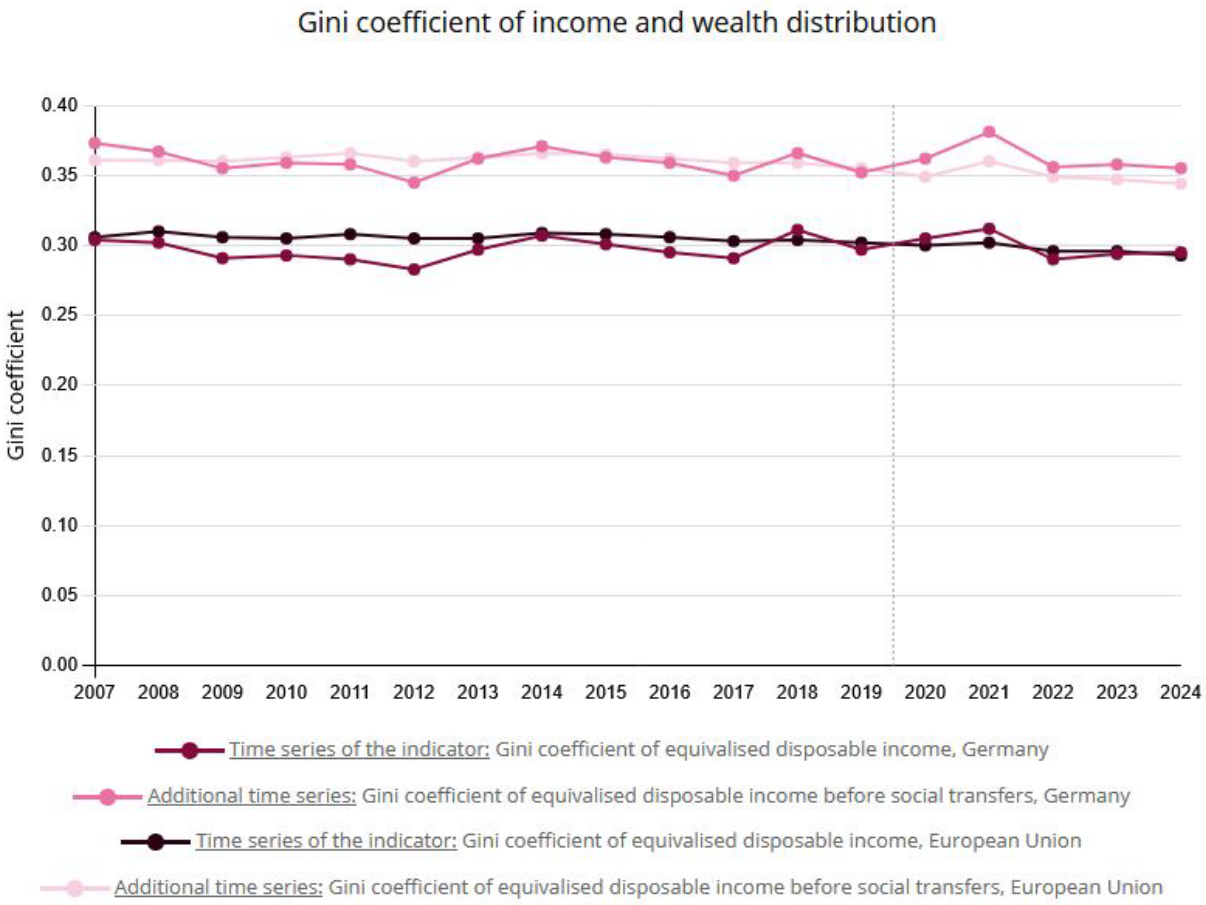
Distributive justice – *Prevent excessive inequality within Germany*

10.2 Gini coefficient of income after social transfers



Note(s):
• Gini coefficient of equivalised disposable income: The Leben in Europa survey (German name of the European Union Statistics on Income and Living Conditions - EU-SILC), which was conducted separately in the past, was integrated as a subsample into the microcensus in 2020. Comparing the data of reference year 2020 with those of previous years is not possible (break in the time series) as the voluntary survey was changed over to a partly compulsory survey and the composition of the sample was changed. – From 2020: EU-27 (without United Kingdom).
• Gini coefficient of equivalised disposable income before social transfers: Pensions are not categorised as social benefits and are therefore included in time series without social benefits. – European Union: 2019 data estimated by Eurostat. – From 2020: EU-27 (without United Kingdom).

