

# Chapter 6: The Middle Class in Germany

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In Germany, virtually every person and every political faction believe a sound and stable middle class to be the pillar of social stability. It is deemed an important source of government funding, the origin of innovation and necessary for social justice. Interestingly, the German word for middle class (“Mittelschicht”, which literally means middle stratum) evokes the notion of a layered society and thereby something that might be more permeable than the notion of “class”, which rather suggests a milieu into which you are born.

Several analyses issued by researchers, journalists and editors from different scientific disciplines have vetted the middle class in Germany—with quite contradictory results. While some studies have purported the weakness, shrinking or even disappearance of the middle class, others have underscored its stability. Interestingly, one of the main reasons for the ambiguity of findings is the dynamism behind the development of inequality over the last two decades in Germany, and the fact that incomes are unevenly distributed also within the middle-income class. This chapter seeks therefore to show the ups and downs, explain the most important reasons respectively and have a look at the state of the middle class beyond financial figures.

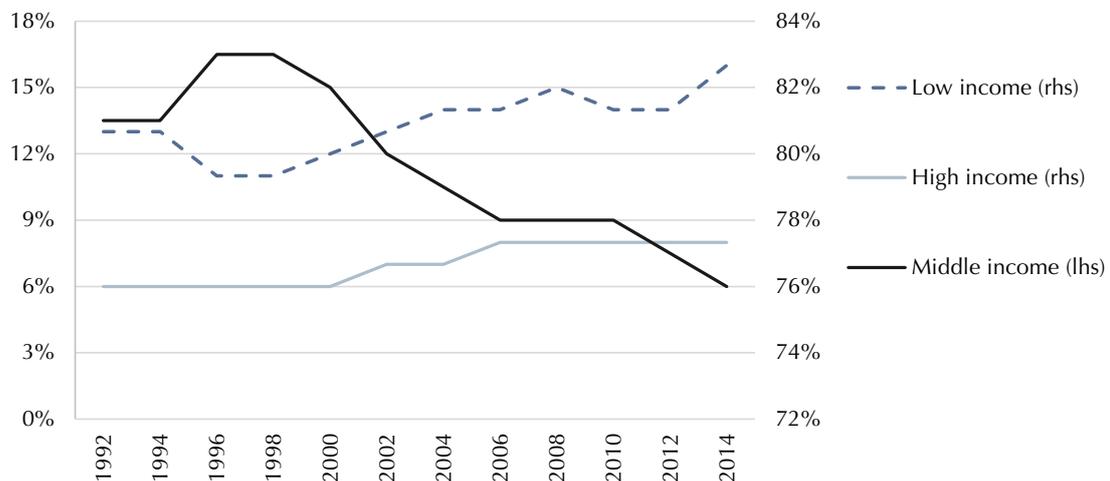
The figures in Table 1 of the overview chapter show that Germany is the largest country in our sample by population and by economic size. Compared to the EU average, this founding member is comparably well-off and has the lowest unemployment rate in our sample of countries. Yet, this has not always been the case: In 2005, Germany was cast into economic paralysis: the unemployment rate was around 13%. By starting in 2007, Figure 5 misses that peak level of unemployment. Since 2005, four million jobs have been added to the economy (German Ministry of Labour and Social Affairs, 2017, p. XI).

So, how well has the middle-income class fared in the last decades? What we know about the middle class in Germany is buttressed by relatively comprehensive information, since household data in Germany are comparably exhaustive and of good quality. There are different data sources that are well suited for analysing the middle class. The best and most prominent source is the German Socio-economic Panel study (GSOEP), featuring over 10,000 households and yearly information on every income type of any household member without top-censoring income (as e.g. in EU-SILC). Further interesting information on the financial situation of the middle class comes from information on household wealth every five years (e.g. 2007 and 2012).

This chapter uses earlier work in Arndt (2012) and Arndt (2015) (both of which are in German) to explore in detail how the middle-income class is doing in Germany. After summarising relevant developments over the last decades by commenting on the results in the overview chapter, I add insights from recent data and different non-financial perspectives on the middle class in Germany.

