Decomposition of Changes in the German Income Distribution: Evidence from Microsimulation

By ROBIN JESSEN*

To assess the impact of various factors on changes in the Gini coefficient in Germany from 2004 to 2011 I simulate counterfactual distributions and calculate the marginal contributions by applying the Shapley-Shorrocks decomposition as suggested by Bargain (2012). I add to the literature by enhancing the method by estimating the effect of changes in prices in the labor market and their behavioral response in addition to the marginal contributions of policy reforms and their behavioral response as well as population changes. The effect of taxes and transfers is estimated using the STSM tax and transfer microsimulation model, the effect of wage changes is obtained by running wage regressions and predicting counterfactual wages. Labor supply responses are estimated through a random utility discrete choice model. Using data from the Socio-Economic Panel (SOEP), I find that recent tax reforms have led to an increase in inequality. In West Germany, this has largely been offset by behavioral responses. Changes in labor market prices have led to a decrease in inequality, in West Germany equally through the static and the behavioral effect, in East Germany only due to the static effect. The increase in inequality over the analyzed time span is found to be largely due to other changes in the population, such as changes in other sources of market income.

* Freie Universität Berlin, School of Business and Economics, Boltzmannstraße 20, 14195 Berlin; E-Mail: r.jessen@fu-berlin.de

References