

The erosion of the German middle class

Gerhard Bosch / Thorsten Kalina,
University Duisburg-Essen, IAQ

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Prof. Dr. Gerhard Bosch

Universität Duisburg Essen
Institut Arbeit und Qualifikation
Forsthausweg 2, LE, 47057 Duisburg

Tel: +49 (0)203 / 379-1827;

Fax: +49 (0)203 / 379-1809

Email: gerhard.bosch@uni-due.de;

www.iaq.uni-due.de

Dr. Thorsten Kalina

Universität Duisburg Essen
Institut Arbeit und Qualifikation
Forsthausweg 2, LE, 47057 Duisburg

Tel: +49 (0)203 / 379-1352;

Fax: +49 (0)203 / 379-1809

Email: thorsten.kalina@uni-due.de;

www.iaq.uni-due.de

Outline

- 1. Economic and institutional foundation of the German middle class***
- 2. Development of the middle class over time***
- 3. Employment by income class***
- 4. Drivers of improving or falling middle class standards***
- 5. Conclusions***

1. Economic and institutional foundation of the German middle class

Primary distribution: inclusive wage system

- High coverage by collective agreements
- Standard employment relationship – dominant norm
- Low income differentiation

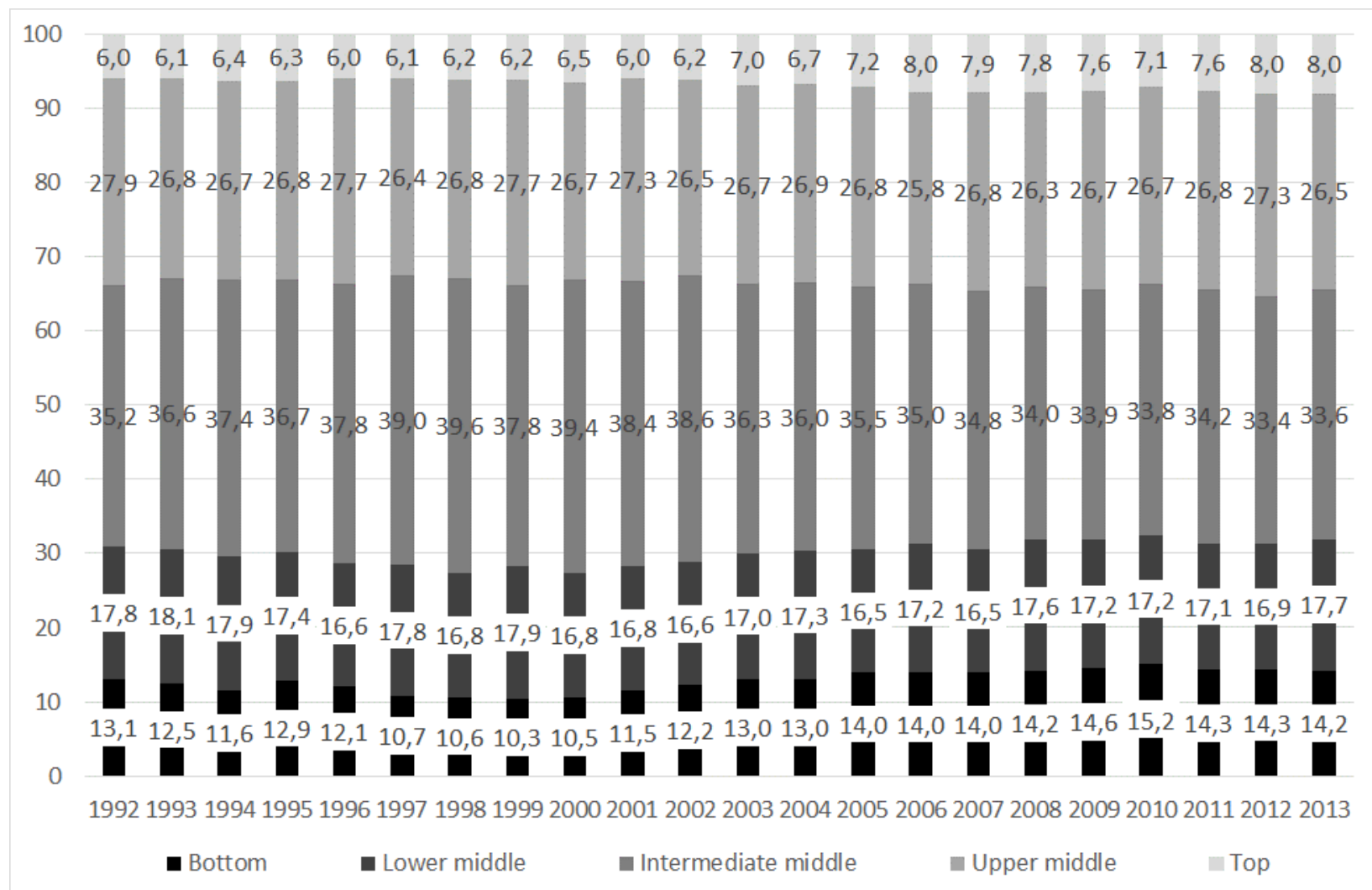
Secondary distribution: conservative Bismarckian welfare state

