

Inequality and Unemployment in Germany: Perception and Reality*

By Michael Hüther** and Judith Niehues***

Abstract

Data for the time before the corona pandemic reveal a largely positive picture of the economic and social development in Germany. Most individuals perceived their own situation as very positive, but their views on society are rather pessimistic and overly critical. Contrasting abstract redistributive preferences with prevailing norms of justice reveals further inconsistencies. Thus, it is increasingly unlikely that policymakers can adequately address the concerns and wishes of the population. The pronounced discrepancy between empirical findings on distributional aspects and citizens' perceptions constitutes a veritable problem for democratic processes. That is because this discrepancy is the basis for mistrust between citizens (principals) and politics (agents). Therefore, it becomes increasingly important that politicians explain the logic of their actions in an understandable way. An important prerequisite for more communicable politics is a comprehensive infrastructure for research data that enables politicians, the media, and the public to make valid assessments.

JEL Codes: D31, D63, P16

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1. Social Justice in the Modern World: Key Word and Political Power

Modernity dawned two hundred years ago as a great promise. The “type ancient” crises (Abel [1974] 1986; Plumpe 2010) which reflected the Malthusian view that

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permanent population growth is not possible because of a lack of capital formation and productivity gains in an agricultural world were now history. The last crisis of the old world was an agricultural crisis in Germany in the 1820s that caused hunger riots. The new type of crisis was shaped by the economic cycle, which included the expectation the crisis would disappear on its own, and that this kind of economic crisis was transitory. The formation of capital has caused enormous increases in income per capita over the past two centuries. These increases have been more evenly distributed because of the impact of labour unions and labour disputes, among other social and political changes. Welfare systems in Germany began in 1881 with the *Kaiserliche Botschaft*. Since then, the state has taken an ever-larger role in the growth of income and in organising redistribution.

In the Federal Republic of Germany, the social budget – as a measure of government intervention in the distribution of income and wealth – has been roughly stable relative to the gross domestic product since the mid-1970s (Fuest and Pimpertz 2006; Pimpertz 2015). This is in contrast to the early phase of industrialisation, when, to alleviate elementary hardship, basic instruments like social aid were used in an environment of expansive economic development. Social insurance provided coverage for major risks to income and prosperity. Today the welfare state is well developed, and attempts are being made to deal with all situations of need and threats to income, *i. e.*, not only to cover basic needs but to ensure social participation. The original attempt to provide help in times of need has turned into a comprehensive promise to ensure a position of prosperity against the perils of life. Together with a progressive income tax, this has pushed the perspective on distribution into the political realm and replaced the perspective of guaranteeing only basic needs.

For many people, the social state requirement of Germany's Basic Law must be associated with the political mandate to ensure comprehensive social policy – welfare and insurance. In the Act on the Appointment of a Council of Experts on Economic Development,¹ the task of the council is described as follows: besides analysing the economic situation and its foreseeable development, and examining how, within the framework of a market economy, price stability, high employment and a large foreign trade balance, steady and appropriate growth can be achieved, the council should study the formation and distribution of income and wealth. Two different political perspectives are applied to the terms “formation” and “distribution”: On the one hand, the formation of income and wealth refers to different policies that influence or design market processes such as education, competition, the labour market, wage formation and the capital market. On the other hand, there is the matter of correcting or compensating for market results by tax policy and social policy. The formation of income and wealth is naturally associated with inequality because different skills, preferences and pure luck have an impact on economic outcomes. Inequality is fundamental in a free society and economy (Simmel [1897] 1983).

¹ Bundesgesetzblatt (Federal Law Gazette) Part III, Outline number 700–2, 14. August 1963.

This shows how questions about the distribution of income and wealth lead to normative debates. The degree of acceptable inequality in a society depends at least on its socio-cultural character, its specific institutions and development over time (reflecting the “spirit of the times” or *Zeitgeist*). Moreover, it may differ by country. In a market economy, political interventions in market structures, market behaviour and market results can be justified if the economic event intervened hurts the modern principles of individual freedom and responsibility (liability). Disturbances either in individual freedom of choice or individual responsibility (such as market failure) justify state intervention.

Independent of this market economy (regulatory) view, interventions by the state can be derived from a higher social justice perspective (Hüther and Diermeier 2019). Social justice is understood here in connection to the relative positions of members of society. The relevant comparison may refer to personal characteristics throughout society such as income, wealth, education, risk of poverty, employment, or unemployment. These characteristics can be differentiated into requirements or conditions of individual lifestyles (input orientation) and results or consequences of individual lifestyles (output orientation). The relevant comparison may also apply to regional rather than personal distribution of such characteristics. Finally, the focus can shift from the time dimension to the spatial dimension, and generational comparisons can be made.

Table 1
Criteria and Dimensions of Social Justice

Criterion Dimension	Input orientation		Output orientation		
	Education	Employment	Income	Wealth	Risk of poverty
Individuals / households		A	B	C	
Regions		D			E
Generations	F			G	H

Source: Hüther and Diermeier (2019).

Various concepts can be derived from this system of criteria and dimensions of social justice (Table 1). The following concepts appear to be significant both in terms of mobilising consent or even supporting populist forces, and in terms of political power and media discourse: (A) individual opportunity for employment/risk of unemployment, (B) personal income distribution, (C) personal wealth distribution, (D) regional employment/unemployment distribution, (E) regional poverty distribution, (F) access to educational resources, (G) the chance of an inheritance and (H) adult and child poverty. Hence, the dimensions of generational justice (F, G and H) involve persisting differences in input and output criteria between different social strata. Dealing with “inherited” features of social justice, the generational component covers the non-regional questions around equality of opportunities. The article concentrates on the input side – employment and unemployment – and on the output

INCOME INEQUALITY
Germany's Deep Wealth Divide
BY NORBERT HÄRING AND JAN MALLIEN

Germans are getting richer, but the gap between the rich and poor is bigger than the euro zone average, according to a study released by the German central bank on Monday.

