

Executive summary

The German middle class shrank in the late 1990s and early 2000s, and has not recovered since

The German middle class – proxied in this review as people living in households with incomes between 75 and 200% of the median – is significantly smaller than it was in the mid-1990s. Between 1995 and 2018, the German middle-income group shrank by 6 percentage points, from 70 to 64% of the total population (OECD average of 62%). Among the 26 OECD countries with available data, only Sweden, Finland, and Luxembourg experienced a faster decline. Most of the decline occurred in the early 2000s, when income disparities in Germany widened, and it largely reflects a shrinking of the *lower* middle-income group (incomes between 75 and 100% of the median). In spite of strong employment growth after 2005, the German middle-income group did not recover its size as real disposable incomes for middle-income households stagnated. In more recent years up to the COVID-19 crisis, income trends have been more positive, and households across the income distribution experienced a healthy rise in disposable incomes. The available evidence on income developments during the pandemic suggests that up to January 2021 disposable incomes slightly grew on average for workers in low- and middle-income households, thanks to the comprehensive government support.

Particularly the young generation and people without tertiary education find it harder to secure a place in the German middle class

The German middle-income group has considerably changed composition over the last decades as a result of its declining size, and trends in living arrangements, labour force participation of women and young people, as well as the economic well-being of different age groups. In particular,

- The middle-income group has aged more quickly than the general population, and young people find it increasingly difficult to secure their place in the middle-income group.
- Working couples – and particularly one-and-a-half earner couples – have increased their chances of living on middle incomes relative to working singles and workless households.
- Educational attainment in the middle-income group has risen faster than in the overall population. Particularly for the younger generation, having tertiary education has become crucial for making it into the middle-income group.
- Immigrants in Germany are less likely than in the mid-1990s to be part of the middle-income group, but this also reflects the changing composition of Germany's migrant population.

Germany's labour market has polarised, but middle-income workers have been coping relatively well so far with the labour market transformation

The occupational distribution in Germany has polarised since the mid-1990s, with middle-skilled occupations losing employment shares relative to higher- and lower-skilled occupations. However, this trend has been less pronounced than in other OECD countries, and middle-income workers have not been affected more strongly than other workers. Female middle-income workers have moved up in the occupational distribution. They remain overrepresented among the low- and lower middle-skilled occupations, but many work also as high-skilled associate professionals and professionals. Employment growth forecasts – which however pre-date the COVID-19 pandemic – point towards further occupational polarisation.

Non-standard forms of work have become more frequent among middle-income workers, but remain much less widespread than for workers in other income groups. In particular,

- Few middle-income workers are employed on temporary contracts, about 12% in 2018. This is less than the OECD average (of countries with available data), and only about one-third the rate for low-income workers in Germany.
- Part-time work is much more widespread among middle-income women than men (46 vs. 7%), but rates of part-time work are only about half as high for middle-income workers as for low-income workers.
- Few middle-income workers (6%) in Germany are self-employed, only about one-quarter the share among high-income workers.

Rates of temporary and part-time employment are higher in Germany than they were in the mid-1990s, but most of this expansion occurred in the late 1990s and early 2000s, i.e. before the 2005 “Hartz reforms”.

Earlier OECD work has shown that Germany has one of the highest shares of jobs likely affected by automation across the OECD countries. The share of jobs judged highly automatable is much lower for middle-income workers (17%) than for low-income workers (22%), but substantially higher than for high-income workers (10%). Among German middle-income workers, drivers and mobile plant operators, labourers in mining, construction, manufacturing and transport, and clerical support workers face the highest automation risk.

Short-term income mobility in Germany has become less favourable for households in the lower part of the income distribution

Income mobility over short (four-year) time horizons has become less favourable for people in the lower half of the income distribution since the mid-1990s. Across nearly all income groups, incomes have become more persistent over time, i.e. people have become more likely to remain in their income group. One exception are people in lower middle-income households, who became more likely to slip out of the middle into the low-income group. Meanwhile, for low-income households, greater income persistence implies reduced upward mobility into the middle-income group. Income mobility patterns have become less favourable in particular for more disadvantaged labour market groups, including young people, people in eastern Germany, immigrants, as well as for workers in “typical” middle-class occupations.

Policy options for a stronger German middle class

The review discusses different policy options for a stronger middle class in Germany by raising the employability of middle-class workers, creating good-quality, future-oriented jobs, and boosting middle-class disposable incomes. These include

- *Building pathways into the middle class for the young generation*, including by ensuring that every young person in Germany obtains an upper-secondary qualification;
- *Enabling and encouraging middle-class workers to upskill and reskill throughout their careers* by expanding adult learning through paid training leave and better career guidance;
- *Improving the working conditions and pay of care professionals* by further raising public spending on long-term care and child care and improving care workers' coverage by collective agreements;
- *Creating middle-class jobs by renewing Germany's infrastructure*, including digital infrastructure, social housing, child care and education infrastructure, and through investments in the green transition;
- *Reducing the labour tax burden for middle-class workers* by increasing tax progressivity and changing the tax mix away from labour taxation;
- *Enabling and incentivising women to expand their labour market participation* by reforming the income splitting for married couples and *Minijobs* regulations and improving access to flexible, good-quality institutional child care.



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