## 1. The income perspective

Figure 1 shows the evolution of the size of the middle-income class in Germany between 1992 and 2014, and the share of low- and high-incomes. High incomes are those with more than double the median net equivalent income (€ 1,640 per month in 2011).



**Figure 1: Population share of income classes in Germany 1991-2014**

Income classes are defined as equivalised household income, relative to the median. The black line has the income share of the middle-income class, between 60% and 200% of the median. The blue line has the share below 60% of the median (right-hand axis). The grey line has the share above 200% of the median (right-hand axis). Source: German Ministry of Labour and Social Affairs (2017), GSOEP v32.

From Figure 1 we observe that middle-income share has shrunk since the early 2000s. Based on equivalised net household income, about 76% of the total population in 2014 belonged to the middle-income class. In the 25 years since reunification in 1990, that share has declined by 5 %-points. This loss has gone in equal parts to the “rich” and to the “poor”: 2 %-points of the reduction can be accrued to the growth of the share of the well-off, and 3 %-points to those with a higher at-risk-of-poverty ratio.

A closer look at the development reveals four different time spells:

- 1991-1999: a slight “widening” of the middle-income class in the years after reunification

- 1998-2006: a strong “contraction” of the middle-income class of about 5 %-points in eight years (as large as the decline over the total period)
- 2007-2011: a period of “stability”
- 2011-2014: a slight contraction of the middle-income class

Recent research in preparation for the Fifth German Poverty and Wealth report has found different reasons for these movements of income inequality in Germany (see e.g. IAW 2015a). The main reason for the hefty contraction of the middle class between 1998 and 2006 was the rise of unemployment, which climaxed in 2005. Diverging wages on the labour market, and a tax reform in the beginning of the millennium exacerbated income inequality during that time.

The so-called “tax reform 2000”, which took effect in 2001, brought with it among other things a redesign of the shape of the progressive tax rate. The reform was intended to benefit all income levels, although micro simulations show that benefits for higher incomes have outpaced those for lower incomes. For low-income households, the reform increased the cut-off point for tax exemption (so that more of the lower incomes were tax-free) and reduced the lowest marginal tax rate that applies to the incomes just passing this cut-off (from 25.9% to 15%). Higher incomes also profit from these changes of course, and with a reduction in the top rate, from 53% to 42%, the tax reform increased inequality in terms of net incomes; see, for example, Biewen and Juhasz (2012). The reform led, moreover, to a slight squeeze of the middle-income class.

The period of stability after 2006 was initiated by the implementation of the final stage of the so-called “Hartz” labour market reform in 2005; see e.g. Engbom et al. (2015). The reforms reduced social benefits and increased incentives for the unemployed to re-enter the labour market. It was successful in the sense that unemployment declined and long-term unemployment almost halved, from 1.7 million in 2007 to below 1 million in 2016. However, the reform reduced the “size and duration of unemployment benefits considerably and made them conditional on tighter rules for job search and acceptance” (Engbom et al., 2015). Both effects (the decline of unemployment and lower income levels for the unemployed) apparently set off their opposite impacts on income inequality. Interestingly, the last stage of the reforms has often been blamed by common wisdom as the culprit behind the increasing inequality that we observed until 2005. Yet, as can be easily seen in this case, the cause cannot come after the effect.

Demographic developments are another source of the increased inequality in Germany. At a population growth of 2.6% between 1991 and 2008, the number of one-person households increased by 33%. The number of households with at least three persons decreased; see Peichl et al. (2011). For the situation of a household with children, the decrease in household size has a positive effect on equivalised income,

since the total income is shared among fewer members. However, if the decline in size comes from a reduction in income-earning members, the effect on equivalised income is negative, as fewer members contribute. For Germany, it is the rise in single-person households that is the driving factor behind increased inequality in market incomes; see Peichl et al. (2012).

Redistribution bolsters the middle-income class in Germany. Even though German media tend to blame the tax system for squeezing the middle class—and notwithstanding our finding about the effect of the tax reform from 2000—simulations show that redistributive policies such as progressive taxes, social benefits and transfers soften the inequality in net incomes in Germany. This redistribution also benefits the middle class, which would be far smaller without redistribution. Table 1 gives the effect of redistribution on population shares of the different income groups.