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WHY IT MATTERS

Wealth and income inequality tends to cause social tension and figures showing a bigger than-average wealth gap in Germany could stir controversy.

FACTS

Germans in the top 10 percent wealth bracket own almost eight times more than the median –



Germany is experiencing a widening wealth gap. Source: picture alliance

Zeit online, 11 May 2016 (translated)

The social conditions in Germany are unfair: A large majority in the country agrees with this statement. According to a representative survey 82 percent of respondents state that the social inequality has gotten too big by now. This is the result of a study by the Friedrich-Ebert-Stiftung. ZEIT ONLINE has gotten an exclusive preview of.

Survey from May/June 2017:

- 62 percent of Germans believe that income disparities have widened in recent years.
- 64 percent see increasing differences in wealth and assets.

Source: Press and Information Office of the Federal Government, 2017 (views on the welfare state)

Fig. 1: Perception of the Growing Divide in Income and Wealth.

Source: Handelsblatt (international ed.), Zeit online, Press and Information Office of the Federal Government.

side – the distribution of income and wealth. Regional and intergenerational aspects are not in the foreground.

If we want to go beyond the usual analyses of distribution to capture the social, political, and cultural context, investigating the measurable indicators of distribution and citizens' prevailing perceptions and assessments is particularly interesting. It allows us to experience how far the measurable reality is reflected in the views of the citizens. Unemployment is of particular interest. On the one hand, it is a relatively simple indicator – the unemployment rate as the ratio of registered unemployed to all economically active persons (labour force) – and it appears continuously in the reports of all kinds of media. On the other hand, the promise of employment – or rather avoiding involuntary unemployment – is crucial for order in a market economy, especially a social market economy. Compared to this, other indicators of the distribution of income and wealth, such as the at-risk-of-poverty rate or the Gini coefficient, are abstract and can hardly be reconciled with individual realities of life. Therefore, it is not surprising that these indicators reveal a greater difference from the empirical findings (Figure 1).

A considerable difference between the empirically describable reality and citizens' perceptions can have far-reaching consequences for economic and social life, as well as the political order. It can cause the macro systems to lose credibility and reputation. Further, it can lead to rational economic decisions being systematically distorted. Politics must then understand perception as its own reality to arrive at consistent decisions in the sense of principal-agent responsibility. In extreme cases, politics will focus only on the level of perception; it can no longer argue with facts. But politics can also try to lead an enlightened discourse in the public sphere, provide information and enable new routines of perception. Because of this, the question of how things are in Germany with these aspects, along with international comparisons, is investigated

here. The model of the rational decision-maker is thus put to the test in terms of distribution policy, especially developments in the labour market. Employment and the risk of unemployment define individual life prospects fundamentally; they are ultimately the touchstone for acceptance of the economic order.

The rest of the article is organised as follows: We begin with an overview of key distribution indicators for Germany (section 2). Then, we analyse how important indicators are perceived by the population (section 3), and we link subjective views on inequality with redistributive preferences and norms of social justice (section 4). Finally, explanatory factors for the difference between reality and perception are examined to draw political conclusions (section 5).

2. Changes in Unemployment and Key Distributional Indicators

When we refer to unemployment in Germany (input side), the picture is rather clear. In the early 2000s, Germany was classified as the “sick man of Europe,” and the unemployment rate rose to its maximum of 11.7 percent in 2005. Then it declined in the aftermath of the so-called Agenda reforms to around 5 percent in 2019 – the lowest level since reunification (and the lowest in western Germany since 1981). Likewise, even when considering the decline during the financial and economic crisis, GDP steadily grew by around 1.6 percent per year in real terms between 2005 and 2017. This development was accompanied by continuously rising real wages since at least 2009, which is also reflected in an increasing wage share based on macroeconomic accounts. In 2019, the share of national income accounted for by wages increased to 72 percent, which corresponds to the level of the 1990s (Destatis 2020; Grömling 2017). This development of the so-called functional income distribution is particularly remarkable. For example, one of the most prominent predictions by Thomas Piketty in his famous book, *Capital in the Twenty-First Century*, implied a continuous decline of the wage share (Piketty 2014). In addition, from a macroeconomic perspective, an increasing labour share is often regarded as an indicator of decreasing inequality.

