



Does Inequality Matter?

HOW PEOPLE PERCEIVE ECONOMIC DISPARITIES AND SOCIAL MOBILITY



How does GERMANY compare?

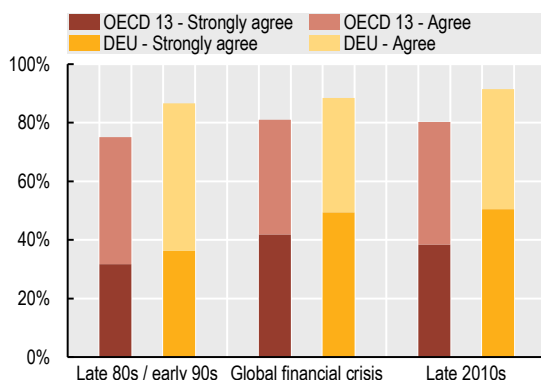
Across the OECD, most people are concerned about inequality. However, such concern varies across countries. It is higher where people perceive wide economic disparities, low intergenerational mobility, and that working hard does not help to get ahead in life. Together with people's views of the effectiveness of policies, these perceptions and beliefs shape people's support for inequality-reducing reforms.

Are people concerned over income disparities?

In 2017, the latest year for which data are available for a wide set of countries, four out of five Germans agreed that income disparities are too large and one third strongly agreed – figures in line with the OECD average. However, according to the very latest data (available only for a subset of OECD countries), by 2020 concern has increased considerably, with more than half of individuals strongly agreeing that income disparities are too large in Germany (Figure 1). This fraction had substantially increased between the late 1980s and the global financial crisis. It had then decreased until 2017, and it has rose again during the pandemic.

Figure 1. Concern over income disparities is high

Share who agree that income differences are too large



Source: *Does Inequality Matter?* Chapter 2.

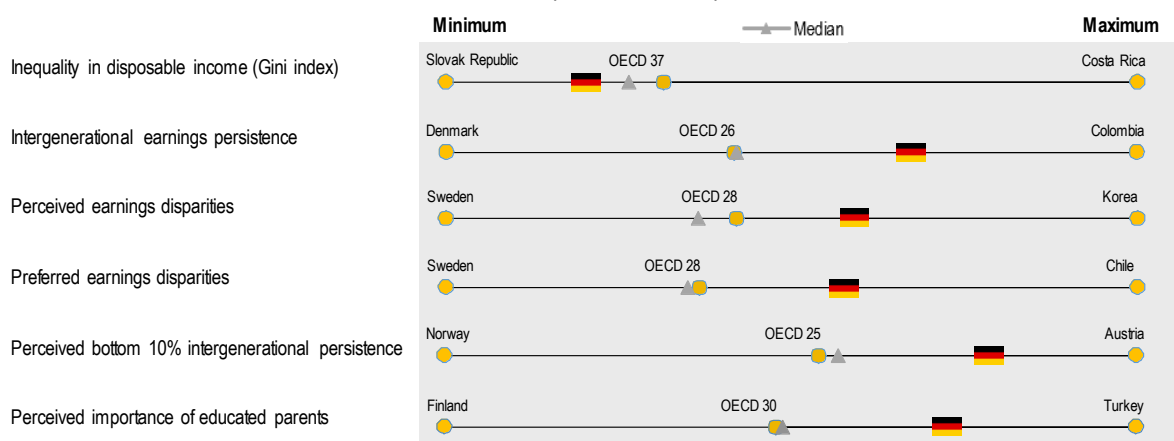
What drives concern?

The level of concern over income disparities is comparatively high in Germany although conventional indicators of income inequality – such as the Gini index for disposable income – are below the OECD average (Figure 2). Indeed, specific country factors heighten concerns:

- **Perceptions of inequality:** On average, Germans perceive 51% of income accruing to the richest 10%, in line with the OECD average (data from the OECD Risks that Matter survey 2020). However, perceived earnings disparities are larger and partially explain the high concern.
- **Preferences over the level of disparities:** Preferred earnings disparities are higher than on OECD average, therefore somewhat compensating the higher perceived level of disparities.
- **Perceptions of equality of opportunity:** Countries where people perceive that people do not have equal chances to get ahead in life, they are also more likely to be concerned with income inequality. Germans report widespread perceptions of persistent sticky floors across generations and believe that having well-educated parents is very important to get ahead in life. This helps explaining why concern over income disparities outstrip conventional indicators of income inequality in Germany.

