

Abstract for “Multidimensional Polarization of Income and Wealth”

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The distribution of income and wealth has moved more and more in the center of scientific and political attention. Especially the publication of the 4th Poverty and Wealth Report issued by the German Government has aroused the debate about the distribution of private wealth. While income inequality is currently slightly decreasing in Germany, a strong increase of wealth inequality is emerging in Germany. An increasing inequality, especially in the form of polarization, leads to a greater sense of injustice among the population, thus threatening the social cohesion.

Income and wealth make an important contribution to individual economic welfare. Household maximizes its welfare by using its income so that the goods that he purchases, donate it in its entirety maximum benefit. Assets can generate a new income or can be used directly as a substitute for income for consumption purposes. The aim of this paper is to determine the intensity of polarization of income and wealth over a multidimensional measure, the mean minimum polarization gap 2DGAP. This polarization intensity measure provides transparency consideration of each singular attributes and ensures at the same time its interdependent relations.

In an empirical application, additional to the traditional income dimension – wealth should be incorporated as an additional determinant of the multidimensional polarization. The individual welfare is modeled by a CES utility function, which is directly affected by income and wealth. The parameters of the utility function are not chosen arbitrarily, but determined by the interdependent relations of wealth and income for the German population. Since income and wealth accumulation are strongly dependent on the life cycle of the observed person, the utility functions and thus the polarization intensity is calculated under consideration of different ages.