However, to assess the level and changes in inequality (output side) adequately, distributional microdata are required. In contrast to the undisputed economic development, there is admittedly more debate about the level and changes in inequality. This is not least because there are many concepts of inequality and different data sources to measure them. Thus, when discussing changes in inequality, it is important first to determine which measure of inequality should be used and which data sources are available. Since the (disposable) income after taxes and transfers matters for decisions in households about consumption and savings, this concept is used in most analyses of inequality and poverty. Furthermore, equivalence scales are used to compensate for different household structures and economies of scale within households. The time horizon of interest naturally depends on the availability of

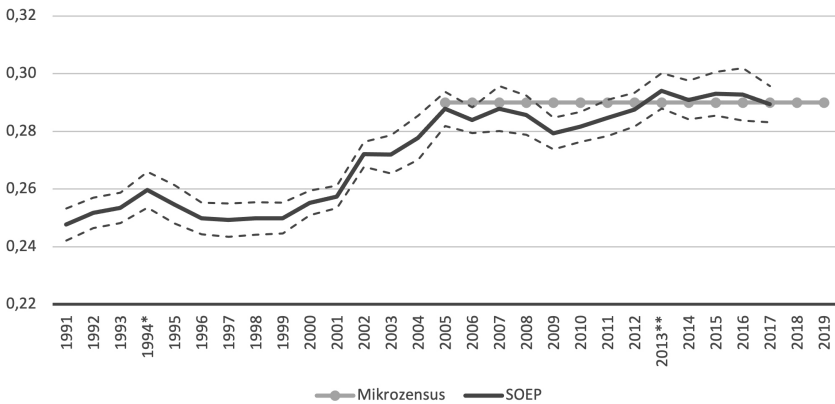


Fig. 2: Inequality of Net Income in Germany.

Notes: *Break in time series because of the integration of migration subsample D (migration 1984–1994) and a change in how incomes are recorded. **Break in time series because of the integration of migration subsample M1 (migration 1995–2011). Incomes are equalized according to the modified OECD scale; the dashed lines illustrate the 95 percent confidence interval. Mikrozensus: rounded figures.

Sources: SOEP; Mikrozensus, Stockhausen and Calderón (2020).

household survey data, which are needed to analyse the distribution of disposable income. In Germany, 1991 is an obvious starting point for distributional analyses, since the country's reunification constitutes a striking structural break. Starting only then are harmonised microdata available for unified Germany. Figure 2 illustrates the changes in the Gini coefficient of disposable income from 1991 until 2017 based on survey data from the German Socio-economic Panel (SOEP) and from 2005 until 2019 based on data from the German *Mikrozensus*.²

The graph shows that today's inequality of disposable incomes in Germany is higher than inequality levels in the early 1990 s. However, since 2005 the level of the Gini coefficient of net income inequality has barely changed. The increase in the Gini coefficient after the turn of the millennium is probably because of the increase in long-term unemployment, while the stabilisation after 2005 is correlated with a decrease in long-term unemployment. During the upswing in the labour market between 2006 and 2008, short-term unemployment fell by around 30 percent, and long-term unemployment by around 40 percent (Klinger and Rothe 2010). The German *Mikrozensus*, the largest household survey in Germany, reports a rounded Gini coefficient of 0.29 for every year between 2005 and 2019. Though the *Mikrozensus* reports only classified and less detailed net household incomes, the legally required participation in the survey guarantees largely consistent and representative samples over time.

² The Gini coefficient is probably the most popular and frequently used measure of inequality. It equals one in the case of maximum inequality and zero when all incomes are equal.

Given the overly positive economic development and the substantial decrease in unemployment, the question arises why the level of inequality has not decreased. However, the global division of labour and technological change continue to intensify, and with the pressure on low-qualified labour forces, economic conditions in the second decade of the current century are clearly and indisputably different from those of the 1990 s. The speed and intensity of structural change have increased remarkably because of globalisation and digitalisation. Simultaneously, the demand for highly qualified labour and the return to education keep rising, and both trends put pressure on income differentials. Besides these overall long-lasting background trends, the numbers of immigrants have increased substantially since about 2010. This implies that, at least initially, the number of those who have low incomes has increased, resulting *ceteris paribus* in higher levels of poverty and inequality. In line with this argument, counterfactual analyses show that the isolated effect of increasing employment would have been accompanied by decreasing levels of inequality.³ Given this overall setting, the rather stable levels of income inequality since 2005 can certainly be seen as a positive development.

Compared to other developed countries in the OECD, Germany is classified as a country with below-average income inequality. For comparison, with Gini coefficients around 0.39 and 0.37, post-tax and transfer inequalities are substantially higher in the United States and in the United Kingdom, respectively. Austria, the Netherlands, and France have levels of inequality that are rather similar to those in Germany. Recognisably lower levels of inequality can be found in some Eastern European countries (Czech Republic, Slovakia, and Slovenia) as well as in Scandinavian countries such as Denmark and Norway.

So far, the treatment of the output side focused solely on incomes. However, not least with the increasing availability of data on household wealth, the issue of the concentration of wealth has received increasing attention. Especially against the background of low interest rates and increasing asset prices, there is the widespread expectation that this development is accompanied by an increase in wealth inequality. Figure 3 represents the changes in the Gini coefficients of household and personal net wealth, based on three different household surveys. Although data from the Income and Consumption Survey (EVS) suggest an increase in wealth inequality before 2008, the graph impressively shows that there is no evidence for the rising concentration of wealth in the last decade.⁴ Because of the difficulties of capturing survey data on individuals with extremely high financial assets and of adequately measuring wealth,

³ Analyses by the Institute for Applied Economic Research (IAW) on behalf of the sixth poverty and wealth report of the Federal Government show that employment gains alone would have resulted in lower levels of inequality. In contrast, the rise of inequality in Germany from 2005 onwards was determined mainly by changes in the socio-economic characteristics of the society (Kleimann *et al.* 2020).

⁴ The EVS values do not include information on business wealth. However, even when adding estimated business wealth, there is no evidence of a further increase in wealth inequality after 2008 (Albers, Bartels, and Schularick 2020, 39, Figure 13).

