

The Impact of federal social policies on spatial income inequalities in Germany– Empirical evidence from Social Security Data

More than one decade after the German reunification there are still huge income disparities between western and eastern regions in Germany. The main purpose of the paper is to show how social transfer payments extenuate these inter-regional disparities.

In a first step we examine inequalities in the distribution of gross income from dependent employment and self-employment on the small area level of 440 NUTS-3 units (NUTS = Nomenclature of Statistical Territorial Units). The data used is from the employment statistics of the Federal Employment Agency and the national income tax statistics of the year 2003. Our distributional analysis quantifies regional wage inequalities driven by economic disparities and different patterns of employment. A decomposition analysis reveals that large wage differentials do not only exist between East- and West-Germany but also within western regions.

Furthermore we estimate the income effects of the German unemployment and pension insurance using different sources of social security data. The data allows us to analyse revenues and expenditures as well on a regional level. The results indicate large regional redistributive effects across areas: The share of social payments on total net income ranges from 11% to 41%.

Like other European states Germany has to face several problems concerning its welfare state. Latest reforms of the welfare system in the years 2004 and 2005 also affected some core principles of social security. Our results show that changing parameters of eligibility, claims and financing influence the spatial income distribution. Hence further research is recommended on this topic as far as data for 2005 and later years are available.

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