From Table 1 we can deduce that the share of people that earn between 60% and 200% of market income (i.e. before taxes and transfers) is just 48%, which is 30 %-points lower than the size of the middle class with regard to net equivalised income (78%).

**Table 1: Impact of redistribution on the middle-income class 2011-2013**

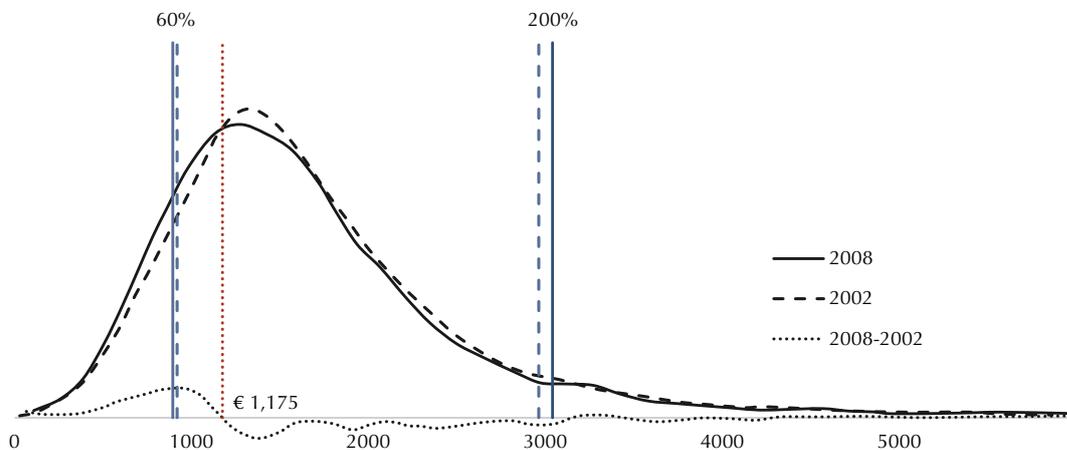
Source: Own calculations with data from Bosch and Kalina (2015) that used GSOEP v30.

Income group (relative to median income)	Group size (pre- redistribution)	Group size (post- redistribution)	Group size difference (percentage points)	Effect of redistribution (relative change of group size)
Below 60%	17.2 %	8.0 %	-9.2 pp	- 53.5%
60% – 80%	24.0 %	26.5 %	2.5 pp	+ 10.4%
80% – 120%	16.6 %	33.6 %	17.0 pp	+ 102.4%
120% – 200%	7.4 %	17.7 %	10.3 pp	+ 139.2%
Over 200%	34.7 %	14.2 %	-20.5 pp	- 59.1%

Moreover, Table 1 also shows that redistribution is centred at the median net income level. Households that have more than the median net income are net contributors. Households below median net income are net recipients. This means that any broad middle-income concept will comprise net transfer payers as well as net transfer recipients, potentially causing the former to feel somewhat squeezed. Thus, the German tax system may well “squeeze” households on the upper levels of the middle-income class, but it does not squeeze its population share. Even more, redistribution has a stronger inequality reducing impact in Germany than in other countries (Arndt 2012, p. 56).

Analyses of the population-share of the middle-income class fail to tell the full story of what happens on different income levels within the middle class. Insight may come from so-called empirical density functions that show the frequency of incomes (more

specifically, how “densely” different sections of income are populated). These functions show that incomes have indeed evolved quite differently within the middle class in Germany. Figure 2 compares income densities of 2002 (solid black line) with those of 2008 (dashed grey line). The curves indicate the density of incomes at different levels. The higher the line, the more people dispense of the respective net equivalent income. The dotted line gives the differences of densities between 2002 and 2008. Apparently, net equivalent incomes have become denser in the area below €1,175, which is still within the 60% cut-off point of our definition of the middle class. That means that more people have moved towards the lower end of the middle-income class. The area around the median has thinned out. Hence, inequality within the middle-income class has increased.



**Figure 2: The shape of the income distribution in Germany 2002-2008**

Kernel density estimations of the income distribution in terms of monthly equivalised income, in 2005 prices. Solid line for 2002, dashed line for 2008, dotted line for the difference. Source: Arndt (2012).