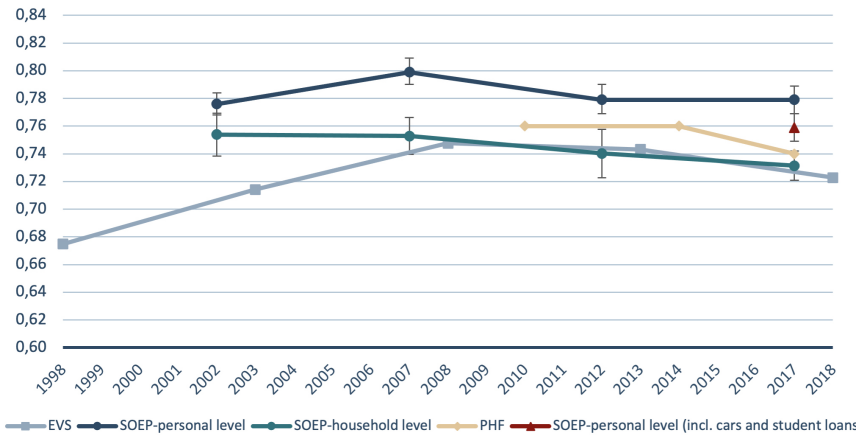


Fig. 3: Inequality of Private Net Wealth in Germany.

Notes: SOEP: individuals aged 17 and older in private households (without consideration of refugee subsamples M3–M5).

Source: Stockhausen, Calderón and Niehues (2020).

figures on wealth inequality must be interpreted with some caution. However, assuming that wealth is consistently surveyed over time, the illustrated results of three different microdata sources robustly refute the idea of a continuously increasing concentration of wealth. For the period 2002–2012, this observation also holds if the wealth of top wealth households is generously imputed (Westermeier and Grabka 2015).

What remains, though, is the observation that wealth inequality is substantially higher than income inequality, and that Germany is a country with a comparatively high concentration of net wealth. However, without considering institutional and socio-economic differences between countries, measures of wealth distribution can barely be compared across countries. In this light, Germany in no case constitutes an exception among well-established welfare states. For example, Austria, Denmark, Norway, and Sweden are characterised by similarly high levels of wealth inequality. At first sight, this seems surprising, since all these countries have generous social security systems and below-average net income inequality. However, in a comparison of European countries, this shows that state social security levels are positively correlated with levels of private wealth inequality. If the state generously insures people against unemployment and lifecycle risks, there may be fewer incentives for private savings. In addition, since social security must be financed by contributions and taxes, there are fewer possibilities for private savings in the middle class.

Taking this together, as in many other industrialised countries, income and wealth inequality in Germany today is higher than in the 1980s or 1990s. Yet, inequality measures are not continuously increasing, but with economic development and the

increase in employment, distributional measures have stabilised since about 2005. Germany is characterised by below-average income inequality and comparatively high private wealth inequality. However, this is typical for well-established welfare states with generous redistributive government spending.

3. Perceptions of Inequality, Unemployment, and the Personal Situation

Given the merely positive picture of economic and distributional indicators regarding the current situation of Germany, it may seem surprising that opinion polls regularly identify inequality as one of the most important topics these days. In fact, only in three of 27 countries are more people worried about the issues of poverty and social inequality than in Germany, as noted in the July 2018 online poll, “What worries the world” by Ipsos Public Affairs. This corresponds to the observation in social surveys that the vast majority of Germans view social differences as rather unfair. For example, according to the German General Social Survey (ALLBUS), almost 75 percent of German respondents in 2018 rather or strongly disagreed that social differences in Germany are fair. Although the majoritarian critical assessment of social justice in Germany is not new, with a share of three-fourths it rises again to the maximum share of critical judgement around the financial crisis, 2008 to 2010. Thus, the timing of these critical views is surprising in that it falls in a time of very positive economic development and stabilising distributional relationships. This puzzle raises the questions: what does the subjective view of society look like and have people perceived the rather positive development of recent years?

In a *Civey-survey* in spring 2020 on behalf of Spiegel Online, 43.9 percent of respondents presumed that inequality of incomes “unambiguously increased” over the last five years and an additional 28.6 percent guessed it “rather increased”. Other surveys with similar questions reveal similar results. Thus, the subjective view of changes in inequality is more negative than conventional distributional indicators would suggest. Concerning the level of inequality, the *Civey-survey* reveals that 74.8 percent of respondents perceive the distribution of incomes and wealth as “rather” or “clearly” unfair. This again raises the question of the subjective view of the distributional situation in Germany. Since measures such as the Gini coefficient are rather abstract, it seems difficult to grasp people’s views on societal inequality.

However, surveys such as the International Social Survey Programme (ISSP), a pretest of the SOEP and an online survey on behalf of two German researchers include a question on how society is perceived. Figure 4 shows that in 2015 altogether 56.6 percent of Germans believed that the bulk of the German population lives in lower societal classes, thus viewing their society in the form of a pyramid (Type A or Type B). Bearing in mind that different surveys can be compared only with some

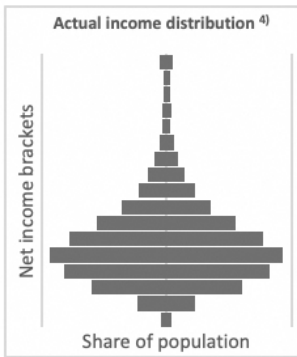
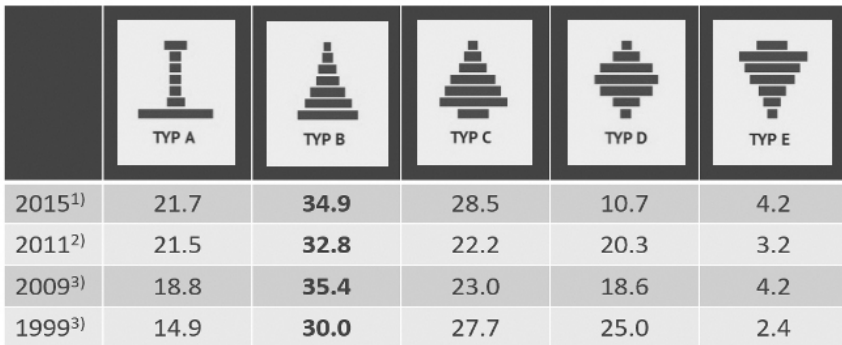


Fig. 4: Perceived Type of Society.

