

REPORT

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INCOME INEQUALITY AS A THREAT TO DEMOCRACY

WSI Distribution Report 2023

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OVERVIEW

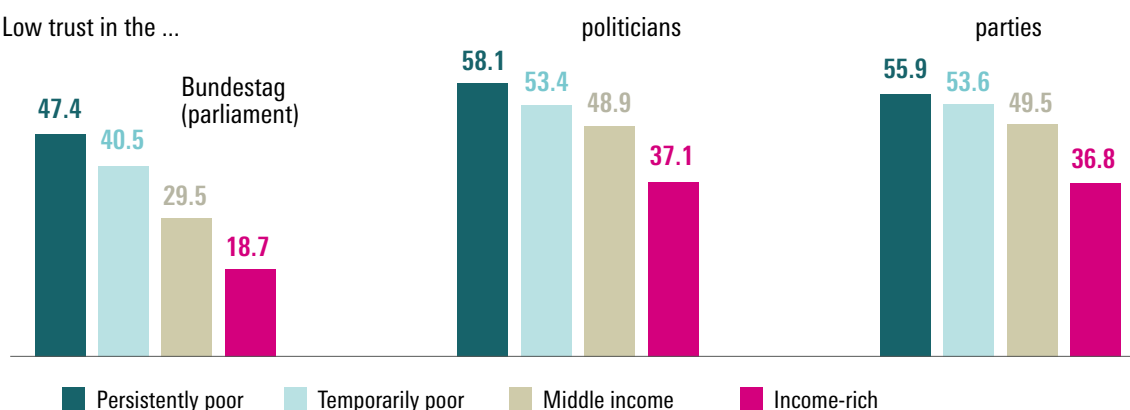
The everyday experiences and opportunities of people in Germany depend crucially on their income. Income inequality becomes a social problem at the latest when it contributes to the alienation of individual groups from the democratic system.

Based on the persistently high level of income inequality, the distribution report traces the different realities of people's lives and makes it clear that if people no longer feel valued by society and lose trust in the political system, then democracy also suffers as a result.

Low trust in institutions by income group, 2021

Figures in percent

Low trust in the ...



Source: SOEP v38, own calculations

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1 INTRODUCTION¹

In Germany, inequality has been at a high level for decades; especially if the period before the turn of the millennium is considered a benchmark. The last few years have also been characterised by multiple crises: the Covid-19 pandemic from 2020 onwards, rising inflation since 2021 and currently the energy crisis as a result of the Russian invasion of Ukraine; the effects of these on income inequality often still remain unclear. However, effects on the level of income inequality are only one aspect of how crises can become relevant for social inequality. At an individual level, resources and positions are decisive for how strongly people feel the consequences of crises and how well they can cope with them. Yet social inequality also plays a role in crisis management at a collective level: effective social and political responses to crises require a certain degree of social cohesion and trust. However, excessive social inequalities and their individual consequences jeopardise these foundations of the democratic system. In particular, a lack of recognition by others is a factor that is closely linked to dissatisfaction with democracy as a whole (Schneickert et al. 2019). This is the background against which the distribution report presents the currently available figures on the development of income inequality in Germany. We also focus on the side effects of inequality: What standard of living and what worries do people from different income groups have and how satisfied are they with their lives? To what extent do they experience social recognition or disdain? And to what extent do income differences go hand in hand with alienation from democratic institutions?

This report is structured as follows: Section 2 presents some basic considerations on social inequality in order to embed the findings in the wider context of the longer-term development of inequality in Germany. Section 3 deals with the data and methods used. Section 4 presents the results on the development of income distribution since 2010 and Section 5 shows the composition of different income groups according to socio-demographic variables. In Section 6, we present results on material living standards, worries and satisfaction for the same income groups. Section 7 then looks at perceived recognition by others and trust in political institutions in 2021. Section 8 concludes the report with an outlook on recent developments and policy recommendations.

¹ We would like to thank Andreas Hövermann for his extremely helpful comments.

2 SOCIAL INEQUALITY: AN OVERVIEW

The unequal distribution of access to resources and positions between people and groups of people is generally referred to as social inequality (Böhnke et al. 2023). Access to high-quality food, a decent living environment, a secure job or a good education is a matter of course for many people, while for others these things seem unattainable. Financial resources are the linchpin in the distribution of life opportunities. Money is the central means of acquiring goods and services and is therefore decisive for people's standard of living and social participation.

In this report, we look at both the development of income inequality as a whole and the situation of people in different income brackets. How have high, low and middle incomes developed? Is the gap between the highest and lowest incomes widening or closing? People are considered to be *poor*² or *income-rich* if they have a particularly low or particularly high income in relation to the social standard. It is important to consider these extreme positions because people at the lower end of the income distribution lag significantly behind the standard of living of the centre of society (Becker et al. 2022). In contrast, a very high income does not only go hand in hand with numerous opportunities for consumption and wealth accumulation that are closed to other groups but it also gives the rich great political influence (Elsässer et al. 2017).³

Markets play a central role in the distribution of financial resources in our society: most people finance their livelihood through their own labour and are therefore dependent on access to secure and appropriately remunerated employment. However, the capital market is also of central importance, particularly for the incomes of very wealthy people. The rules according to which these markets function are set by the government; however, on the labour market in particular, in addition to individual qualifications and characteristics, the extent to which employees are able to organise themselves into trade unions and jointly fight for their interests also plays a major role. Inequalities in market incomes are also mitigated by the welfare state, with richer people paying higher taxes and people with low incomes or those outside the labour market being supported by transfer payments such as the Bürgergeld (citizen's allowance).

In many respects, Germany is a very unequal country today compared to the 1990s. Income inequality increased sharply, particularly between the end of the 1990s and the mid-2000s (Spanagel/Molitor 2019). After 2005, income inequality continued to increase despite a steady decline in unemployment, even if the rise in inequality slowed down during this phase; at the end of this decade, it was still at a significantly higher level than in 1999. While the lowest incomes in some cases have fallen in real terms in recent decades, higher incomes have increased significantly (Grabka 2021). This development can be attributed in particular to growing inequalities in earned income, including a sharp rise in low-wage employment between the end of the 1990s and the end of the 2000s (see Fitzenberger/Seidlitz 2020 for the structural causes of increased labour market inequalities). Firstly, these changes were driven by long-term structural developments such as the increasing opportunities for German companies to relocate jobs to low-wage countries, as well as by technological change, which led to changes in qualification requirements in the labour market. Secondly, the share of employees covered by collective labour agreements has been falling for decades, meaning that there were virtually no limits to wage setting, especially until the introduction of the minimum wage, resulting in real wage losses for large sections of the workforce. At the beginning of the 2000s, these developments were flanked by political changes, particularly as part of the so-called "Hartz reforms". These led to an increase in the willingness of job-seekers and employees to accept lower wages and poorer working conditions and also made it much easier for employers to utilise atypical employment (Möller 2015).