Figure 2 shows why assessments of the middle-income class also hinge, at least in Germany, on the choice of cut-off points (or the “width” of the middle class). The narrow middle-income definitions with 75% and 200% that were chosen in the overview chapter reflect developments around the median income, where density has diminished in Germany. Those measures consequently lead to higher loss-figures (see Figure 2 in the overview chapter) than do wider concepts.

The background to the development of market incomes in Germany, and indeed part of the country’s economic success, is an implicit employer-employee consensus backing the containment of wage growth in exchange for job certainty, a process that started in the middle of the 1990s (supposedly as a reaction to fears of outsourcing jobs to the recently opened labour markets of neighbouring countries in the East). However, this informal consensus resulted in stagnant real household incomes, also for the middle-income class: real net median equivalent income in the middle class (at

€1,690 in 2012 prices) did not increase between 2002 and 2012. Stagnating real wages were accompanied by a declining importance of regional wage-bargaining schemes, which tend to buttress wage levels. Whereas in 2000 roughly 70% of all employees were covered by a regional bargaining scheme, this figure fell to 59% in 2015. Regional bargaining schemes apply mainly to large and median firms; one way to circumvent them was to outsource certain tasks to mainly smaller firms (e.g. in the services sector), for which those bargaining schemes were not binding.

Recently, wages have started to grow again. In 2015, nominal wages increased by 2.7%, leading to more or less stable disposable household incomes (see Figure 3 in the overview chapter). The introduction in 2015 of a minimum wage in Germany contributed to wage growth on the lower income range (e.g., by on average 4.1% for untrained workers).

A further German characteristic is the strength of the manufacturing sector. This historical bulwark of the middle-income class (actually, a conveyor belt for workers earning upper middle-class wages) may well have led lately to an increase of wage inequality. Whereas in 2015 nominal wages grew by 20% in manufacturing industries, where wages tend to be relatively high already, nominal wages increased by only 15% in services (Fifth German Poverty and Wealth Report, p. XII), where wages are lower on average.

In Germany, the middle-income class represents about 74% of total net income, which is close to its population share. Despite wage moderation, incomes in the middle class have not fared badly in comparison to the other income levels. Since 2002, this income share of the middle class diminished by 4 %-points, which is equal to the reduction in population share.

Finally, with regard to the wealth distribution, the middle-income class owns roughly 68% of all net household wealth in Germany. Seemingly unharmed by the financial crisis, this figure has stayed almost unchanged between 2002 and 2012. Household wealth is more concentrated than incomes: The 10% wealthiest people in Germany dispose of about 56% of all positive net household wealth. Based on households' self-appraisal in the GSOEP survey<sup>1</sup>, net wealth did not increase between 2002 and 2012, neither in general nor for the middle-income class. The positive message from this result may be that middle-income class wealth has not plummeted in the financial crisis. Within the middle-income class, the Gini coefficient of individual net wealth is 0.74 – at a similar level as for the whole of Germany.

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<sup>1</sup> Household data on wealth are comparably good for Germany. Yet results regarding the development of wealth differ starkly between micro data (from surveys) and macro data (from National Accounting). Whereas micro data show a decline of net wealth in the last decade in Germany, macro data show growing aggregated wealth. Reasons for this divergence are not yet clear. The ambiguity of the results, however, shows the difficulty of wealth appraisals, especially real estate.

## 2. Non-income-related perspectives

### **The affordability of housing**

56.6% of households in the middle-income class own a house (i.e. at least one house), a figure only slightly higher than in the total population. Due to low interest rates, however, this number climbed slightly between 2007 and 2012. Moreover, real estate is the most important asset in the wealth portfolio of middle class households in Germany: almost three quarter of their wealth is in real estate (predominantly the self-owned house). At the same time, over 40% of households in the middle class are tenants and depend on the rental price development.

House prices in several cities have soared, which has had an impact on rents. Net rental prices surged—as much as 19% in Bavaria but only 3% in Saxony —between 2005 and 2016. Rental rate surges are much higher in cities than may be suggested by these average figures for German states. Acknowledging the problems that high rents pose for households, the German government has tried to alleviate this by reforming the tenancy law (labelled as a “rental price brake”).

