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SEVEN QUESTIONS TO MARKUS M. GRABKA

»Despite the strong labour market, the share of the middle income group has not risen in Germany«

1. Dr. Grabka, you conducted a study of the share of middle-income group in the US and Germany. Why did you choose these two countries for your comparison? In December 2015, the Pew Research Center in the US published findings on the development of the middle-income tier which triggered a broad public debate beyond the borders of the US. This prompted us to conduct similar analyses using comparative income concepts in Germany, too.
2. How would you define middle income? The American colleagues based their definition of the middle income group on the basis of total money income. This mainly comprises labour income, as well as capital income, but also includes income from pensions and public transfers. The important thing here is that this income concept is calculated before tax deductions and social security contributions. On this basis, the middle-income group derive total income between 67 to 200 percent of the median of the total population.
3. What trends have been observed in the middle class according to the definition you just outlined? In the period from 1971 to 2015, a nine-percentage-point drop was seen in the population share of the middle-income group in the US. For Germany, the period beginning 1991, i.e., following reunification seemed to be the most logical time-frame for the analysis. Here, too, the share of the middle-income group was found to decrease—by six percentage points from 1991 to 2013. Interestingly, the US figures for the same time period likewise displayed a six-percentage-point decrease.
4. In other words, the middle class is shrinking in both countries? Yes and no. In Germany, this relative drop in population share is linked to the absolute decrease in the number of middle-income group. In the US, in contrast, this decline in the importance of the middle class is relative. The US population has increased substantially in the past 40 years, meaning in the US both the relative and the absolute increase in importance was more pronounced at the periphery than in the middle of the distribution.
5. What groups of people have moved up the ladder, and what groups have dropped down a tier? In the US, ethnicity has to be factored into the analyses. In this context, we can see that it was primarily those from Latin America who tended to move down to lower-income brackets, while an increasing number of people from the white US population, for example, were moving out of the middle class into the upper-income group. In Germany, in comparison, it has been foreigners who have tended to move down the ladder into the lower-income group.
6. In recent years, Germany has seen a sharp increase in employment figures, something that one would expect to have a positive impact on the middle class. Is this the case? Surprisingly, the relatively strong increase in employment that we have seen in Germany since 2006 has not stabilized, or increased, the share of the middle-income group. This is what one would have expected, but the sheer diversity in the forms of employment, plus the increase in low-paid jobs has offset this.
7. How does the German middle class differ from that in the US? In our study, we looked at the pure development of total income among the different income earners in the US and Germany, on the one hand, and the net worth of the different income strata, on the other hand. The disparity between the two countries was sizable. Since the early 2000s, for example, the net worth of the US middle class has dropped by around one-quarter in real terms, while Germany's middle-income group has increased its net worth by some 15 percent since 2002.

Interview by Erich Wittenberg



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HLTW Übersetzungen GbR

Layout and Composition

eScriptum GmbH & Co KG, Berlin

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