At the same time, the taxation of high incomes and wealth has also fallen greatly in recent decades, for example through the significant reduction in the top tax rate from 56 percent in the mid-1980s to just 42 percent today or through the suspension of the wealth tax since 1997. All these changes are behind the sharp rise in income inequality in the early 2000s (Biewen/Juhász 2012).

² All terms printed in italics are briefly explained in the glossary of the report (see Glossary).

³ Compared to income, the possession of assets – i.e. wealth – is even more unevenly distributed. A large share of the population has no or only very limited financial resources over and above their regular income – or is even in debt. Despite the undisputed importance of wealth as an independent dimension of inequality, the following analyses are limited to income because wealth is not depicted in detail in the data used.

Increasing inequality has gone hand in hand with growing income poverty, particularly in the form of a growing entrenchment of precarious living situations: it became more difficult for many poor households to climb out of poverty and low-income positions (Groh-Samberg 2014; Brülle/Gangl 2023). Transfer payments such as unemployment insurance or unemployment benefits II (Hartz IV) were less sufficient in avoiding poverty among low-income households. The growing heterogeneity of employment biographies plays a key role here: recurring episodes of unemployment are accompanied by lower incomes for those affected, even in the long term, and have thus made a decisive contribution to increasing inequalities in general and the entrenchment of poverty in individual biographies in particular. Irregular employment biographies with frequent experiences of unemployment and/or atypical employment relationships such as marginal employment or temporary work are particularly poorly protected in the German welfare state: unemployment and pension insurance require continuous employment and a stable earned income for an adequate level of social security. Overall, against the background of the long-term development outlined here, two aspects should be emphasised that are also particularly relevant for inequalities in more recent years:

- The rise in inequality since the 1990s is largely due to longer-term structural changes. It is not just a temporary effect of crises or individual policies.
- A systematic distinction can be made between population groups that tend to be the losers of these structural changes – especially people in blue-collar occupations, with lower qualifications, migration backgrounds and/or precarious employment histories – and those who have tended to benefit from them – especially highly qualified people or people in managerial positions (Hertel 2020; Giesecke et al. 2015).

What do we know now about the more recent developments of inequality and the impact of the current crises? There is ample evidence that the pandemic has exacerbated labour market inequalities in particular. Low-income households were affected by short-time work more frequently than average and were also less likely to have their short-time work allowance topped up by their employer (Braband et al. 2022). In particular, self-employed and people in atypical employment, such as those in marginal employment, were also exposed to high risks of losing their earned income altogether (Kohlrusch et al. 2020; Braband et al. 2022).

Moreover, making ends meet on just 60 percent of an already low income can be a major challenge. However, the extent to which such inequalities have been offset by government relief measures is unclear: simulations estimate, for example, that market income inequality increased in the first year of the pandemic, but that this did not lead to an increase in income inequality after taxes and transfers (Beznoska et al. 2020).

The structurally high-income inequalities bring the investigation of the consequences of social inequalities into focus: international research on this topic impressively shows that income inequalities have a negative impact on many aspects of social cohesion (Wilkinson/Pickett 2009). The relationship between inequalities and trust in democracy shows that the more unequal a society is, the less people generally trust a country's political institutions (Bienstman 2023; Bienstman et al. 2023). At the same time, there is a correlation within societies between economic position and trust in politics. As we are focussing only on Germany, we take the second perspective and examine how people with different incomes diverge in their perception of the political system.

Such a correlation at the individual level can be explained by the far-reaching consequences that income inequalities have (Polavieja 2013): income positions directly influence not only the material standard of living, but also many other areas of life such as health or the housing situation. They are reflected not only in the bank account, but also in everyday life and, last but not least, in interactions with other people (Böhnke et al. 2023). Restricted social participation, major personal worries and dissatisfaction can lead to frustration and a loss of trust in political institutions, which jeopardises the basis of our democracy. The experience of a lack of social recognition is ascribed particular significance for processes of alienation from the political system (Schneickert et al. 2019).

In a democracy, the political system and specific political measures are dependent on the support of the population. To this end, in Section 7, we also analyse the extent to which people with different income positions experience social esteem or disdain and the extent to which they trust the actors and institutions of our democratic system. The next section first provides an overview of the data and methods used.

3 DATA AND METHODS

This report is based on two different data sources. To analyse income inequality, we use the Microcensus data from the official social reporting of the federal and state governments (Berlin-Brandenburg Statistical Office 2023). Based on the annual survey of around 800,000 people or one percent of the population, the Microcensus provides information on the distribution of monthly incomes in Germany up to 2022.⁴ We use data from the German Socio-Economic Panel (SOEP) for the year 2021 (wave v38) to depict the everyday realities of people in different income brackets in Sections 5 to 7. The SOEP is a panel survey that has been conducted annually by the German Institute for Economic Research (Deutsches Institut für Wirtschaftsforschung, DIW) since 1984. Data are currently available for around 30,000 people in around 15,000 households (Göbel et al. 2019). Both datasets are representative of the resident population in Germany. The SOEP data offer a special module for 2021 in which data on social recognition and political trust were collected. Unfortunately, these data are available for only one year, so comparisons over time are not possible.⁵

In order to analyse the extent and development of income inequality, various measures of inequality are calculated on the basis of the equivalised disposable household income. The most common measure is the “Gini coefficient”, which reflects the concentration of income and can range between zero and one. At a value of zero, all households have exactly the same amount of income; at one, all income is concentrated in a single household.

Another way to depict the unequal distribution of income is to use poverty and wealth rates, which indicate the share of the population living in poverty or wealth. The common poverty line is 60 percent of the median income, while less than 50 percent is referred to as severe poverty.⁶ For 2022, the poverty threshold in the microcensus for a single household is a disposable household income of just under €1,200 per month, with severe poverty starting at less than €1,000.⁷ If disposable household income is more than twice the median, this is income wealth (i.e., just under €4,000 for a single person living alone).

To illustrate the everyday experiences of people with different incomes, we use SOEP data for the disposable household income in the current month, as data are available for the respondents over several years. This allows us to illustrate the difference between short-term and long-term experiences of poverty and to pick up on the trend towards the entrenchment of poverty in recent decades (see Section 2). For those who were poor in 2021, we distinguish between whether they were also consistently poor in the previous four years. If this is the case, we label them as “persistently poor”. If they were above the poverty line in at least one of the five years but had an income below the poverty threshold in 2021, they are classed as “temporarily poor”. We also distinguish between people with a medium income (more than 60 percent and less than 200 percent of the median income) and those who are income-rich (more than 200 percent of the median income).⁸

4 Unfortunately, there is a break in the time series in the Microcensus between 2019 and 2020. As a result, the results from 2020 onwards can be compared with those of previous years only to a very limited extent. Due to difficulties in collecting the data for 2020, the comparison with subsequent years is also associated with uncertainties (for more information, see Statistisches Bundesamt 2023).