- Most employees were covered by social insurances
- Income related social benefits – status maintenance
- Low unemployment – means tested assistance systems marginal role
- Derived entitlements for spouse and children

Inclusive Bismarckian welfare state designed around the needs of the middle class

Offen im Denken

2.1 Disposable household income by class (after taxes and transfers, equivalized income in previous year 1992 – 2013 in %)



Source: SOEP v30, own calculations

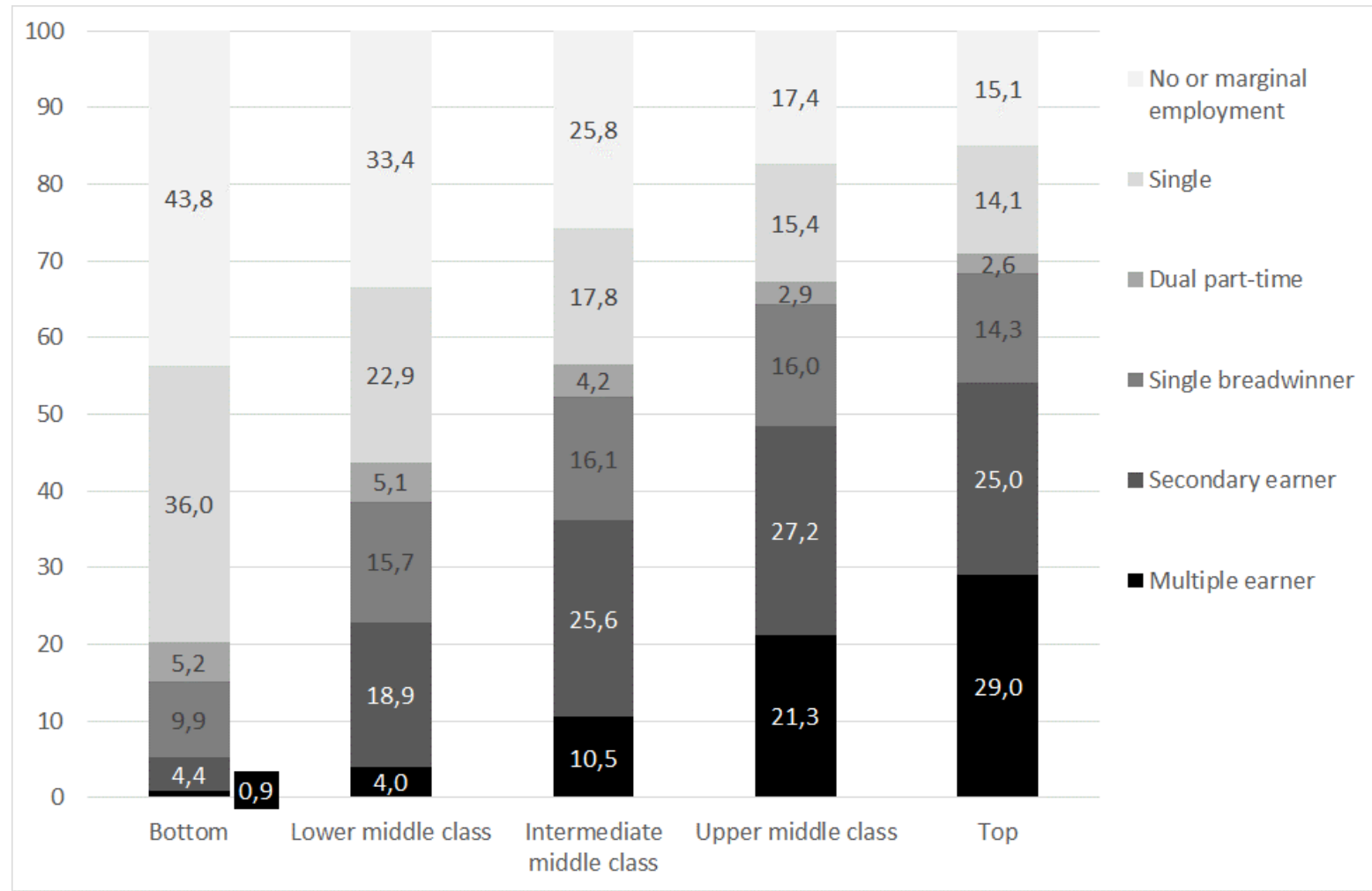
2.2 Effect of state redistribution on the middle class