### **Family stress**

Stress on individuals and families may appear in different ways. Stress in the middle class may be caused by the need to work (e.g., as double earner households), and might be made manifest in anxiety or even mental illnesses.

In Germany, 58% of mothers are in the workforce, whereas this number is 84% for fathers. Labour participation rates of mothers differ with regard to the age of the children: they are lowest (around 32%) for women whose youngest child is not older than three years. But labour participation is almost double as high if the youngest child is between three and five years old (see Datenreport, 2017). In general, many women take a break from work when starting a family and return to the labour market only when the children are older. The labour participation of mothers with young children is higher in the East than in the West.

For households with children and where both parents work, 74% choose the “traditional” way of earning: the father works full-time and the mother part-time. In 21% of cases, both work in the workforce. In only 5% of these households is the father the one who works part-time.

Labour participation is closely linked to the availability of childcare. The extension of early childcare is an important topic in debates in Germany. In 2007, it was decided that, until 2013, there should be childcare available for 35% of all children under three years of age. Since 2013, children are even legally entitled to public childcare. Currently, around 33% of all children under three years use public childcare. Rates differ considerably between areas (Datenreport, 2017).

Family stress may be manifested in anxiety, and results about anxiety in the middle-income class are ambiguous in Germany. Schöneck et al. (2011) differentiate between short-term fears and longer-term concerns of economic and social descent. They find that short-term risks dominate in the lower social status groups. But pessimistic views of the longer term future are widespread also in the middle class. Groh-Samberg und Hertel (2010) estimate, however, that the rate of anxiety in the middle class has not increased faster than in the other social strata. For a more detailed discussion, see also Arndt (2012).

Different studies find that social status is related to health in Germany. In general, young adults with low educational attainment or low social status tend more often to be overweight, smoke more and participate less in preventive health measures (German Ministry of Labour and Social Affairs, 2017). Young people lacking a school certificate or having a certificate from the lower tier of secondary education less often report a good or very good health status.

Jacobi et al. (2014) show, with data from the Mental Health Module of the German Health Interview and Examination Survey for Adults, that the prevalence of diagnoses of mental disorders (i.e. meeting criteria of at least one mental disorder during a 12-month time period) correlate with socio-economic status. Dominant among those disorders were anxiety (15.3%), mood disorders (9.3%) and substance-use disorders (5.7%). While previous differences in mental health between East and West Germany have diminished, differences between social statuses remain: mental health issues are less often in the middle (28%) class than in lower socio-economic status (38%), but more often than in higher socio-economic strata (22%).

Mental depression also goes hand-in-hand with social status: the rate of depression is estimated to be 14.4% among people with low social status, but below 7% for people with middle- and high social status (see Lampert et al. 2016). Overall, Lampert (2013) reckons that health inequality has not decreased in the last ten to 20 years, and that socio-economic differences in health may even have increased.

### **The labour market**

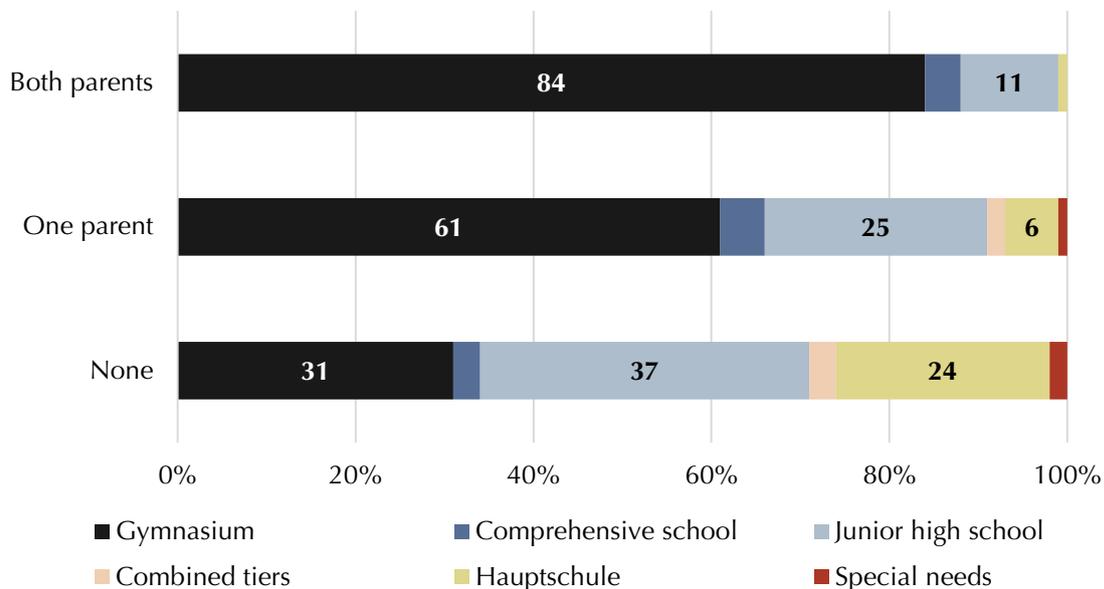
Unemployment in Germany has diminished considerably in the last decade. The number of unemployed has decreased from 4.9 million in 2005 to 2.7 million in 2016. The unemployment rate in 2016 was 6.1% (Federal Agency, 2017).