5 Usually, the measures of income inequality are also calculated for the Distribution Report on the basis of the SOEP. Unfortunately, this year the data have not yet been delivered in full at the time the report was finalised, and the comprehensively prepared income data are missing. So far, only income data from the “income screener” are available. These are based on self-reporting by the respondents. They are directly requested monthly incomes which, unlike the further processed data, are not comprehensively corrected on the basis of information from all members of a household. We therefore use information from official social reporting for income inequality indices. As the aim of Sections 5, 6 and 7 is to illustrate people’s income position and not to make precise statements about income distribution as a whole, the information from the “income screener” is well suited for this purpose. A comparison with the annual income data in previous waves also shows that both forms of income data provide similar results with regard to the development and accompanying phenomena of income items (own calculations; data not shown).

6 The median income is the income that lies exactly in the middle when all incomes are arranged in order of amount.

7 This report does not use the popular term “at-risk-of-poverty rate” for the 60 percent poverty line in order to make it clear that households living on less than 60 percent of the median income are actually poor and not just at risk of poverty (Becker et al. 2022).

8 We do not differentiate between temporarily and persistently income-rich, as there are no major differences between these two groups. The results are longitudinally weighted to take into account the need for respondents to participate over several years.

4 INCOME INEQUALITY IN GERMANY, 2010-2022

How has income inequality in Germany developed in recent years? Do the data show the influence of the pandemic? In the following, we present the development from 2010 onwards, i.e., the years after the end of the global economic and financial crisis, a period that was characterised by stable economic growth in Germany until the start of the pandemic. An initial answer to our questions is provided by a look at the Gini coefficient of disposable household income (Table 1).

The Gini coefficient exhibits a high degree of stability in the period shown: it is consistently at 0.29 between 2010 and 2019 and thus significantly higher than the value of 0.26 in 1999 (data not shown; see Berlin-Brandenburg Statistical Office 2023). In the last three years under study, it was 0.30. However, this does not necessarily reflect an increase between 2019 and 2020, as the Microcensus data collection concept changed in the first year of the pandemic and the data from 2019 and 2020 are therefore not comparable. Somewhat more movement can be seen when looking at the Gini values of annual incomes in the SOEP (unfortunately currently possible only up to 2019). These data show that overall income inequality rose slightly in waves between 2010 and 2019 and reached a temporary peak in 2019 (Spannagel/Zucco 2022, p. 7).

Table 1 also shows that the Microcensus data contain indications of rising income inequality as shown by the ratio of the income of the richest fifth of the income distribution to the income of the poorest fifth. In the starting year of our observation period, this ratio was 4.2, the lowest value of all the years analysed. In that year, the disposable income of the top quintile was on average 4.2 times higher than that of the lowest quintile. In 2019, the ratio was 4.3 and therefore barely higher. Between 2020 and 2021, the ratio rises from 4.5 to 4.7. In 2022, the figure is finally 4.6 and thus above the level of the early 2010s – with all due caution given to the limitations in the comparability of the data, an indication that income inequality has increased.

Table 1

Inequality of disposable household income, 2010–2022

Year	Gini coefficient	Income quintile ratio**
2010	0.29	4.2
2011	0.29	4.3
2012	0.29	4.3
2013	0.29	4.3
2014	0.29	4.3
2015	0.29	4.3
2016	0.29	4.3
2017	0.29	4.4
2018	0.29	4.3
2019	0.29	4.3
2020*	0.30	4.5
2021	0.30	4.7
2022	0.30	4.6

Notes:

Time series break between 2019 and 2020

*limited comparability of 2020 with subsequent years. The data for 2022 are initial and not final results.

**Income of the top quintile in relation to the income of the lowest quintile

Source: Microcensus 2023, own presentation

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The share of poor and very poor people has clearly increased over the years analysed (Figure 1): in 2022, 16.7 percent of Germans live in poverty; 10.1 percent of Germans even live in severe poverty, meaning they have to get by on less than 50 percent of the median income. In 2010, by contrast, only 14.5 percent of Germans were affected by poverty; 7.7 percent were very poor. By 2019, both figures had risen steadily: the poverty rate in 2019 was 15.9 percent, almost 1.5 percentage points higher than at the beginning of the decade; in relative terms, severe poverty has risen even more sharply. The first years of the pandemic are also characterised by rising poverty (2020-2021 plus 0.7 percentage points (poverty); plus 0.6 for severe poverty). Here too, however, comparability between 2020 and the following years is limited due to difficulties with data collection in the first year of the pandemic. At the current margin, both values then fall slightly. It is not clear what accounts for this decline. One possible interpretation is that it is related to the relief measures introduced by the government in 2022, including supplements to benefits for basic security recipients. Although the various measures provided similar or even greater relief for the upper income brackets in absolute terms (Pieper et al. 2023), they were more generous for people on low incomes relative to their own income.

Overall, there is a downward trend in income wealth.⁹ Between 2010 and 2018, the share of the income-rich remained stable at 8.1 percent and 8.2 percent respectively. In 2019, it initially fell to 7.9 percent and then to 7.7 percent in 2020. The developments of recent years do not show a clear trend. It can therefore be stated that the share of income-rich people in 2022 is at almost the same level as twelve years ago and has changed little in the years in between. The clear conclusion on poverty rates: the share of people affected by poverty has been growing for years.

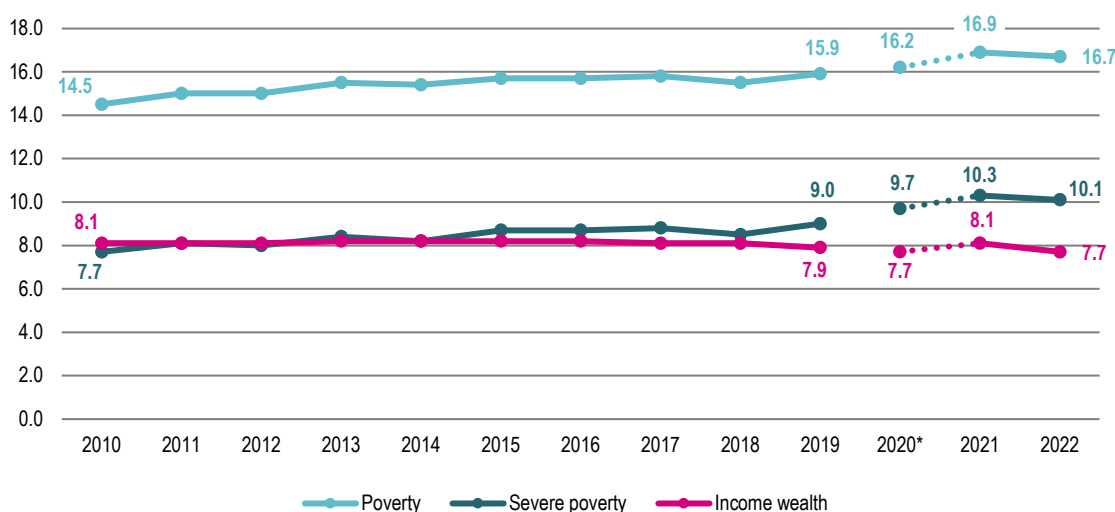
This is particularly true for the last decade, a period in which Germany experienced a major economic upturn. Although the share of poor people fell in the last year of observation, it is unlikely that the upward trend will come to an end here or even be reversed against the backdrop of current political and economic developments.