Income measure	Share in the population (in %)		Change 1992-2013 (in percentage points)
	1992	2013	
Household income before state redistribution	56,4	48,0	-8,4
Household income after state redistribution	80,9	77,8	-3,1

Source: SOEP v30, own calculations

- **The middle class is increasing by state redistribution**
- **The middle class is stabilized by state redistribution over time**

3.1 Household employment pattern by income class (disposable household income in previous year, equivalized) 2011- 2013 in %



Source: SOEP v30, eigene Berechnungen

3.2a Evolution of household employment patterns from 1995–1997 to 2011–2013, Germany (share in total population)

Employment pattern	All households		Multi-person households with substantial levels of employment	
	1995–1997	2011–2013	1995–1997	2011–2013
Multiple earners	17.6	12.3	28.4	23.2
Secondary earner	19.8	21.8	32.0	41.0
Single breadwinners	21.0	15.0	34.0	28.2
Dual part-time	3.5	4.0	5.6	7.6
Low level of gainful employment	21.5	26.5		
Single	16.6	20.3		
Total	100.0	100.0	100.0	100.0

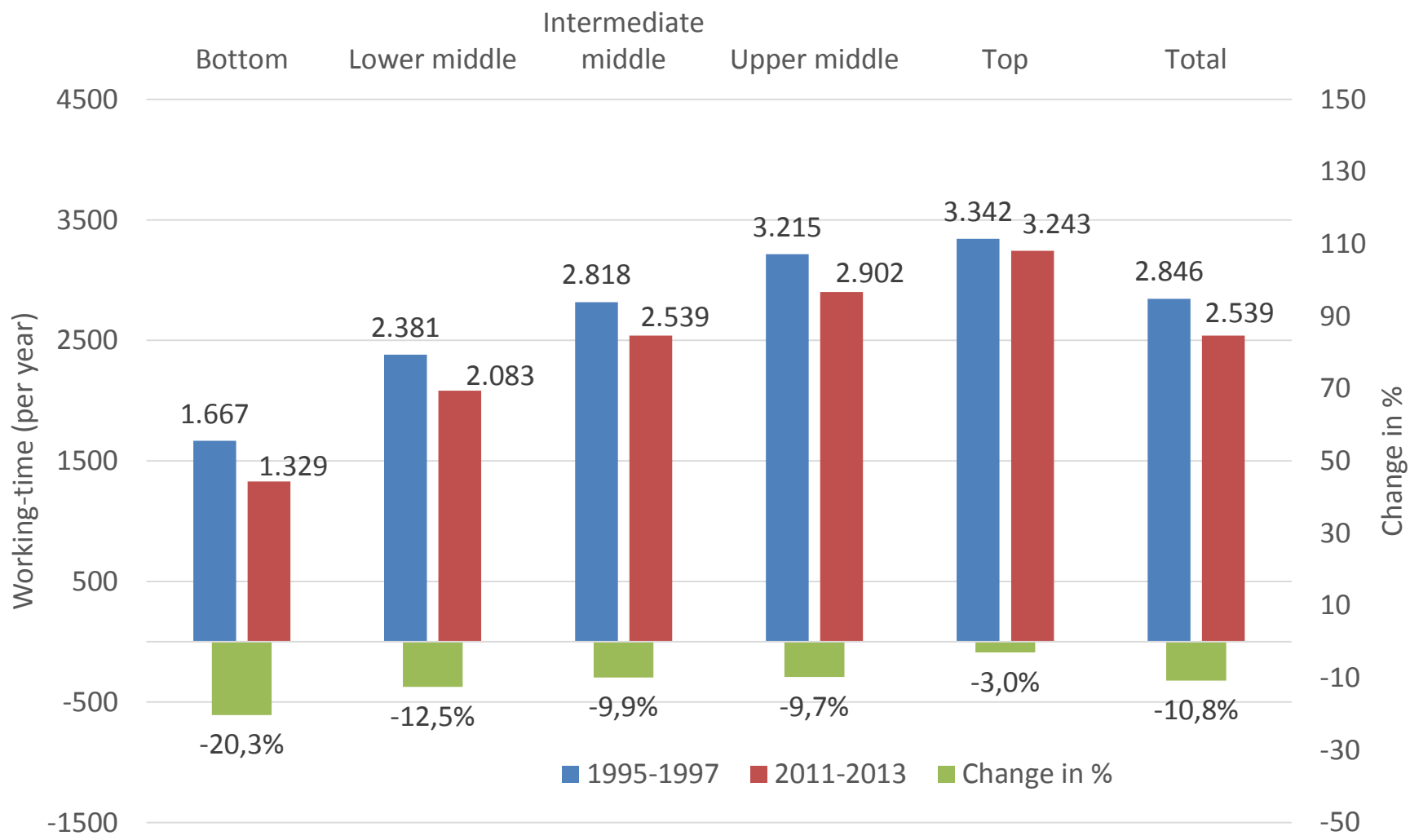
Source: SOEP v30, own calculations

3.2b Change in employment patterns by income class (disposable household income in previous year, equivalized) 2011-2013 compared to 1995-1997, in percentage points

Schichten/ Erwerbstyp	Multiple earner	Secondary earner	Single breadwin- ner	Dual part- time	No or marginal employment	Single
Bottom	-1,5	-1,2	-6,6	0,3	1,3	7,8
Lower middle	-3,9	3,9	-12,9	1,3	8,0	3,6
Intermediate middle	-6,5	2,8	-5,2	0,4	5,3	3,3
Upper middle	-7,4	3,8	-3,4	0,6	3,8	2,7
Top	-0,8	-2,0	0,1	-0,2	5,1	-2,2
Total	-5,3	1,9	-6,1	0,6	5,1	3,8