A study by the OECD shows that the employment rate has reached a level of 66% of the population and is higher than the OECD average of 61%. Based on a new measure of job quality, OECD (2017) finds that earnings quality is high and that labour market insecurity is low in Germany compared to the OECD average. Also, the expected monetary loss associated with becoming and remaining unemployed, as a share of previous earnings, is relatively low. Finally, the German labour market has become more inclusive, but gender labour income gaps stay high.

Together with the figures for overall unemployment, long-term unemployment has also declined. The number of long-term unemployed (1.7 million in 2007) decreased to below one million in 2016. Long-term unemployment as a share of total unemployment declined from 46% in 2007 to 37% in 2016. Finally, OECD (2017) finds that Germany, where 45% of workers report experiencing job strains, has a higher share of jobs with excessive job stress compared to other OECD countries.

**Social Mobility**

A recent study commissioned for the 2017 German Poverty and Wealth Report (IAW 2015b) finds that the permeability of the society with regard to educational attainment has improved. Especially lower societal positions have become less sticky over generations. Nevertheless, family background and educational attainment are still closely linked. Background is the three-tier system of Germany’s secondary education system, which starts in the 5<sup>th</sup> grade: The lowest tier qualifies for vocational training (Hauptschule). Only the highest tier (Gymnasium) qualifies immediately for university entrance. Figure 3 shows that the offspring of parents with higher educational attainments more often choose or are chosen for higher tiers when they enter secondary education. For example, only 31% of the kids whose parents have no university entrance qualification choose the highest tier of the secondary level, compared with 84% of the kids that choose the highest tier, when both parents have a university entrance qualification.



**Figure 3: Educational outcomes for number of parents with university entrance qualification**

Source: Own graph with data from IAW (2015b), S. 33. NEPS data.

Climbing the social ladder from a middle position to higher rungs has lately become more difficult. Whereas 17% of the people born between 1970 and 1987 achieved the rise from a middle job or educational status to a higher one, this had been achieved by 32% of those born between 1944 and 1959 (German Ministry of Labour and Social Affairs, p. 241). The greater part of this mobility is due to changes in the employment structure. For example, vocational training, which served for years as a ticket to the middle class, no longer guarantees incomes higher than those earned by untrained workers. Netting out changes in the employment structure, however, it is clear that social mobility over generations has improved (see Datenreport 2016, p. 216).

### **Generational issues**

Typically, earnings increase over the career of a working life and then drop when people enter retirement; that is, average income follows an inversely u-shaped curve over the lifetime. Hence, relative income poverty is highest for the youngest adults. Richness rates increase until retirement age, and begin to drop thereafter. Consequently, the share of people belonging to the middle-income class increases over age groups (see e.g. Niehues, 2017).

### **Regional differences**

There is a high degree of regional dispersion in Germany that prevails in different dimensions. The enormous economic disparities between East and West from the 1990s have been mitigated since unification, but do still exist. About 60% self-identify with the middle class in the West, whereas working class ideals had been promoted during the communist time of the German Democratic Republic. Consequently, the share of people that self-select into the middle class in the East grew during the process of the transition from less than 40% in 1990 to more than 50% in 2010.