Data source(s):
Federal Statistical Office, Statistical Office of the European Union

Definition

The indicator shows the distribution of equivalised disposable income using Gini coefficients. The equivalised disposable income is the total income (including social transfers) of a household after taxes and other deductions and therefore the income available for spending and saving.

Intention
Inequality in the distribution of income and wealth is a fundamentally accepted component of a dynamic market economy. However, the spread of income and wealth must remain moderate and social participation must be guaranteed for all.

Target
Gini coefficient of income after social transfers to be below the EU figure by 2030

Content and progress
The Gini coefficient is a measure of relative inequality, taking values between zero and one. Under conditions of perfect equality, it equals zero; under conditions of maximum inequality, it reaches one. In the context of income distribution, a Gini coefficient of one means that all income accrues to a single individual. The lower the value, the more evenly income is distributed.

For the calculation of the indicator, the so-called equivalised income is used. This is a needs-adjusted income derived from the total household income and the number and age of household members. Using an equivalence scale, incomes are weighted according to household size and composition. This adjustment ensures that the incomes of individuals from households of different sizes are comparable, as larger households benefit from economies of scale – for example, through the shared use of living space or household appliances.

Disposable equivalised income refers to total household income (including social transfers) after deduction of taxes and other compulsory payments. It corresponds to the income available for consumption and saving. This is to be distinguished from equivalised income before social transfers, which measures disposable income excluding government transfers such as unemployment benefits or housing allowances. Pensions are not classified as social transfers in this context and are therefore included in equivalised income before social transfers. The same applies to market equivalised income, which denotes income before deduction of taxes and social contributions and without taking social transfers into account. For all the income concepts mentioned, no breakdown is made by source of income – such as wages and salaries, rental income, or capital gains.

The income data are drawn from the annually harmonised European Union Statistics on Income and Living Conditions (EU-SILC). In Germany, this survey was integrated into the microcensus in 2020, accompanied by extensive methodological changes, in order to better meet the requirements for data timeliness and detailed regional breakdowns. As a result, the findings from 2020 onwards are not comparable with earlier years. Methodological adjustments are also made to account for the underrepresentation of high-income or high-wealth households, which is common in voluntary sample surveys, in order to ensure international comparability.

As in previous years, Germany's Gini coefficient for disposable equivalised income in 2024, at 0.295, was almost identical to the European Union (EU) average (0.293). This indicates that differences in income distribution between Germany and the EU are small. Nevertheless, in 2024 Germany's value was slightly above the EU average, meaning that the politically defined target was not achieved.

The Gini coefficient for disposable equivalised income (0.295) was significantly lower than that for equivalised income before social transfers (0.355). As expected, the value for market equivalised income was higher still, at 0.477. This demonstrates that redistributive mechanisms such as social transfers, social insurance, and the tax system make a substantial contribution to reducing income inequalities in Germany.

The Gini coefficient for wealth, based on the European Central Bank's (ECB) Household Finance and Consumption Survey (HFCS), shows a considerably greater degree of inequality. In 2023, Germany's wealth Gini stood at 0.724, far exceeding the income-based values. By comparison, the value for the euro area in 2021 – the most recent available data – was 0.694, and thus lower than the German figure. Certain influencing factors not captured in the wealth Gini, however, put the appearance of above-average wealth inequality into perspective. For example, future pension and retirement entitlements are excluded from the calculation of net wealth.

Type of target
Constant target for each year

Assessment
The Gini coefficient of income after social transfers should remain below the corresponding EU value every year.

According to the target formulation, the difference between the EU value and the German value is calculated for each year. For indicator 10.2, due to methodological changes in the survey design, the values from 2020 to 2024 are considered. In 2024, the difference is negative, meaning that the coefficient in Germany exceeds the EU coefficient. The target is therefore not achieved. Since the difference has also narrowed on average over the past five years, indicator 10.2 is assessed as thunderstorm for 2024.

Note: The reference to the EU coefficient as the benchmark implies that the indicator may receive a positive assessment even if the Gini coefficient in Germany develops unfavourably. Moreover, the indicator shows that, as both coefficients have remained at comparatively high levels without a clear upward or downward trend, the difference between the German and EU values – as well as the direction of the average development of the German coefficient – are subject to considerable fluctuations. Consequently, even minor changes in the indicator can significantly affect the assessment.