How are such inequalities reflected in people's everyday lives? To answer this question, we use data from the SOEP in the following sections.

Figure 1

Income poverty and income wealth in Germany, 2010-2022

Figures in percent



Notes:
Share of people living in households with a disposable income of less than 60 percent of the median income (total group of the poor) or less than 50 percent (subgroup of the severely poor); income wealth begins at a disposable income of more than 200 percent. Time series break between 2019 and 2020; limited comparability of 2020 with the following years. The data for 2022 are initial and not final results.

Source: Microcensus 2023, own presentation

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⁹ Unfortunately, there are no data on great income wealth (income >300 percent of the median) in the Microcensus.

5 SOCIO-DEMOGRAPHIC PROFILE OF DIFFERENT INCOME GROUPS

In order to compare the situation of people with different income positions, we differentiate between the persistently poor (disposable household income consistently below 60 percent of the median 2017-2021), the temporarily poor (2021 disposable household income <60 percent, but not consistently since 2017), middle-income people (2021 disposable household income between 60 percent and 200 percent of the median) and the income-rich (2021 disposable household income >200 percent). According to the monthly income data in the SOEP, six percent of the population is in persistent poverty in 2021, while just over nine percent are temporarily poor. Around seven percent are among the income-rich. By far the largest group, however, are those with medium incomes; in 2021, this was almost 78 percent of the population (see Table 2). Between 2010 and 2021, the share of the persistently poor in particular increased (own calculations; data not shown). This entrenchment of poverty is one of the central trends regarding the development of social inequality in Germany, and the group of the persistently poor is therefore a particular focus of attention (see Section 2).

Table 2 also shows the composition of the four groups according to various characteristics. It is clear that the income groups differ from one another in terms of their socio-demographic profile. Income-rich people live predominantly in western Germany and often in couple households without children. They usually have a higher-level secondary school diploma (Abitur), and the majority are in permanent full-time employment. In contrast, around half of people living in poverty have at most a lower-level secondary school diploma (Hauptschulabschluss). There is also a clear distinction between the persistently and temporarily poor: among the temporarily poor, women, single parents, and people under the age of 25 are most frequently represented compared to all other income groups.

Three characteristics in particular define the persistently poor: they are single, live in eastern Germany and/or are retired. The share of people with a migration background is also higher in the lower income groups than in the population as a whole, with people in persistent poverty particularly often having been born abroad themselves (direct migration background). In addition, the share of precarious workers (i.e., those in marginal or temporary employment or temporary agency workers) is particularly high among the temporarily poor at 15 percent, while the persistently poor are strikingly often unemployed at almost 28 percent. However, a substantial share of both groups is also in regular full-time or part-time employment: 16 percent of the persistently poor and around a quarter of the temporarily poor. If we limit the comparison to those in employment (i.e., excluding pensioners and those not in employment), approximately 17 percent of the persistently poor are in precarious employment and 53 percent are unemployed, while the respective shares for the temporarily poor are 28 percent (data not shown). We can therefore summarise that we are dealing with four distinct groups, each of which has special social structural characteristics.

Table 2

Social profile of income groups and the total population, 2021

Figures in percent

		Persistently poor	Temporarily poor	Middle income	Income rich	Overall- population
Population share		6.0	9.1	77.7	7.3	100.0
Region	Eastern Germany	28.7	17.4	18.5	7.1	18.2
	Western Germany	71.3	82.6	81.5	92.9	81.8
Gender	Female	52.6	57.2	51.5	42.2	51.4
	Male	47.4	42.8	48.5	57.8	48.6
Age category	Under 25	20.8	29.8	17.4	10.3	18.2
	25 to 44	23.7	22.3	25.4	24.3	24.9
	45 to 64	27.8	28.5	32.2	47.1	32.7
	65 and older	27.7	19.4	25.1	18.3	24.2
Household constellation	Single	42.1	26.4	22.3	22.4	23.8
	Couple without children	18.7	22.4	35.1	49.3	34.0
	Single parent	7.0	9.3	1.6	1.3	2.6
	Couple with at least one child	12.9	18.2	23.2	14.6	21.5
	Other	19.2	23.6	17.9	12.4	18.1
Migration background*	No migration background	59.3	67.1	82.7	87.8	80.3
	Direct migration background	27.8	19.0	10.1	6.7	11.7
	Indirect migration background	12.9	13.9	7.2	5.5	8.0
Level of education	Lower-level secondary school	55.4	47.4	29.1	6.9	30.1
	Middle-level secondary school	32.0	28.8	34.3	18.0	32.5
	Advanced technical college certificate/higher-level secondary school (Abitur)	12.6	23.8	36.6	75.1	37.4
Employment status	Full-time/permanent	6.6	15.1	40.7	61.0	38.2
	Part-time/permanent	9.3	9.3	12.9	9.5	12.1
	Marginal	5.9	8.3	4.1	2.5	4.4
	Temporary/temporary agency work	2.7	7.4	4.5	4.2	4.6
	Unemployed	27.8	15.5	2.2	2.1	4.8
	Pensioner	35.2	22.4	28.1	17.5	27.2
	Not gainfully employed	12.5	22.0	7.6	3.1	8.7

Reading example:

55 percent of people in persistently poor households have at most a lower-level secondary school diploma in 2021, compared to seven percent of people in income-rich households.

*Direct migration background: person was born abroad. Indirect migration background: at least one parent born abroad.

Notes:

Population share of the income groups or shares with the respective characteristic in the respective group. persistently poor: disposable income was consistently below 60 percent of the median income between 2017 and 2021. Temporarily poor: disposable income was below 60 percent of the median income in 2021, but not consistently since 2017. Medium income: disposable income was between 60 and 200 percent of the median income in 2021.

Income wealth: disposable income was above 200 percent of the median income in 2021.