¹⁾ Engelhardt and Wagener (2018). ²⁾ SOEP pretest 2011. ³⁾ International Social Survey Programme (ISSP). ⁴⁾ Share of the population across different net income brackets in Germany, own calculations based on SOEP v 35.

caution, if there is some trend, the results of the surveys suggest that views have become even more pessimistic over time.

Obviously, there are different ways of demarcating society into a “bottom,” “middle,” and “top” tier. However, studies generally find that the middle class represents by far the largest group of German society. Independent of the chosen definition of income groups, people with middle incomes are far more numerous than those at the bottom of the income distribution. The graphical representation of the income distribution in the lower part of Figure 4 shows this.

The rather pessimistic view of societal structure is not specific to Germany; it is typical of other European countries as well. Views on inequality are particularly pessimistic in former socialist countries such as Hungary, Slovakia, Slovenia, and the Czech Republic. In Hungary, views are particularly pessimistic: 56.6 percent of respondents perceive their society as Type A with a “great mass of people at the bottom,” although the country is characterised by a comparatively low level of income in-

equality. Views are different in Scandinavian countries, such as Norway, where the survey respondents are much more realistic about the small levels of inequality and truly identify their society as a typical middle-class model (Type D). The US reveals a different picture. Although US income distribution is far more unequal than the distributions in European welfare states, Americans are more likely to believe that they live in a middle-class society than many Europeans do. Whereas in international comparison there is almost no empirical relationship between the level of inequality in a country and the degree to which the population is worried about inequality-related issues. In fact, the aggregated view of perceived inequality can explain up to two-thirds of the cross-country differences in critical views on income differences, and 56 percent of the variation in redistributive preferences (Niehues 2014). Gimpelson and Treisman corroborate the results in a meta-analysis based on a broader country sample and conclude that “perceived inequality – not the actual level – correlates strongly with demand for redistribution and reported conflict between rich and poor” (2017, 27).

Germans’ too pessimistic view of inequality is reinforced by a survey for the sixth poverty and wealth report of the Federal Government (Adriaans *et al.* 2020). According to the survey, most respondents presume that over 30 percent of the German population is poor. In contrast, according to official statistics, between 16 and 17 percent of the population have a disposable income that is below the at-risk poverty line. The subjective view of the top of the distribution is even more biased. Most Germans think that over 20 percent of the German population can be considered rich, whereas official statistics suggest that around 7 percent count as relatively rich. Besides, it must be mentioned that subjective richness lines are substantially higher than the conventional threshold. That is, in 2017 official statistics count a single person as relatively rich if he or she has a monthly disposable income above 3890 Euros, while the subjective thresholds lie between 7,000 and 10,000 Euros per person.

Indicators of the distribution of income and wealth are rather abstract and complex. This might be the first explanation for the sizeable differences between perceptions of inequality and conventional measures of inequality. Thus, it is of interest to focus instead on the perceptions of unemployment, since the unemployment rate is a relatively simple indicator that is measured by administrative accounts and often reported in the media. Yet, results from the European Social Survey (ESS) 2016 reveal that Germans overestimated unemployment in 2016 by at least 13.6 percentage points (Diermeier and Niehues 2019). While the estimates recorded by the ESS became somewhat more positive after unemployment declined in preceding years, in both 2008 and 2016 around 40 percent of Germans said the unemployment rate was at least 20 percent. A cross-country comparison shows that respondents substantially overestimate unemployment in all observed European countries. Moreover, perceptions increasingly decouple from reality, since positive developments are generally perceived as less positive and negative developments as more negative than they are in reality.

So far, the subjective view of societal inequality was contrasted with the actual distribution of incomes and wealth. It is also common for people in Germany to feel they were being left behind in the economic development of the last decade. However, when analysing subjective views on personal situations, the critical views on German society are even more puzzling. According to the SOEP wave for 2018, fewer respondents were worried about their own economic situation than at any time since the start of the survey in 1984. This finding does not imply that there are not any financial worries in Germany. The roughly ten percent of the respondents who are still very worried about their economic situation stand for the substantial number of about 7 million adults who view their financial condition with great concern. In contrast, in 2005, almost 19 million adults shared this assessment of their financial situation.

The changes in worries about job security is similar. In 2018, three-fourths of respondents say they are not worried at all about losing their job; less than 5 percent worried a lot about their job security. These results from the SOEP are very similar to findings from other surveys. For example, according to the ALLBUS, the share of respondents who feel that they get less than their fair share has continuously decreased over the last ten years. In addition, on a scale from one to ten, more and more people put themselves higher on the scale. Thus, in 2006 around one-fourth placed themselves at a seven or higher, and that share increased to almost 50 percent in 2018 – revealing a paradox on perceptions about climbing the social ladder. As much as the results of different surveys and items are similar, they contradict the views of a great many people who feel that they did not benefit from the developments of recent years.