Figure 2. Confidence in equality of opportunity is low

Indicators and opinions about disparities



Note: The OECD averages refer countries available for each indicator. Inequality indicators refer to the latest available year; for perceived intergenerational persistence to 2020; all the other data refer to 2009.

Source: OECD Income Distribution Database and OECD (2018); *Does Inequality Matter?* Chapter 2.

- **Changes in perceptions and preferences:** The preferred top-bottom earnings ratio has increased in the two decades up to the Great Recession. This is partially explained by an increase in meritocratic beliefs (i.e. the importance of hard work to get along). Yet, the growth in perceived disparities was much larger, causing the increase in concerns of Germans about high inequality after the late 1980s.

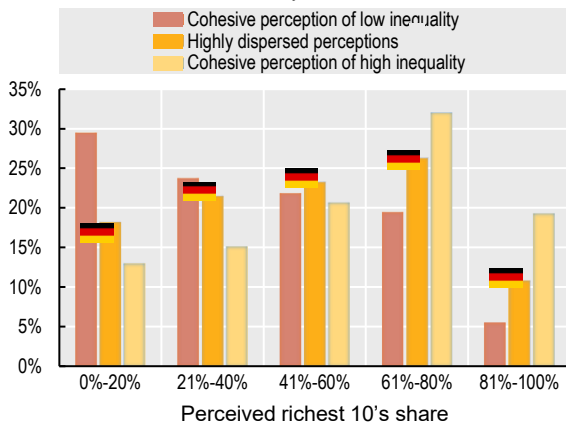
How divided is the public opinion?

People often disagree with each other as to the extent of economic disparities. Perceptions and opinions about economic inequality are more dispersed in Germany than elsewhere.

- The perceptions of how much of the national income goes to the richest 10%'s vary greatly,

Figure 3. Perceptions and opinions about economic inequality are dispersed

Share of population by perceived richest 10%'s share of national income, year 2020.



Note: The three bars refer to the average across three groups of countries that present similar distributions of perceptions: cohesive perceptions of low or of high inequality, and highly dispersed perceptions.

Source: *Does Inequality Matter?* Chapter 4.

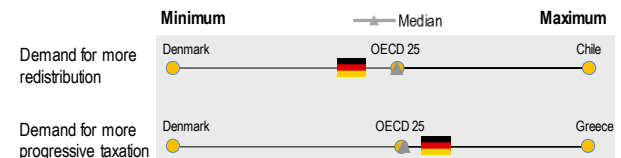
from relatively low inequality (less than 20%) to relatively high (60-80%) (Figure 3), analogously to the group of countries characterised by a similarly dispersed opinion.

- People seem to be slightly more in agreement with each other about how the distribution *should* look like, since almost 54% of Germans believe that bottom earnings are too low and top earnings are too large.
- People however disagree as to whether it is top earnings that are too high or bottom earnings that are too low. Almost 20% of the respondents is concerned that top earnings are too high but thinks that bottom earnings are fair or could even be lower. On the opposite spectrum, more than 15% think that the issue pertains mostly to bottom earnings being too low.

How much support is there for inequality-reducing policies?

Despite of the high level of concern, demand for more government redistributive intervention through taxes and benefits is slightly lower in Germany than on OECD average (Figure 4). By 2020, demand for more progressive taxation – through higher taxes on the rich than the current level – is more aligned with the OECD average, with 71% of persons demanding more (OECD: 68%).

Figure 4. Demand for redistribution is somewhat lower but stronger for more tax progressivity



Note: Data refer to year 2020.

Source: *Does Inequality Matter?* Chapter 3.

How can people's perceptions of and concern over inequality inform policy?

Getting citizens and governments on the same page when it comes to policies reducing inequality and promote social mobility requires understanding how people form their perceptions and opinion. This includes:

Better understanding of public support for reform: Inequality of both outcomes and opportunities matter to people, hence tackling both aspects helps gain support. Nonetheless, people may favour specific policy mixes, depending on their beliefs and preferences.

Better understanding of the effectiveness of policies: People favour policies that they believe to be effective. It is necessary to evaluate the impact of inequality-reducing policies transparently and facilitate people's understanding of their functioning.

Better information on inequality and equality of opportunities: Providing high-quality information about inequality can help providing common ground for public debate, addressing the division and polarization of public opinion.

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For more information, access the complete report at: <http://oe.cd/does-inequality-matter>