

# **Rising Wage Inequality in Germany. Winners and Losers of the Income Dynamics between 1985 and 2006**

## *Authors*

Dr. Johannes Giesecke  
Social Science Research Center Berlin (WZB)  
Reichpietschufer 50  
10785 Berlin  
Germany

Tel.: ++ 49 030 25491 527  
Fax: ++49 030 25491 514  
Email: [johannes.giesecke@wzb.eu](mailto:johannes.giesecke@wzb.eu)

Dr. Roland Verwiebe  
University of Hamburg  
Institute of Sociology  
Social Science Research Methods  
Allende-Platz 1  
20146 Hamburg  
Germany

Tel.: ++49 40 42838 3234  
Fax: ++49 40 42838 2499  
Email: [roland.verwiebe@uni-hamburg.de](mailto:roland.verwiebe@uni-hamburg.de)

## **Rising Wage Inequality in Germany. Winners and Losers of the Income Dynamics between 1985 and 2006**

### *Abstract*

In contrast to the development in the US and Great Britain, wage inequality in Germany remained fairly stable throughout the 1980s and 1990s. Many commentators attributed these differences to the high degree of labour market regulation found in Germany, which (inter alia) are believed to result in an inflexible wage structure. Against that background, this paper discusses changes in the inequality of gross and net *wages* between 1985 and 2006. For the empirical analysis, the longitudinal data from the German Socio-Economic Panel (GSOEP) are used. The main focus of the analyses is to identify differences in the growth of real wages of various occupational classes. Both economic and sociological theories suggest that wage inequality has increased and that this increased happened along the lines of existing class differentials.

The empirical analyses are based on a) descriptive measures of the development of wage inequality amongst blue- and white-collar workers b) regression analyses of individual and structural determinants of wages for the mid-1980s, the mid-1990s and 2006, as well as c) a decomposition analysis of the changes in wage inequality between 1985 and 2006. The latter technique allows one to draw a distinction between changes that are due to changes in the underlying price effects (wage differentials between groups), changes in the composition of the work force, and changes in the residual (or intra-group) wage differentials.

The results show that, after a period of relative stability, the distribution of wages has become more unequal since the mid-1990s. This holds true for both gross and net wages. As indicated by the empirical results this increase is due to the negative growth of lower-level wages and a corresponding increase in median and higher-level wages. A more detailed look at the wage differences with respect to the individual social class position reveals that the differentiation between social classes (measured by the EGP-scheme) has widened over the period in question, leaving lower classes as losers of the recent wage dynamics in the German labour market. Besides increasing inter-class wage differentials, there was also a slight increase in the intra-class component, pointing to a growing differentiation within social classes.