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Press release

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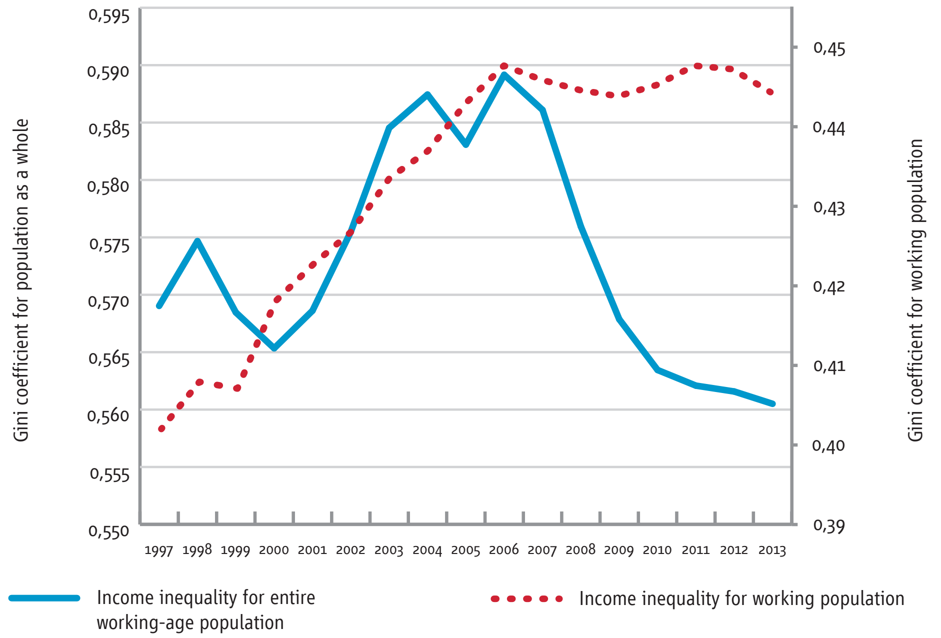
Income inequality in Germany: according to the Ifo Institute for Economic Research, the gap between rich and poor has not widened

Employment income inequality in Germany has decreased over the last decade. Contrary to what many claim, the gap between rich and poor has not widened. According to the latest available figures, the Gini coefficient (a measure of inequality) for the working population in Germany is slightly below the level of 2004. That is one of the results of a study entitled “Trend in income inequality: facts, figures and perceptions”, carried out by Germany’s Ifo Institute for Economic Research on behalf of the Foundation for Family Businesses.

The decline is even more pronounced if the entire working-age population (i.e. including those not in employment) is taken into account. The data show that inequality in gross real wages has even fallen substantially since 2005. The reason for this, says the Ifo Institute, is that employment levels have risen by more than 10 percent in Germany in the corresponding period following implementation of the “Hartz” labour market reforms. As a result, the employment income of four million people has advanced from zero into positive territory. “The study demonstrates that there is no basis in fact for the blanket assumption of constantly rising inequality in Germany. Reducing unemployment has been a decisive factor in diminishing employment income inequality in Germany since 2005,” explains Prof. Clemens Fuest, president of the Ifo Institute.



Source: Own calculations on the basis of GSOEPv31. Basis: persons aged 16-65.
Inflation-adjusted figures. In order to calculate the Gini coefficient for the entire working-age population (blue line), we set the employment income of persons without employment to zero.

The Ifo study also shows that Germany's social welfare system makes a considerable contribution towards levelling out differences in income. "Compared with other countries, Germany's state-organised system of income redistribution is highly efficient. With a comparatively low public-sector share, Germany manages to achieve a strong reduction in net income inequality compared with the gross-income figure," says Prof. Gabriel Felbermayr, author of the study and a department head at the Ifo Institute.

Felbermayr said that Prof. Marcel Fratzscher, president of the German Institute for Economic Research (DIW Berlin), had asserted in his latest book that not only opportunities, but also wealth and income, were more unequally distributed in Germany than in nearly every other industrialised country in the world. As the Ifo Institute states, this assertion can be refuted, at least as regards net incomes.

The study shows that the progressive nature of the tax and transfer system in Germany reduces the inequality of gross real wages by 35 percent. Occupying seventh position among the 20 OECD countries surveyed, Germany thus exhibits a low level of inequality.

Commenting on the results of the study, Prof. Rainer Kirchdörfer, a member of the Executive Board of the Foundation for Family Businesses, said: "This fact is highly relevant for family-owned businesses." Assumptions concerning growing inequality in Germany have recently given rise to political demands to tax companies' net assets regardless of their earnings – for instance, through the introduction of a wealth tax. "Taxes of this kind represent a burden on property, plant and equipment, patents and trademarks, and are particularly toxic for family-run enterprises as they make it difficult for them to strengthen their equity, thus rendering them more susceptible to crises," he added. He went on the say that the study meant it was no longer possible to use the argument of growing income inequality to call for higher taxation.

The Gini coefficient is an established method for measuring inequality. It can be a figure between zero and one, with zero representing maximum equality and one maximum inequality.

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