

Real income growth in Germany: Which income groups benefited most?

A frequently cited result derived from the SOEP suggests that the poorest two quintiles of the German population had hardly experienced any real income growth since the reunification, and in addition, they did not benefit from the recent positive economic development in Germany. It should be noted, though, that the lowest two quintiles at the time of reunification hardly coincide with the lowest two quintiles nowadays. The composition of deciles can have changed for three different reasons: First, the underlying population may change due to migration and life cycle effects. Besides these real changes of the represented population, the sample of the SOEP may also change on account of subsequently adding extra subsamples which focus on specific parts of the population (migration sample, low income families etc.). Finally, even if observing a completely balanced panel, the composition of deciles may vary due to income mobility between deciles. In the paper, we investigate the importance of these three effects to explain observed real income development. The preliminary results suggest that negative real income development turns into a positive development for all income groups if a) the integration of additional subsamples is controlled for and b) if the analysis is restricted to balanced panels of longitudinal five-year periods. Nevertheless, even when analysing a balanced panel, recent real income growth for the lowest income decile is significantly lower than for all other income groups. This is, however, less due to stagnating incomes of respondents remaining in the lowest decile at all time points but rather due to a changing composition of this income group and thus, due to descending households with very low incomes.

Authors: Judith Niehues and Carsten Schlieper