Source: SOEP v38, own calculations, longitudinally weighted

6 MATERIAL SITUATION, WORRIES AND SATISFACTION AS A MIRROR OF SOCIAL INEQUALITY

In order to map the reality of life for people in different income groups, we present how the material situation as well as the concerns and satisfaction of the various groups differ in this section.

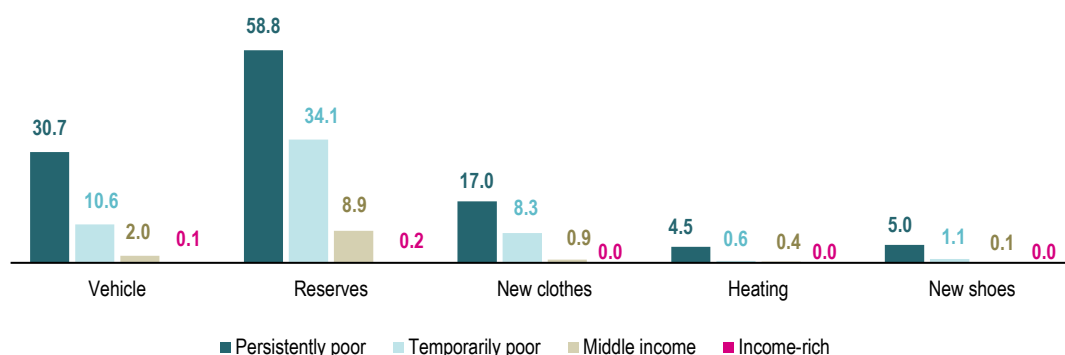
Not surprisingly, the data on material deprivation in Figure 2 show one result very clearly: the income-rich are not affected by material deprivation. However, material deprivation reaches right into the centre of society. Almost ten percent of the middle-income population had no financial reserves in the second year of the pandemic and as many as two percent said they could not afford a car. However, particularly interesting findings are revealed when looking at the poor and, in particular, the differences between the persistently and temporarily poor. The data clearly show that the temporarily poor are also affected by material deprivation (for example, more than ten percent cannot afford a car and more than a third have no financial reserves), but when poverty becomes entrenched, the prevalence of material deprivation increases significantly: well over half of the persistently poor have no financial reserves; 17 percent find themselves forced to save up for new clothes and over

four percent and five percent, respectively, are financially unable to adequately heat their home or afford new shoes (and this is in the year before the surge in inflation). As we can see, social inequality, measured as income inequality, is reflected in material opportunities, and therefore also in the opportunity to participate in society.

The limited material scope of persistently poor people is also reflected in the fact that they are more often than average very worried about their own economic situation (see Figure 3): almost a third of this group state that they are very worried about their own economic situation and only around 26 percent are not worried about it at all. This clearly sets people in entrenched poverty apart from the other groups, although differences can be seen across the entire spectrum of income distribution. For example, the share of those who are not concerned about their own economic situation rises to 37 percent among the temporarily poor, while 50 percent in the middle of society and two thirds among the income-rich are not worried about it at all.¹⁰

Figure 2

Facets of material deprivation by income group, 2021
Share of people who cannot afford an item financially, in percent



Notes:

Persistently poor: disposable income was consistently below 60 percent of the median income between 2017 and 2021. Temporarily poor: disposable income was below 60 percent of the median income in 2021, but not consistently since 2017. Middle income: disposable income was between 60 and 200 percent of the median income in 2021. Income-rich: disposable income was above 200 percent of the median income in 2021.

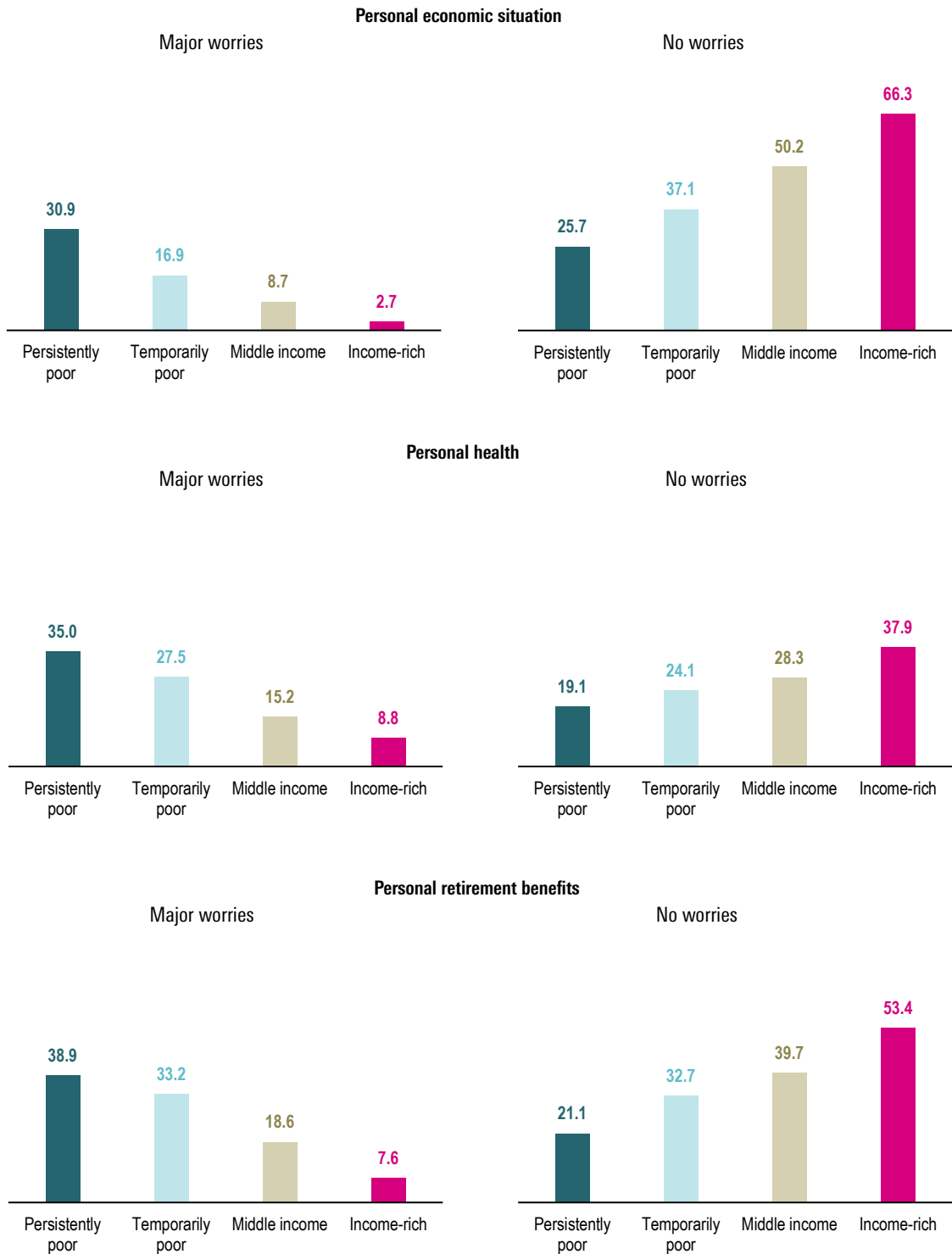
Source: SOEP v38, own calculations, longitudinally weighted



¹⁰ In looking at these figures, it should be noted that people often assess their individual situation very positively and negative statements regarding concerns and satisfaction with their own situation are rarely expressed in surveys (Lübker 2019).