New disparities appear, especially between rural and metropolitan areas, a process that is being fuelled by demographic change. While house prices soar in metropolitan regions, they have declined in many rural areas.

### **Household composition**

Compared to single households, couples without children and single parents, parents with children establish the largest household type. Couple households, with or without children, are the household groups with highest middle-income class prevalence compared to the other two groups, as Niehues (2017) shows.

### 3. Household perceptions

Estimations of the size of the middle class that are based on questionnaires in which people have to self-identify with the middle, typically point at a large middle class. In West Germany, the share of people self-identifying with the middle class grew from 69% in 2000 to 75% in 2014 (see Datenreport, 2016, p. 207). In East Germany, the level of identification with the middle class was traditionally much lower than in the west, due to differences in the political system before the fall of the iron curtain. Nevertheless, growth of the middle class, as reckoned by self-identification, has been higher in the East than in the West (from 48% in 2000 to 62% in 2014).

Despite this increase of self-perception of belonging to the middle class, the perception of overall growth of inequality is widespread. For example, 44% of interviewees stated in 2015 that they considered that income inequality had increased considerably in the previous five years (German Ministry of Labour and Social Affairs, 2017, p. 108). Other surveys, in contrast, find that more than 80% of the population sees its expectations regarding material living conditions as being met.

One explanation for the dichotomy between the data and perceptions might simply be a result of the business cycle and the memory of high unemployment. Lengfeld and Ordemann (2016) show that the fear of losing status in the middle class is anchored to the business cycle: Anxiety increased from the 90s to 2006 and fell thereafter. The level of anxiety in 2014 was again at par with that of 1991. The rise and fall of anxiety occurred in both the lower and the upper classes.

### 4. Political representation

The middle class traditionally forms the most important electorate of the centre-left and centre-right political parties. The turnout of the middle class has traditionally been high, but has slightly weakened in the last twenty years. In 1994, 94% of middle class members voted in national elections. This figure fell to 86% in 2013. In the last federal election of September 2017, turnout increased overall, and eligible voters from lower social status groups turned out in greater numbers than before.

As in some other countries, Germany has experienced the rise of a right-wing political movement. In the national elections of September 2017, the populist "Alternative für Deutschland" (AfD) party succeeded in entering the German parliament. The party won 12.6% of the votes and gained 93 out of 709 seats in the German Bundestag. For the first time since the 1950s there are seven parties in the German parliament.

The AfD was founded in 2013 by liberal-conservative economists, mainly to oppose federal policies towards the Euro. In the federal elections of 2013 it still missed the

threshold of 5%. Thereafter, the party changed into a populist, xenophobic and refugee-unfriendly party.

The most prevalent hypotheses that explain the success of the AfD are xenophobia, dissatisfaction with the political system and the parties, as well as the feeling of being left behind. A comprehensive explanation for its rise is probably a combination of all of these.

One important source of information is an immediate exit poll after the elections, established by the public service broadcaster ARD and the polling institute Infratest Dimap. First, the exit poll shows that AfD's success in the East (20.5%) is twice as high as in the West (10.7%). Second, the AfD is the only party where disappointment about the system in general outweighs belief and conviction for the program of the party itself: 61% of AfD's voters claimed to have voted out of general disappointment, and only 31% because of being convinced of the party program. This shows that the AfD is an established protesters' party. The most important policy themes for AfD voters, according to that exit poll, are three fights: against terrorism, against crime and against the immigration of refugees.

Third, the poll shows that the AfD is the only party in Germany whose voters prefer "national borders" over "being a country open to the world". This alludes to the party's nationalistic and foreigner-unfriendly tendencies.

Finally, the voters distribute more or less evenly between age groups. Interestingly, votes were especially frequent among the unemployed (21% of these voted for the AfD) and workers (21%). Votes among men in East Germany were 25%.

