

The evolution of income inequality in Germany and Switzerland since the turn of the millennium

Ursina Kuhn¹ and Markus M. Grabka²

This paper presents and compares trends in income inequality in Switzerland and Germany from 2000 to 2009 using data from the Socio-Economic Panel (SOEP) and the Swiss Household Panel (SHP). Not only are the two countries neighbors; they also share many similar economic, social, and cultural characteristics. Furthermore, the harmonized data in terms of the data structure and definitions allows a detailed comparison of income inequality, which is still rare in literature.

Whereas in Germany inequality has increased substantially from 2000 to 2009, in Switzerland inequality in market incomes has increased only marginally and inequality in disposable incomes has decreased slightly. According to recent figures from the year 2009, income inequality in disposable household income is lower in Switzerland than in Germany.

We discuss economic factors, policy measures, and demographic factors which could explain these differences between the two countries. First, economic indicators such as globalization, technical progress, and sectoral change, are very similar and thus cannot explain the differences. But an important factor is the much higher labor market participation in Switzerland which results in a more equal market income. Second, by distinguishing income sources, we can estimate the role of the government redistribution of market income. We find that whereas government redistribution decreased in Germany, it increased in Switzerland. Finally, the decomposition of inequality according to demographic groups reveals the effects of Germany's slightly older population and smaller household sizes, as well as the impact of educational expansion and government redistribution.

¹ Swiss Household Panel, FORS, c/o Université de Lausanne, Bâtiment Vidy, Lausanne, Switzerland, Tel.: 0041 21 692 37 22, ursina.kuhn@fors.unil.ch

² DIW Berlin / SOEP, Mohrenstrasse 58, 10177 Berlin, Germany, Tel. 0049 30 89789 339, mgrabka@diw.de