Worries in various areas of life by income group, 2021

Share of people with major or no worries, in percent



Notes:

Persistently poor: disposable income was consistently below 60 percent of the median income between 2017 and 2021. Temporarily poor: disposable income was below 60 percent of the median income in 2021, but not consistently since 2017. Middle income: disposable income was between 60 and 200 percent of the median income in 2021. Income-rich: disposable income was above 200 percent of the median income in 2021.

Source: SOEP v38, own calculations, longitudinally weighted

Differences in income distribution are also reflected in areas of life that at first glance have little to do with income. This is clearly evident in the dimension of health: more than one in three people in persistent poverty are very worried about their own health and not even 20 percent state that they are not worried in this area. More than 27 percent of people in temporary poverty are still very worried, while only 24 percent have no worries in this area. In the higher income groups, worries then gradually decrease: among the income-rich, less than one in ten are very concerned about their own health.¹¹

It is not only one's current situation that is important for social participation, but also one's perceived security in the future. A fear of social decline or the lack of prospects for advancement can lead to a loss of trust in the democratic system, just like the current situation (Task Force FGZ Data Centre 2022). There are also marked differences between income groups when it comes to concerns about security in retirement. More than one in two income-rich people are not worried about their income security in retirement, while in the middle class the figure is still around 40 percent. However, only one in three of the temporarily poor and barely more than 20 percent of the persistently poor do not worry about how to secure their income when retired. Conversely, almost 39 percent of the persistently poor and more than 33 percent of the temporarily poor are very concerned about their retirement security, meaning that both groups clearly stand out from the other income groups. Nevertheless, it is remarkable that only among the income-rich an absolute majority of respondents also feels secure regarding their retirement benefits.

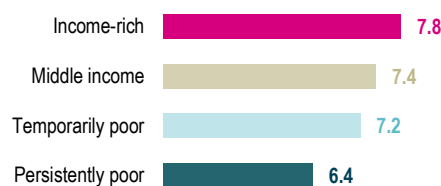
The different material starting points are also reflected in the subjective assessment of one's own life. This becomes clear when you look at how life satisfaction differs between income groups (Figure 4). Income-rich people achieve an average satisfaction score of 7.8 (on a scale from 0 for "completely dissatisfied" to 10 "completely satisfied").

The score is 0.4 points lower for people with a medium income, while the temporarily poor score just under 7.2. People in persistent poverty achieve a score of only 6.4: they are significantly more dissatisfied with their lives than the other three groups – and therefore also significantly more dissatisfied than people who are only temporarily affected by poverty. This can also be seen very clearly when looking at the share of people who are very satisfied with their lives overall (scores of 8 to 10 on the scale; data not shown): this applies to only 35 percent of the persistently poor, but to 53 percent of the temporarily poor and 57 percent of people with average incomes. Among the income-rich, over two thirds (68 percent) of respondents indicated a high level of satisfaction.

The differences in life satisfaction once again demonstrate the particularly unfavourable situation of people in persistent poverty, even in comparison to the temporarily poor. Although temporary poverty also signals the precariousness of one's own life situation, it is not to the same extent an acute situation of deprivation. In addition, differences in subjective well-being and the perception of one's own situation can be observed across the entire income distribution, and the income-rich stand out from all other groups due to their particularly privileged position.

Figure 4

Life satisfaction by income group, 2021
Mean score on a scale from 0 "Completely dissatisfied" to 10 "Completely satisfied"



Notes:

Persistently poor: disposable income was consistently below 60 percent of the median income between 2017 and 2021. Temporarily poor: disposable income was below 60 percent of the median income in 2021, but not consistently since 2017. Middle income: disposable income was between 60 and 200 percent of the median income in 2021. Income-rich: disposable income was above 200 percent of the median income in 2021.

Source: SOEP v38, own calculations, longitudinally weighted



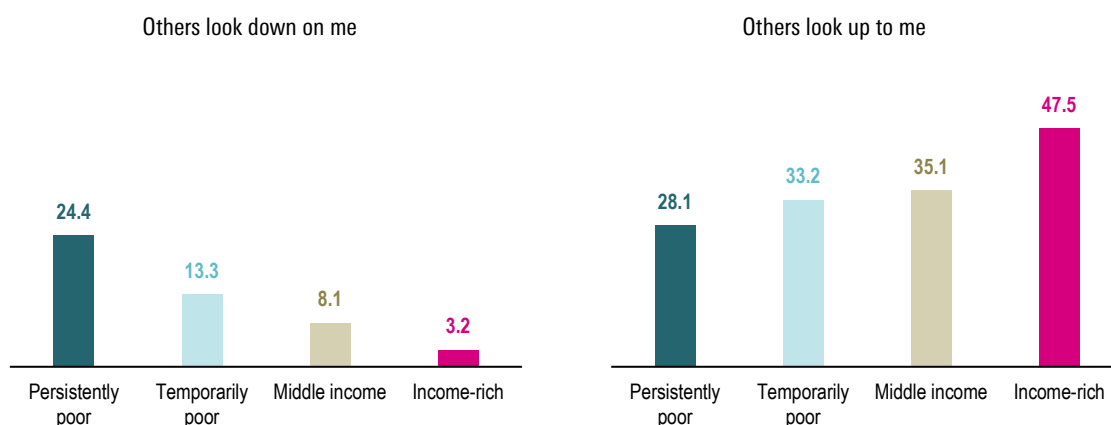
¹¹ For these, as well as the following and previous results, it is true that they represent differences between the groups and not necessarily causal relationships. It can be assumed that some of the differences, but not all, can be directly attributed to income. In any case, however, the results reflect the different realities of life for people with different incomes.

7 SOCIAL RECOGNITION AND INSTITUTIONAL TRUST

Figure 5

Frequent experience of being valued or scorned by income group, 2021

Figures in percent



Notes:

Scores 5-7 on a scale from 1 "Never true" to 7 "Very often true". Persistently poor: disposable income was consistently below 60 percent of the median income between 2017 and 2021. Temporarily poor: disposable income was below 60 percent of the median income in 2021, but not consistently since 2017. Medium income: disposable income was between 60 and 200 percent of the median income in 2021. Income-rich: disposable income was above 200 percent of the median income in 2021.

