

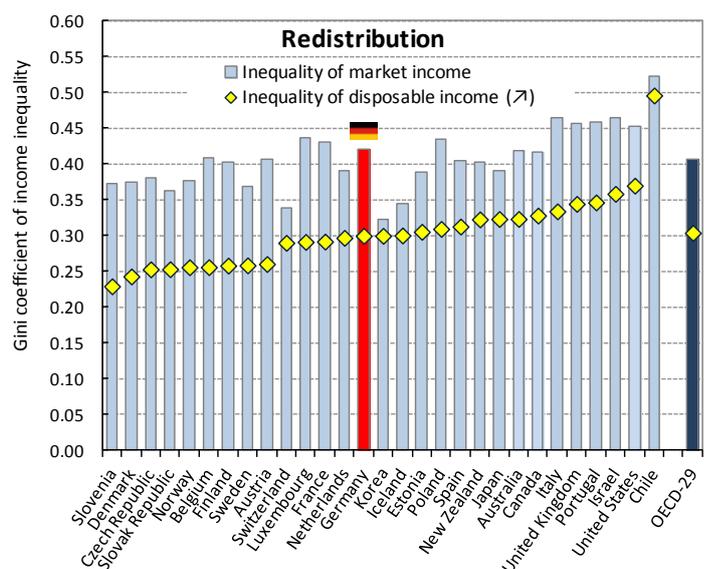
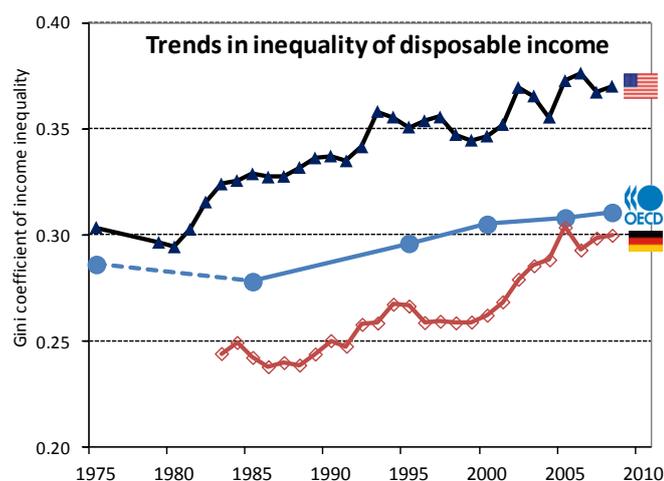
OECD (2011), *Divided We Stand: Why Inequality Keeps Rising*

www.oecd.org/els/social/inequality

COUNTRY NOTE: GERMANY

Income inequality in Germany has risen sharply since 2000. In the 1980s, German inequality levels were close to those found in some Nordic countries, but today they are very close to the OECD average. The average income of the top 10% of working-age Germans in 2008 was 57 300 euro (70 000 USD), nearly 8 times higher than that of the bottom 10%, who had an average income of 7 400 euro (9 100 USD). This is up from a ratio of 6 to 1 in the mid 1990s.

Redistribution is stronger in Germany than a typical OECD country. In 2008, taxes and benefits reduce inequality by nearly 30%. [Figure6.1]



Notes: The Gini coefficient ranges from 0 (when all people have identical incomes) to 1 (when the richest person has all the income). Market incomes are labour earnings, capital incomes and savings. Disposable income is market income plus social transfers less income taxes. Incomes are adjusted for household size. Data refer to the working-age population. Information on data for Israel: <http://dx.doi.org/10.1787/888932315602>

Key findings:

- The rise in inequality was largely driven by widening gaps in market income sources: gross earnings, self-employment income as well as capital income all became more unequally distributed. The wage gap between the 10% best and least paid of full-time German workers has increased by more than a fifth since 1990.
- Growth in part-time employment also contributed to the upward inequality trend. Since 1984, the share of part-timers doubled in Germany, from 11% to 22%, or from just below 3 million. to more than 8 million people.
- Like in most other countries, the divide in hours worked between higher- and lower-wage earners is growing. Since the mid-1980s, annual hours of low-wage workers fell from some 1000 to 900 hours, while those of higher-wage workers remained stable at around 2250 hours. [Table4.A1.2]
- An important part of rising market inequality in Germany is the development of capital income. There is a shift from earnings to capital income for higher-income persons. The contribution of capital income to total income inequality is still minor but has almost doubled from 8% to 15.5%. The share of capital income in total household income remained stable at around 7% in the past decade.

- Societal changes, such as more single-parent families and people living alone, and people marrying within the same earnings classes, contributed to rising household earnings inequality. At the same time, higher employment rates for women helped reduced inequality by around the same amount. Growing disparities in men's earnings as well as declining employment rates among men remain main drivers.
- The German tax-benefit system reduced inequality by 29% in 2008 – down from 33% in 2000. While this reduction is still higher than in most OECD countries this was not enough to compensate for the growing gap between rich and poor. Compared with other OECD countries, Germans experienced a greater increase of the gap between in-work and out of work income, particularly for the long-term unemployed. In 1995 out of work income for long-term unemployed with unemployment insurance coverage was 75% of their former take-home pay. By 2005 this had fallen to 65%.
- Germany is above the OECD average on social spending in both in-kind services and cash transfers [Figure8.1]. Adding the imputed value of public provided services into income reduced inequality of disposable income by roughly 17%, somewhat less than in most other countries.

Key policy recommendations for OECD countries from *Divided We Stand*

- Employment is the most promising way of tackling inequality. The biggest challenge is creating more and better jobs that offer good career prospects and a real chance to people to escape poverty.
- Investing in human capital is key. This must begin from early childhood and be sustained through compulsory education. Once the transition from school to work has been accomplished, there must be sufficient incentives for workers and employers to invest in skills throughout the working life.
- Reforming tax and benefit policies is the most direct instrument for increasing redistributive effects. Large and persistent losses in low-income groups following recessions underline the importance of government transfers and well-conceived income-support policies.
- The growing share of income going to top earners means that this group now has a greater capacity to pay taxes. In this context governments may re-examine the redistributive role of taxation to ensure that wealthier individuals contribute their fair share of the tax burden.
- The provision of freely accessible and high-quality public services, such as education, health, and family care, is important.

The roles of globalisation, technological progress and regulatory reforms

Divided we Stand also looks into the impact of global developments on rising wage dispersion and employment trends over the past quarter century up to the 2008-09 financial crisis. For the OECD area as a whole, the following key findings emerge:

- Globalisation, i.e. the rapid trade and foreign direct investment integration that occurred in all OECD countries over the past quarter century did not – per se – play a major role in driving growing wage dispersion. However, globalisation pressure affected domestic policy and institutional reforms (see below).
- Technological progress led to higher wage differentials: advances in information and communication technologies in particular have been more beneficial for workers with higher skills.
- Regulatory reforms and changes in labour market institutions increased employment opportunities but also contributed to greater wage inequality. More people, and in particular many low-paid workers, were brought into employment. But one of the consequences of more low-paid people in work is a widening distribution of wages.
- The rise in the supply of skilled workers provided a sizeable counterweight to offset the increase in wage inequality resulting from technological progress, regulatory reforms and institutional changes. The upskilling of the labour force also had a significant positive impact on employment growth.