

THE EROSION OF THE GERMAN MIDDLE CLASS

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ABSTRACT

Since the mid-1990s income inequality has increased more sharply in Germany than in many other European countries. However, the question of whether this has led to an erosion of the middle class is hotly debated. In fact, it does not necessarily follow that increasing inequality in individual incomes inevitably leads to inequalities in the household disposable income that is a decisive factor in determining class affiliation. Household members can compensate for losses of income by increased economic activity, for example, and the welfare state can also make good such losses.

In what follows, we will analyse how the development of the German middle class is related to changes in the world of work. Between 1992 and 2013 the size of the German middle class declined from 83% to 78% of the total population. In the same period we saw a strong expansion of the low-wage sector. Growing female employment was focused on Mini-jobs with short weekly working hours and low hourly wages. We will analyse how these labour market trends affect the primary and secondary distribution of household income. This will first show how jobs with different hourly wages and working hours are combined in the household resulting in the primary distribution of income. And secondly we will show how state redistribution by taxes and social security contributions on the one hand and transfers on the other hand changes the primary distribution

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