Source: SOEP v38, own calculations, longitudinally weighted

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One's own income position has a direct influence on one's material situation, but also on worries and satisfaction with regard to one's own health or standard of living. The results above have clearly shown this. But to what extent is inequality felt in interaction with others? Do people in lower income groups more often feel unrecognised by others than people in higher income groups and to what extent is appreciation by others related to a high income?

There are clear differences regarding the experience of being valued or scorned (Figure 5): almost a quarter of the persistently poor state that others often look down on them. In contrast, less than 14 percent of the temporarily poor, only 8 percent of people with average incomes and barely more than 3 percent of the income-rich report frequent rejection. The income-rich also differ greatly from the rest of society in their experience of being valued: almost 48 percent state that others often look up to them, compared to only 28 percent of the persistently poor (33 percent and 35 percent respectively in the other two groups).

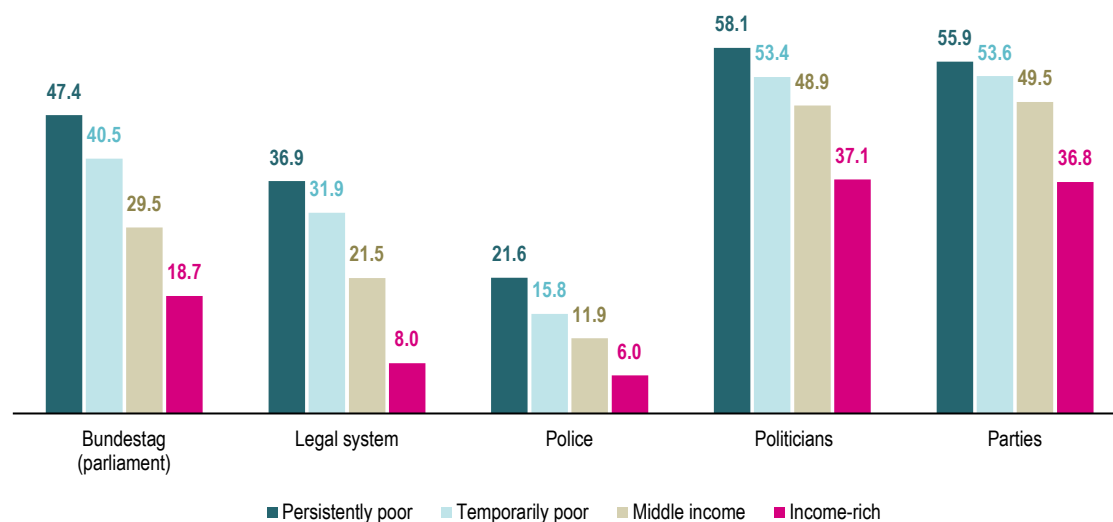
Such differences in the experience of recognition and scorn can increase the alienation of lower income groups from society and from the political system. Indeed, trust in democratic institutions is strongly dependent on income level (Figure 6).

Among the income-rich, there are very few people who do not trust the police or our legal system; in contrast, among the persistently poor, this figure is over 22 percent (police) and more than a third (legal system). Less than 20 percent of the income-rich and 30 percent of middle-income households, but 40 percent and 47 percent of the temporarily and persistently poor, respectively, state that they have little trust in the Bundestag. In other words, almost half of the persistently poor have little trust in the Bundestag. When it comes to trust in political actors, there is a strong differentiation, particularly between the income-rich and other income groups. Only just over a third of the income-rich state that they have little trust in political parties and politicians. Among the temporarily and persistently poor, the figure is well over half of all people.

Our results apply to the year 2021, i.e., a time in which satisfaction with democracy was at a relatively high level, especially in comparison to the following years (Hövermann/Kohlrausch 2022). It can therefore be assumed that trust in institutions has tended to decline since then.

Low trust in institutions by income group, 2021

Figures in percent



Notes:

Low trust in political institutions: Scores 0-4 on a scale from 0 "I do not trust at all" to 10 "I trust completely". Persistently poor: disposable income was consistently below 60 percent of the median income between 2017 and 2021 Temporarily poor: disposable income was below 60 percent of the median income in 2021, but not consistently since 2017. Medium income: disposable income was between 60 and 200 percent of the median income in 2021. Income-rich: disposable income was above 200 percent of the median income in 2021.

Source: SOEP v38, own calculations, longitudinally weighted



The results certainly do not exclusively reflect causal effects of income differences but can of course also be explained by different compositions of income classes, for example in relation to level of education, age or employment status.

However, the fact that these factors are often linked to income also illustrates how much the realities of life differ between different income groups. A comparison between income groups does not take into account the effects that high inequalities have on society as a whole. However, international comparative studies show that, even when controlling for individual income position, high levels of inequality are associated with lower levels of trust in democracy (Bienstman 2023).

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¹² Further regression analyses show that the effect of an income group on institutional trust is reduced when other socio-structural variables are taken into account, but by no means disappears (data not shown).

8 OUTLOOK AND POLITICAL IMPLICATIONS

In this report, we have looked at the distribution of income as a central dimension of social inequality. How unequally income is distributed and, in particular, how many people are affected by poverty is of great importance, especially in years of crisis, because it is decisive for the resources that individuals, but also society as a whole, can mobilise to overcome social challenges. Unfortunately, the data available to date do not allow any clear statements to be made about how the concentration of income has developed since the onset of the Covid-19 pandemic, as the current figures from the Microcensus are comparable with the data prior to 2020 only to a limited extent. Comparing 2020 with subsequent years is also fraught with uncertainty due to difficulties in collecting the data. With all due caution, however, the results can be summarised to the effect that inequality initially increased with the pandemic (2020 to 2021), but that poverty and income wealth then began to decline at the most recent survey date (2022). From a longer-term perspective, the data show that poverty rates have risen since 2010. This applies in particular to severe poverty. The share of income-rich people remains very constant overall.

In order to embed these key findings and shed further light on current developments, we would like to take a closer look at findings that go beyond the figures shown above and provide an indication of how the recent crises have affected social inequalities in Germany.

Firstly, the results presented here do not reflect the consequences of rising inflation since 2021: the calculation of inequality measures and poverty rates does not take into account the fact that household expenditure is made up differently depending on income. In fact, inflation has hit low-income households particularly hard from the outset (Dullien/Tober 2023): they have to spend a large share of their income on food and energy, which have seen particularly high price increases. Although inflation has now eased somewhat at a very high level, high prices are still a major challenge, especially for those who already had the lowest financial reserves. For example, the number of people who regularly go to food banks was recently at a very high level (Grabka/Schupp 2022). Secondly, our report does not take into account the importance of wealth (see footnote 3). The “super-rich” have become even more affluent in recent years. Between 2020 and 2021, their number increased both globally and in Germany.¹³

13 The term “super-rich” is used here without theoretical reflection, following banking jargon, to refer to “High Net Worth Individuals”, i.e. individuals with disposable assets of at least one million dollars.