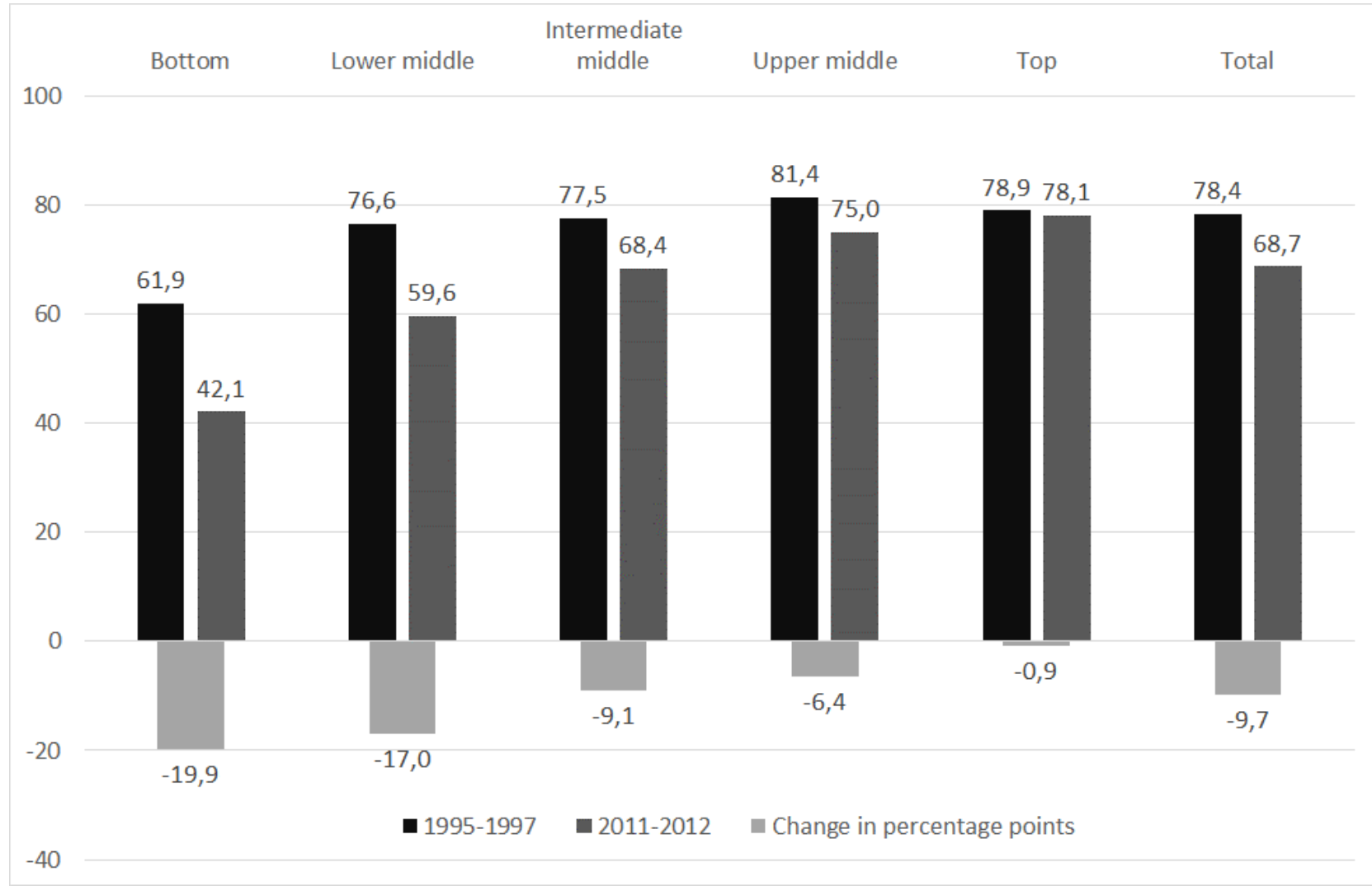
Source: SOEP v30, own calculations

3.3 Gross annual working time per household* by income class



