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Article

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Markus M. Grabka is a Research Associate at the German Socio-Economic Panel Study (SOEP) of DIW Berlin

FIVE QUESTIONS TO MARKUS GRABKA

»Slight decline in income inequality in western Germany«

1. Mr. Grabka, you have studied the development of income inequality in Germany. Have incomes in Germany increased or fallen overall in the last 20 years? Both increased and fallen. In the '90s, we had a stagnation of inflation-adjusted disposable income. In about 2000, there was a slight increase. Then disposable income stagnated up until around 2010 and we observed another increase in the last two or three years. So this means private households have more disposable income again.
2. How do the results differ between eastern and western Germany? If we look at the development of income inequality of market incomes first, we can see that income inequality in both parts of the country increased significantly between 1991 and 2005. Conversely, we see a significant decline from 2005 to 2010, primarily due to positive developments on the labor market. If we then look at the disposable income of private households, on the other hand, there are differences in income development between eastern and western Germany. Although inequality rose significantly in both parts of the country between 1991 and 2005, income inequality has also been declining in western Germany since 2005. In eastern Germany, income inequality has remained high.
3. Has income inequality in Germany spiked? There are indeed indications that since 2005, at least, income inequality seems to have spiked and we have observed a slight decline in income inequality up until 2010. However, the economy is currently on the brink of another downturn, so we have an element of uncertainty here because very positive developments on the labor market

could very well come to a standstill as a result of the euro crisis.

4. Has this changed the risk of poverty in Germany? In the '90s, the proportion of people with an income living below the poverty threshold was around eleven percent. Between 1999 and 2005, the risk of poverty in Germany as a whole increased significantly to between 14 and 15 percent. Since then, the poverty risk rate has remained at this level. For eastern Germany, it is clear that the overall risk of poverty was higher than in western Germany in all observation years and in 2010 almost one-fifth of the population in eastern Germany were at risk of poverty.
5. What age groups show the highest risk of poverty? When looking at the different age groups, we have noticed that, as expected, people who are middle aged, that is, between 35 and 55, are at lower than average risk of poverty because they are in gainful employment. After retirement, the risk of poverty increases slightly and an above-average poverty risk can be observed from the age of 75. However, young adults and adolescents are currently at the highest risk of poverty in Germany. One of the underlying causes is that young adults are staying in the education system longer. And here, we also have to take into account the "internship generation" and that young adults in particular are often working in precarious employment.

Interview by Erich Wittenberg.

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