4. Subjective Views on Inequality, Redistributive Preferences, and Norms of Social Justice

The critical views on the level of inequality and social justice in Germany go along with a subjective preference for more governmental redistribution. According to the European Social Survey (ESS), in 2018 three-fourth of Germans strongly agreed or agreed with the statement that the “Government should reduce differences in income levels.” However, when Germans are asked more specifically what kind of redistributive programs should be extended, the majority favours programs that also benefit the middle class and even the upper middle class. In fact, items such as increasing expenditures on schools, long-term care, child-care facilities, and universities receive the highest approval rates. In contrast, only about one-third of respondents plead for expanding unemployment or social assistance benefits; for all other welfare-state programs, most respondents prefer more program spending (Heinrich, Jochem and Siegel 2016). The general preference for more redistributive spending is by no means accompanied by a willingness to pay for these programs. Therefore, the financial scope for increasing governmental programs is rather restricted. When asked about how to finance the programs, only those measures are preferred which are supposed to

affect only “the rich.” Increasing taxes for “the rich” is easily requested since only a very small fraction of Germans sorts themselves in upper income or wealth classes. According to an online survey in February 2015, none of the richest 20 percent of the population sorted themselves correctly in the corresponding income deciles. Instead, they severely underestimated their position in the income distribution (Engelhardt and Wagener 2018). Similarly, only around 3 percent of households sort themselves in the upper 20 percent of the wealth distribution (Deutsche Bundesbank 2019). Further experimental results suggest that high-income individuals especially digress from the previous preference for more redistribution when they learn they are net contributors to those additional benefits. Given that most Germans rate the number of rich far too high, they also overestimate the financial potential of this funding source.

In addition, survey results suggest that the redistributive power of the German income tax system is considerably underestimated. Instead, most respondents noticeably overestimate the tax burden of low taxable incomes and underestimate the burden of high incomes. Further, the question about the subjectively preferred tax burden reveals that most respondents favour substantial tax reductions for yearly taxable incomes of 100,000 Euro (Altmann *et al.* 2018). Converting this into net incomes means that a single person earning this amount of taxable income already belongs to the upper five percent of the German net income distribution. Thus, Germans, on the one hand, regularly express the abstract preference for reducing inequality by expanding governmental redistribution. On the other hand, it is rather unlikely that implementing their concrete redistributive preferences would result in a sizeable reduction of inequality.

In the following, the rather contradictory redistributive preferences are contrasted with prevailing social justice norms in Germany. As Figure 5 illustrates, a broad majority – 86 percent of Germans – agree or strongly agree with the statement that hard-working people should earn more than others. This finding is in line with observations from other surveys in which, for example, three-quarters of Germans favour insurance systems in which benefits are higher for those with higher previous contributions (Press and Information Office of the Federal Government 2017). Compared to other European countries, the preference for a principle of meritocracy is particularly pronounced in Germany. This is in line with results from ESS 2016, in which a comparably large number of Germans thought that “Large differences in income are acceptable to reward talents and efforts.”

In addition, the results of ESS 2018 show that a vast majority of Germans also approve of a social system that takes care of those who are poor or in need (Adriaans, Eisnecker, and Liebig 2019). This preference is also more pronounced in Germany than in other European countries. The concept of the social market economy, which emerged in Germany after the Second World War, aims to embed economic dynamism and efficiency through a fair safeguard against fundamental uncertainty. Fairness is implemented through the idea of a second chance, so that the welfare instrument – formerly social assistance, since the so-called Agenda reforms basic security – ap-

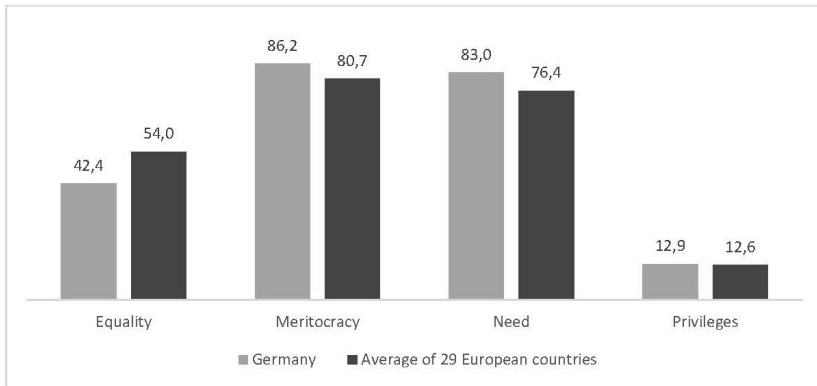


Fig. 5: Preferred Principle of Distributive Justice.

Share of respondents that strongly agree or agree with a certain principle of distributive justice, in percent

Equality: A society is fair when income and wealth are equally distributed among all people.

Meritocracy: A society is fair when hard-working people earn more than others.

Need: A society is fair when it takes care of those who are poor and in need regardless of what they give back to society.

Privileges: A society is fair when people from families with high social status enjoy privileges in their lives.

Source: European Social Survey (ESS) 2018 (edition 3.1), own calculations (based on analysis weights).

appropriately combines solidarity assistance and subsidiary self-care. This leads to promotional offers in the areas of education and employment. It also means that one's own liquid funds and one's own assets must be used proportionally. In the design of basic security in Germany, Christian principles of charity and mercy are mixed with social principles of promoting and demanding.