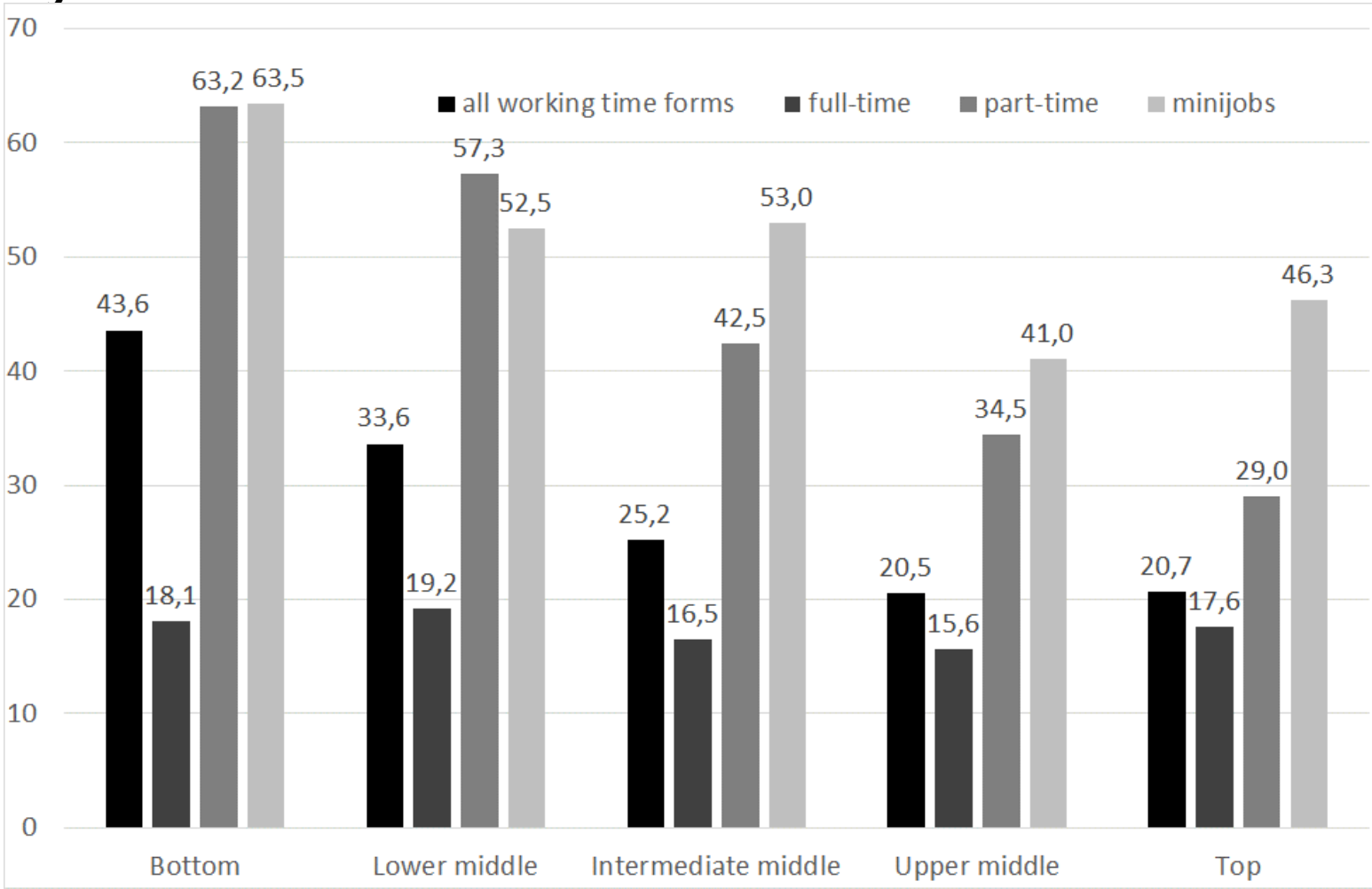
Source: SOEP v30, own calculations
* Including paid leave, public holidays and paid sick leave