In the following year, there was a slight decline, although this did not offset the previous increase.¹⁴ In the meantime, there is also evidence of a so-called profit-price spiral: i.e., numerous companies have increased the prices of their goods and services significantly more than would have been necessary due to the rise in energy prices, for example, and thus made considerable profits (Dullien et al. 2023; Janssen/Lübker 2023).

The federal government has tried to help the poor and has put together a total of three relief packages (for an overview of all measures, see Pieper et al. 2023, pp. 25-26). All of these measures have worked and have demonstrably relieved the burden on low-income households (Dullien et al. 2023). However, they were no more than the famous drop in the bucket and did nothing to change the structural causes for the growing inequalities. Above all, the pandemic has also made the consequences of different income positions more apparent: for example, poor people are more likely to suffer from the Covid-19 and contract it more severely (Wachtler et al. 2020) and are more affected by mental stress (Heisig et al. 2021). In contrast, income-rich people, who usually have a high level of education, coped better with homeschooling (Dietrich et al. 2021). People with a large financial cushion, secure employment and good living conditions have come through the past few years largely unscathed. This is not the case for many people at the lower end of society. Not only have they had to accept enormous financial losses in some cases, but they have also been confronted with great insecurity for years and were affected to an above-average extent by feelings of powerlessness during the pandemic (Hövermann 2021). Even if the impact of the past crises cannot yet be fully assessed, there are many indications that they have deepened the social divide in Germany.

14 This is shown by data from the so-called “World Wealth Reports” of major financial institutions. These are not scientific data, but they are currently the only available source for shedding light on how the super-rich have fared during the crises. Capgemini, for example, estimates that there were 1,633,000 “High Net Worth Individuals” in Germany in 2021, an increase of 6.4 percent from the previous year. According to Capgemini, the total wealth of this group increased by 7.4 percent between 2020 and 2021 (World Wealth Report 2022: North America retains top spot in terms of number of millionaires and their total wealth, Capgemini Germany). For 2022, the current report predicts a 2.2 percent decline in the total wealth of the super-rich and a 1.3 percent decline in the number of this group (Köhler 2023), which will not offset the increases of previous years.

Against this backdrop, our findings in Sections 6 and 7 (for 2021) are particularly relevant: people in income-rich households do not experience any material restrictions and can fall back on financial reserves if needed. They are also usually not worried about their own economic situation or retirement benefits and are largely satisfied with their lives overall. In contrast, both persistent and temporary poverty are accompanied by restrictions to their living standard and their subjective well-being. However, persistent poverty stands out from all other groups in terms of limitations in living standards, worries about personal economic situation and lower life satisfaction. The persistently poor also more frequently experience the scorn of other people, while the income-rich in particular often feel valued by others. These findings may help to explain why trust in institutions also differs greatly according to income. In 2021, for example, over 50 percent of the persistently poor in Germany have little trust in central political institutions and actors, while this applies to less than a fifth of the income-rich with regard to institutions (i.e., the police, the legal system and the Bundestag). Very recent studies (Hövermann/Kohlrausch 2022; Kohlrausch et al. 2023) indicate that overall trust in political institutions has tended to decline since then. Our data show all the more clearly how much income inequality can shake the pillars of our democracy. It is therefore urgently necessary to counter these developments politically. The most urgent measures for this are highlighted below.

Poor households must first of all be helped financially. Anyone who must make a living exclusively or essentially with basic income support benefits (such as the Bürgergeld or the old-age basic income support) requires regular support that is poverty-proof, i.e., that enables them to live above the poverty line. When the citizen's income was introduced at the beginning of the year, the opportunity was not taken to increase the standard rates accordingly (Blank et al. 2023). The planned introduction of the guaranteed basic child allowance sends out a positive signal if it actually leads to easier access to benefits for families with low household incomes. However, the extent to which it can actually contribute to reducing poverty also depends on whether the level of benefits is adjusted to a poverty-proof level. At the same time, the many households that are in employment but still affected by poverty can be helped by all those measures that facilitate both better pay as well as better labour market participation.

This means a significant increase in the minimum wage (and not an increase of just €0.41, as was the case recently). A second set of measures must be aimed at promoting secure employment relationships that are subject to social insurance contributions and are adequately remunerated. Individualised further qualification measures are just as necessary as a strengthening of collective wage agreements. A significant improvement in the compatibility of family and career and an expansion of childcare services are important in order to allow both parents to work, especially in couple households with children.

At the upper end of the social hierarchy, it is important to involve the rich and super-rich more in financing the common good through taxes. Since the mid-1990s, the wealthy have been systematically relieved of tax burdens. Most recently, the reform of inheritance tax in 2016 made it possible for numerous super-rich people to bequeath substantial business assets without incurring significant taxes. However, the burdens resulting from the current crises must also be borne by the "strong shoulders", in particular through a significantly higher tax contribution. The top tax rate needs to be raised again, a progressive wealth tax reintroduced and the loopholes in the inheritance tax closed. There must be high tax allowances for both the wealth tax and inheritance tax. It is not a question of increasing taxes for the centre of society; it is the wealthiest in this society who must make a greater contribution to our common good. Such measures increase the legitimacy of our democracy by distributing the burden of the crises more fairly; this is a crucial building block for restoring confidence in our free and democratic basic order.

The divergence between the realities of life for the rich and the poor is a heavy burden for our society. This is all the more true in a situation in which Germany is facing what is surely its greatest challenge in a long time: coping with the climate catastrophe. In order to meet the current and future political challenges well, the country is more dependent than ever on functioning democratic co-operation and solid trust in political institutions. However, this presupposes that all population groups, rich and poor alike, can participate fully in society and that the burden of the crises is shared fairly.

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Poverty: People living in households with less than 60 percent of the median income; if it is less than 50 percent, this is referred to as severe poverty.

Income wealth: People who live in households with more than 200 percent of the median income; if it is more than 300 percent, this is referred to as great income wealth.

Earned income: Wages and salaries earned on the labour market.

Gini coefficient: It indicates how unequally income is distributed and can take on values between zero and one. Zero stands for completely equal distribution (everyone has the same amount of income), while the value one stands for extremely unequal distribution (one person owns everything).

Market income: Household income generated on the labour market or other markets. Taxes, duties and transfer payments are not taken into account here.

Median income: The value that lies exactly in the middle when all incomes are sorted by size.

Equivalised disposable household income: Total income of all household members after deduction of taxes and social security contributions plus state and private transfer payments and rental savings from owner-occupied housing – in 2015 prices and standardised for different household types.

Disposable household income or disposable income: Used synonymously with equivalised disposable household income.

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