Although many Germans express concerns about the level of inequality, their agreement with the equality principle is rather low compared to other European countries. In Germany, around 42 percent of the population agree or strongly agree with the statement that a society is fair when income and wealth are equally distributed among all people, whereas among the average of observed European countries this applies for half of the population. Among the four principles of distributive justice, the approval rates for the equality principle show the largest differences between European countries. In Norway, only about one-fifth agree with this principle of distributive justice compared to almost 76 percent in Italy. Interestingly, the survey results reveal no typical country groupings with respect to subjectively expressed social justice norms. For example, respondents from Slovenia express stark approval of an equality principle (72 percent), whereas only slightly more than one-third of respondents in the Czech Republic agree with this principle. Also, among continental

European countries there are substantial differences. As opposed to the rather low approval rates in Germany, almost 70 percent of French favour the equality principle as a norm for a fair society. Interestingly, even in countries with high approval rates for the equality principle such as Slovenia and France, a vast majority views it as fair when hard-working people receive higher earnings. Lastly, almost all Europeans are united in the view that a society cannot be regarded as fair when people from families with high social status enjoy privileges.

Overall, combining the paradoxical redistributive preferences with prevailing social norms reveals a further puzzle: On the one hand, Germans want the government to reduce the gap between rich and poor and, on the other hand, polls show a marked preference for recognisable income differences as long as they are justified by performance. However, further survey results reveal that Germans combine notions of social justice as a priority with the idea of fair opportunities, as 83 percent of Germans aged 30 to 59 years view the statement “All children have the same chances of a good school education” as a precondition of a fair society (Allensbach Institute for Public Opinion Research 2016).⁵

According to the Organization for Economic Cooperation and Development (OECD), equity in education has long been the central problem in Germany. Compared to other countries, this is where the largest discrepancy exists. The results of PISA 2018, for example, reveal that 17.2 percent of the variance in reading performance is explained by an index of economic, social, and cultural status. This implies an above-average socio-economic gradient in Germany. With this share of explained variance, Germany’s rank is similar to those of Belgium (17.2 percent) and France (17.5 percent). Although this shows that there is room for improvement with respect to guaranteeing equal opportunities, positively framed, the statistic implies that over 80 percent of the variation cannot be explained by socio-economic differences (OECD 2020a, 17). Furthermore, the statistics do not account for differences in the composition of society and challenges from increased migration. However, the COVID pandemic has once more shown that technical infrastructure and adequately equipped staff are particularly important for providing equal educational opportunities. In many of the 79 countries in which the question was asked, the computing power of school computers and the availability of appropriate software are insufficient (OECD 2020b, 266). More than 40 percent of pupils in Germany are affected by this. Furthermore, school administrators state that only 57 percent of the teaching staff use digital devices in the classroom. Since it is more difficult for pupils from less-privileged families to compensate for the lack of technical infrastructures, in the context of the pandemic it is emphasised once again that in Germany the educational success of a child depends to a rather high degree on the education of the parents. These challenges in providing equal opportunities may explain to some extent why Germans are rather critical about the state of social justice in Germany. In this regard it would be pref-

⁵ Only the statement “wages are high enough to make a living” received a higher approval rate (86 percent).

erable, while not ignoring conventional indicators of inequality, to focus more on measures of equality of opportunity, as this would make clearer whether policies are really addressing the perceived deficits in fairness that interest voters.

5. What Drives Perceptions and What Is the Political Conclusion?

Our distributional analysis is related to the level of the individual in the sense of the system of criteria presented at the beginning (Table 1). The findings were outlined for employment and risk of unemployment as well as for indicators of income and wealth, and the population's prevailing assessments of the corresponding situation were questioned. At the same time, different concepts of justice were addressed. While unemployment relates to the input side and contributes to equal opportunities, income and wealth relate to the output side and capture the results of actions taken by people. The perception of distributions also must be classified accordingly. It might be the case that not only do reality and perception differ with respect to one indicator, but also that the assessments of the different concepts of justice are not plausible or not consistent.

Regarding the time before the COVID pandemic, the data reveal a largely positive picture of the economic and social situation in Germany. This holds for the unemployment rate as well as for the trends of distributional indicators of the inequality of income and wealth for more than 10 years. In addition, Germans are less worried about their own financial situation than at any time since reunification. While individuals perceive their own situation as very positive, their views of society are rather pessimistic. A large majority view German society as rather unfair, and they regard distributional differences as too large. However, further analyses reveal that their views on inequality are biased. Contrary to the fact that studies regularly prove the middle class to be the largest group in German society, most Germans suppose that most people live in lower societal classes – thus assuming that the German societal structure is shaped like a pyramid. Even the unemployment rate, a number which is often communicated in the media, is substantially overestimated. Contrasting abstract redistributive preferences with prevailing norms of justice reveals some further inconsistencies. Even though many Germans want the government to take steps to decrease differences between the rich and poor, they rarely favour policies which only benefit the less privileged. Furthermore, subjective views on financing options disclose an apparent asymmetry between the majoritarian preference for more redistribution and the restricted willingness to finance such programs.

