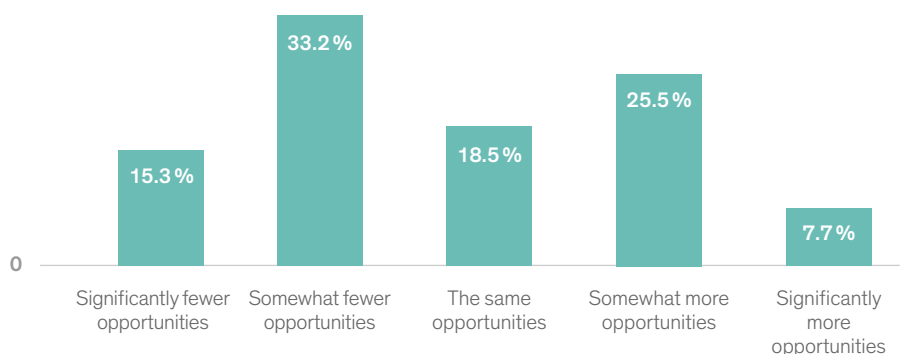


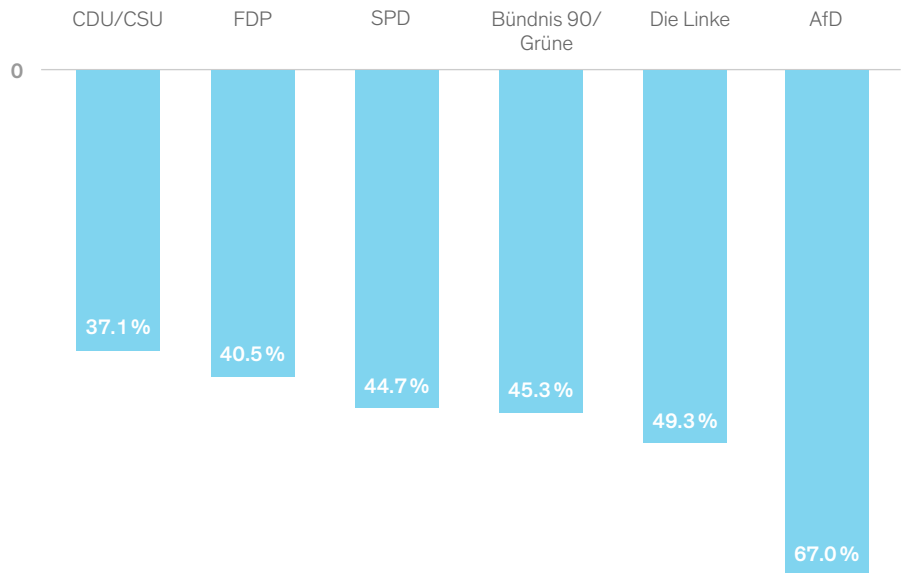
Figure 5 shows that pessimism about the future is systematically related to partisan political preferences and identities. It shows the proportion of respondents who see “significantly” or “somewhat” fewer opportunities for younger generations by party preference. (This was derived from the so-called “Sunday question,” asking respondents for the party they would vote for if elections were held next Sunday.) Supporters of the right-wing populist AfD are especially pessimistic concerning the prospects of younger generations. However, as data from the first wave of the Barometer have shown, AfD supporters are significantly less willing to prioritize the needs of future generations, as compared to supporters of other parties.⁸ This apparent contradiction is resolved when assuming that AfD voters are especially pessimistic in their assessment of the current situation as well. Apparently, there is a strong need to give more weight to the acute needs of the current generation than to the needs of future generations to follow.

⁸ Busemeyer, Marius R., 2023: Who cares for the future? Exploring public attitudes towards the needs of future generations in Germany, *Journal of European Public Policy*, <https://doi.org/10.1080/13501763.2023.2165697>

Pessimism about the future is lowest among supporters of the conservative center-right parties (CDU/CSU and FDP). But even here—this is worth noting—nearly 40 percent believe that opportunities for the younger generations are declining. The supporters of the various left-wing parties are located between the AfD and the CDU/CSU and FDP supporters. Their relatively strong pessimism about the future is likely related to the mixed prospects of solving global problems, especially climate change, even if the survey data cannot show this directly.

Figure 5: Prospects for younger generations by party preference

● Percentage of respondents



Policy implications & recommendations

1. Our analysis of the second wave of the Inequality Barometer offers important conclusions for policy makers. In the first wave, we highlighted the importance of providing better information about inequality. By raising public awareness in this way, it may become easier to mobilize the existing potential for supporting active redistribution policies. Based on the new findings, we strongly repeat this recommendation. Our data suggests that people in Germany seem to be even less informed about wealth inequality than they are about income inequality. Wealth is less tangible than income, and everyday life for the “top 5 percent” in the wealth distribution may be even further removed from most people’s daily experience. This fact may help explain these effects. However, the politically charged debates on inheritance and wealth taxation also show that many people in the middle class obviously (wrongly) believe they are directly affected by such taxes; they underestimate both the relative wealth of others and their own relative poverty.

Our first recommendation, therefore, is to highlight the particularly unequal distribution of wealth in public debates and thus to help citizens arrive at a better-informed perception.

2. Maybe our second recommendation addresses, takes aims at the widespread pessimism regarding long-term inequality trends in Germany, especially regarding the prospects of younger generations. Again, it seems paradoxical at first for respondents to underestimate the level of inequality while at the same time being overly pessimistic about long-term trends and prospects. This apparent contradiction is resolved when one considers that people’s opinions on trends and prospects are not so much based on their actual life experience but are often influenced by politically motivated “framing”—by right-wing populist parties, for example. This is not to say that there are no real concerns and needs for decision-makers to address. However, there is a certain danger that excessive pessimism about the future may become a real political obstacle to the implementation of a political agenda geared toward progress, innovation, and social mobility.

Our second recommendation, therefore, is to counter the rampant pessimism about the future with a certain degree of optimism by focusing political initiatives and communication on topics such as social mobility, future opportunities, innovation, and education.

Authors



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The Politics of Inequality Perceptions, Participation and Policies

is an interdisciplinary Cluster of Excellence at the University of Konstanz within the framework of the Excellence Strategy of the federal and state governments. The gap separating the poor from the rich, the worldwide rise of populism, the division of burdens in the fight against climate change, unfairly distributed access to education – many current debates are as much about inequality as they are about other issues. These topics pose highly complex questions, yet scientifically grounded answers are still few and far between. This is where we come in to investigate “The Politics of Inequality”: the political causes and consequences of inequality.

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Funded by:

DFG Deutsche
Forschungsgemeinschaft
EXC-2035/1–390681379

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