Vehrkamp and Wegschaider (2017) recently analysed voting patterns in different social milieus. They applied a social and target group model that had been developed by the German market researcher Sinus. Originally, these milieus were designed for the analysis of lifestyles and values in order to differentiate target groups for marketing goals. They are intended as maps of the socio-cultural diversity along two dimensions: social status and values. In the one dimension, it allows differentiation between lower, middle- and higher social status. In the other dimension, values span from "tradition", over "modernisation & individualisation", to "re-orientation" (see e.g. [www.sinus-institut.de](http://www.sinus-institut.de)).

The study by Vehrkamp and Wegschaider finds that 14% of voters in the milieu belonging to middle status voted for the AfD. This indicates that the middle class is not more or less inclined towards the AfD than German society itself. But in the so-called "New Middle Class Milieu" (in German, "Bürgerliche Mitte", a very narrow definition of the middle that comprises 13% of the total population), 20% voted for the AfD. Sinus defines this "New Middle Class" as "Mainstream civil society with the will to achieve and adapt: General proponents of the social order; desiring to become established at a professional and social level, seeking to lead a secure and harmonious

existence; a growing sense of being out of their depth, fear of social demotion” (see Sinus, 2015).

Still higher was the AfD share of votes with 28% in the so-called “Precarious milieu”. The Precarious milieu is described as “Desire to keep up with the consumer standards of the broad middle classes—but faced with ever more social disadvantages, a sense of exclusion, embitterment and resentment”. This shows that voting for the AfD is strongest only in some parts of the middle class and especially in the Precarious milieu—supposedly in strata who fear social demotion, who feel that they may be left behind, are who are faced with social disadvantages, fear exclusion and turn out to protest.

## 5. Globalisation, technology and migration

A strong labour market and comparably low youth unemployment are currently ploughing the soil for a healthy and stable middle-income class in the nearby future. Firms in Germany are benefitting from the growth of global markets, especially economic development in Asia. A high overall productivity, buttressed by the above-mentioned conservative wage development and an export-friendly Euro-exchange rate, secures high worldwide competitiveness. Technological change will open new opportunities but will also raise enormous uncertainty on large industries, especially the automobile industry, with its focus on the combustible engine, where wages are high and the middle class is at home. But roughly three quarters of German automobiles are exported. About 800,000 people work in the large car producers or their suppliers, and many more are directly or indirectly dependent on the car industry. A shift towards the electric motor might decrease the complexity of value chains and function as an employment shock for suppliers.

Demographic change will strongly impact the distribution of income between economically active people and retirees, when the German baby-boomer generation, born around 1965, enters retirement age. Given current birth rates, only technological change or qualified immigration will be able to mitigate the enormous undersupply of labour. Machines and artificial intelligence may offset some of the pressure on the labour market, but companies will have to pay enormous sums to engineers with the knowledge to produce these machines and code the software.

In this environment featuring constant change and volatility, and characterised by the ambiguity of challenges and opportunities, many people wonder if they will belong to the future winners or losers. Now add to the mix global political insecurity and the uncertainty resulting from the influx of refugees. Whereas many Germans are socially engaged and have become active volunteers for integrating and helping refugees, especially in the densely populated areas where many refugees are placed,

some fear the unknown, especially in the less densely populated areas in the East (where fewer refugees are placed). Many envy the social transfers that are aimed at the refugees.

## 6. Conclusion

The 60s and 70s brought economic growth and global competitiveness to Germany. They helped to build a broad middle-income class with comparably high levels of income equality in Germany. Vocational training and a blue-collar job used to put workers into the middle “class”. But over time, incomes have become more unequal, even though redistribution is well at work in Germany. The factors behind this development were mainly demographic change towards smaller households, divergence of wages, and rising unemployment until 2005. As a consequence, the population share of the middle class diminished.

For the time after 2005, the data show a stable development of the middle-income class. Moreover, more and more people self-identify with the middle class but claim to witness increasing inequality. Especially extreme wealth and precarious poverty are not covered by the typical household surveys that are used to calculate the middle-income class figures. Nevertheless, the extremes have become more salient and find their way into the media. Some important social groups, notably single parents and the unemployed, have to cope with comparably very low incomes. Technological change and demographic developments open up new possibilities but also pose enormous challenges. The consequences for the middle class remain to be seen.

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