When classifying such contradictions, the results of other research also are important. Prospect Theory by Daniel Kahneman and Amos Tversky (1979) shows that people generally tend to value gains with increasing prosperity relatively lower, while potential losses are valued higher. It is based on the understanding that individual risk behaviour varies depending on the assessment of whether an event will occur, so the

expected economic benefit does not serve as the basis for decision-making. Individuals behave in a risk-averse manner. This can be transferred to the assessment of distribution indicators. The seemingly insecure incomes are underestimated, the burdens overestimated. Here, the overconfidence or over-confidentiality bias can have an impact by assuming that one's own ability is not adequately appreciated. At the same time, however, the abilities of others are overestimated, so that, taken together, the situation for the individual appears less favourable than the actual distributional figures indicate. This also fits in with the perception that politicians will do no good for you.

Indeed, survey results reveal substantial differences between subjective perceptions of inequality and unemployment compared to the empirical numbers on these issues. Observing these discrepancies raises the question of how to explain these biased views of social indicators. With respect to the subjective perception of societal inequality, further analyses show that the tendency to overestimate inequality is adversely related to absolute levels of living standards across countries. When plotting a purchasing power-adjusted Hungarian income distribution against the average living standard of the European Union (EU), the resulting shape of the distribution matches the perceived type of society surprisingly well. Many Hungarians who are not relatively poor with respect to the national median income would be considered relatively poor with respect to a purchasing power-adjusted EU-wide median income. With regard to their living standard, they would in fact belong to lower societal groups when regarding the EU as one supranational entity (Niehues 2018). Thus, the level of absolute living standards might matter more for shaping views on inequality than debates on inequality commonly may suggest.

For the specific case of Germany, it is also possible to relate the media coverage on inequality-related issues to the perception of social justice. Combining the amount of media coverage on inequality with randomly distributed interview dates in the German Socio-economic Panel (SOEP) shows that Germans tend to be significantly less satisfied with the degree of social fairness in the society after days when there is a high level of media coverage on inequality-related issues (Diermeier *et al.* 2017). Although these findings provide some initial evidence on possible determinants of perceived inequality, the results are far from a complete explanation of the differences between perceived and actual inequality within countries and the differences in perceptions across countries.

Further analyses indicate that biased views on economic numbers may become politically virulent. For example, individual-level regression results for Germany reveal a negative correlation between the margin by which respondents overestimate unemployment and the level of trust in democracy, their compatriots, and supranational institutions such as the EU. These findings hold even after controlling for education and income levels. By relating aggregated overestimations of unemployment to the aggregated satisfaction with democracy, Figure 6 shows that this negative relationship also appears in a cross-country comparison. Given the prevailing levels of

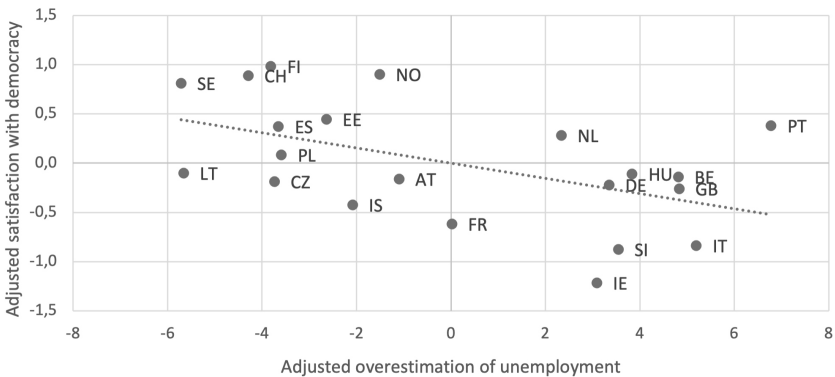


Fig. 6: Estimation of Unemployment and Satisfaction with Democracy.

Residuals of an OLS-regression on cross-country basis.¹

¹) Individual satisfaction with democracy and subjective overestimations of unemployment are aggregated on a national basis and then OLS-adjusted by differences in logarithmic GDP per capita and the national unemployment rate.

Source: Diermeier and Niehues (2019) based on European Social Survey 2016.

unemployment and living standards, respondents in Germany over-proportionally overestimate unemployment and are under-proportionally satisfied with democracy. Furthermore, the survey data reveal that particularly in Western Europe, people with a pessimistic view of unemployment are more likely to lean towards right-wing populist parties. This correlation between overestimating unemployment and right-wing voting behaviour underlines the relevance of the results for the political debate.

The pronounced discrepancy between the empirical findings on distributional aspects and the perceptions of citizens constitutes a veritable problem for democratic politics. That is because in this discrepancy lies the seed of mistrust between citizens (principals) and politics (agents). Successes of economic policy in the form of higher real incomes, lower unemployment and more jobs are more likely to be ignored or viewed as misinformation. Reform efforts, which are often tedious and yield the desired or promised results only with a significant delay, hardly have a political chance because the investment seems not worthwhile for the agents – the chance of re-election does not increase. The conditions and dynamics of perceptual processes cannot easily be changed socially. The decisive effects must be mobilised in the individual citizen and in the individual private household – and tangibly. Politicians must have the courage to make incremental reforms, even if they look contradictory at first glance. They must look for allies in the public space to explain the logic of their actions in an understandable way. There must also be a high level of transparency about the interdependencies and the determination of central, above all simple, indicators. This is particularly true regarding the effects of media reporting on the perceptions of citizens. An important prerequisite for more clearly communicated politics is a consistent and

comprehensive database.⁶ With such a research data infrastructure, corresponding studies are possible that enable politicians, the media, and the public to make valid assessments. Investments to enhance existing databases, for instance, by combining household survey data such as the SOEP with administrative tax data, are therefore not only necessary for quality assurance, but also to increase their informative value and expand options for analysis.

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⁶ For further discussion see Niehues and Stockhausen (2020).

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