3.4 Share of full-time employees among dependent employees by income class



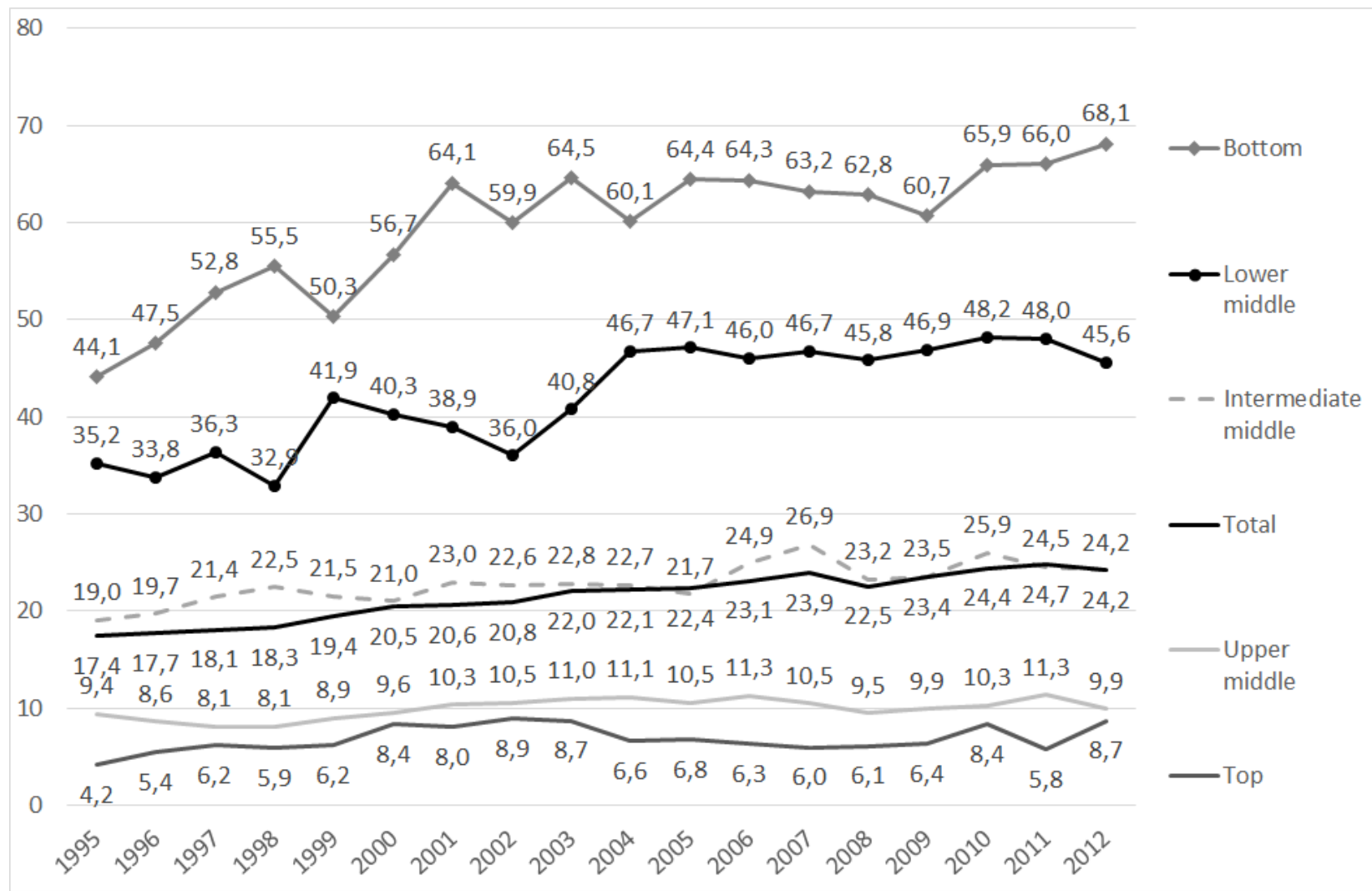
Source: SOEP v30, own calculation

3.5 Share of employees that want to expand their working time, by income class 2011/12



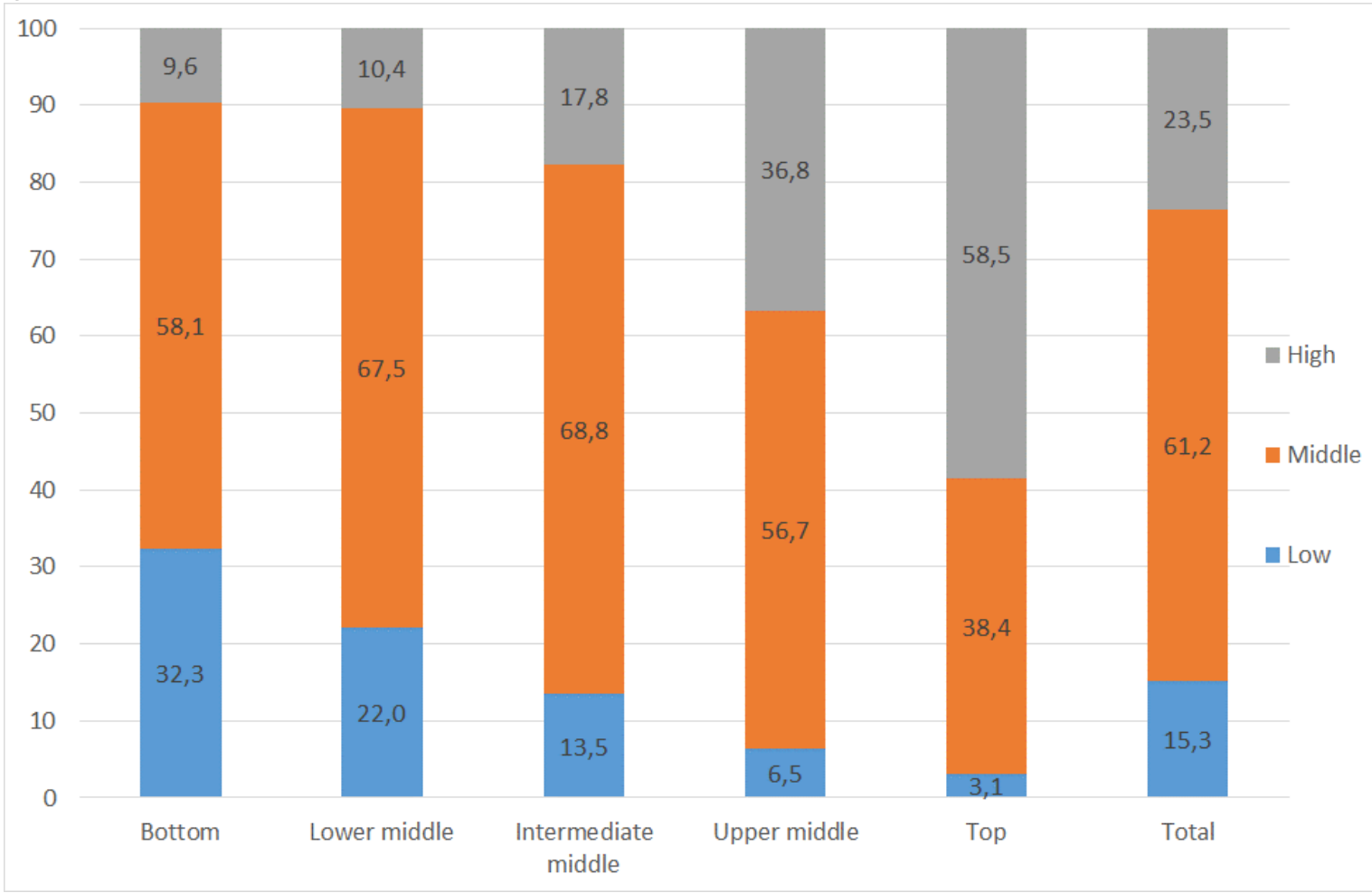
Source: SOEP v30, own calculation

3.6 Share of low-wage work by income class



Source: SOEP v30, own calculations

3.7 Educational level of the head of the household by income class (equivalized post government income of household in the previous year) 2011-2013



Source: SOEP v30, own calculation

3.8 Employment in the different income classes

- High and increasing shares of **singles** and household with **marginal employment** in the bottom and lower middle class
- Longer **annual working hours** in upper middle and top class
- Decrease of annual working time in all classes – especially in the lower classes
- Especially in lower classes **employees want to expand their working time**
- **Low-wage work** especially widespread in the lower classes
- High share of **unskilled** in lower classes – but general increase of skills level in all classes

4.1 Drivers of **falling** middle class standards:

- **Erosion of the inclusive wage system:**
 - Privatization of public services (e.g. public transport, telecommunication)
