

Declining labour market inequality but rising household income inequality - Understanding changes in the German income distribution 2014/15 to 2020/21

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Abstract. This paper investigates changes in the distribution of equivalized household net incomes in Germany from 2014/15 to 2020/21. We observe substantial real income gains across most of the distribution, particularly in the middle, while growth at the bottom was significantly weaker. To understand these shifts, we isolate the distributional impact of a comprehensive set of factors. As in some other countries, the trend of rising household income inequality contrasts with a pronounced decline in wage inequality over the same period. However, we show that real wage gains were distributed across the distribution of household net incomes such that mostly the middle and the top of the distribution gained. The bottom did not benefit much from higher wages due to lower employment levels. In contrast, the lower end of the distribution experienced significant gains from increased pension payments, which are tied to aggregate wage growth in the German system. Compared to wage growth, additional full- and part-time employment played a more modest role for changes in the distribution between 2014/15 and 2020/21. Employment gains primarily benefited households in the lower middle but had little effect on those at the very bottom. Overall, income growth at the lowest end of the distribution remained muted, not only due to weaker wage and employment effects but also as a result increasing immigration. There is little evidence of any effects of the pandemic on household incomes.

Version: 27 February 2026

JEL-Classification: C14, D31, I30

Keywords: earnings inequality, income inequality, poverty

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Acknowledgements: The authors want to thank Paula Roth for excellent research assistance. This study is part of a series of research projects contributing to the Seventh Report on Poverty and Wealth by the German Federal Ministry of labor and Social Affairs. Financial support of the German Federal Ministry of labor and Social Affairs is gratefully acknowledged. We thank Rolf Kleimann for many helpful comments.