 - Growth of atypical employment and low-wage work
 - Decreasing coverage of employees by collective agreements
- **Strengthening of old family model** with strong financial incentives to work short hours
- **Reduction of progressive income and corporate taxes:** increased financial pressures on the welfare state
- **Benefit cuts:**
 - Abolition of income-related unemployment aid for long term unemployed
 - Shorter duration of unemployment benefit
 - Reduction of pension levels (effects will show up over the next 40 years)

4.2 Drivers of **improving** middle class standards:

- Introduction of **care insurance** in the late 1990's
- **New family model**: Expansion of child care and all-day schools, paid parental leave, new working time options (from FT to PT and vice versa) – less part-time penalties – longer hours
- **Job miracle in the financial crisis**: reduction of working hours not of jobs, recruitment of apprentices even in the crisis
- Introduction of **Minimum wage** of 8.50 € and facilitation of extending collective agreements
- **Strong job growth since 2004**, especially skilled service jobs

5.1 Conclusions (1)

Middle income classes are shrinking with all measures

- Despite a decline of GNP of 4.9% in 2009 **no effect of the financial crisis on employment**. Redistribution of working hours helped to protect the middle class.
- Pressures mainly from more unequal primary income distribution:
 - **Erosion of the inclusive wage system**
 - **Increasing inequality in paid working hours** between individuals and households
- In spite of higher social benefit ratio and job growth **some but not full compensation of increasing inequality by welfare state**
- **Pressures on welfare state** will increase in economic crisis and in the long run through lower pension levels

5.2 Conclusions (2)

Main policy challenges:

- Reduction of **inequality in the primary distribution** (e.g. by minimum wage and increasing coverage by collective agreements)
- More equal distribution of **working hours** across classes
- Abolition of incentives to work short hours linked with **traditional family model**
- More second earners through **new family model**
- Reduction of share of **low skilled**
- Re-regulation of **atypical employment**

Welfare state should contribute to improve primary distribution through social investments, a new family model and minimum standards for pensions

Thank you for your attention !

References (www.iaq.uni-due.de):

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