The Distribution of Wealth in Germany, 1895 to 2018*

By THILO N. H. ALBERS, CHARLOTTE BARTELS AND MORITZ SCHULARICK†

This paper presents the first comprehensive study of the long-run evolution of wealth inequality in Germany. We combine tax data, surveys, and rich lists to study the distribution of wealth in Germany from 1895 to 2018. We show that in the long run the concentration of wealth in the hands of the top-1% has fallen by half, from close to 50% in 1895 to less than 25% today. However, since reunification the fortunes of households in the upper half of the wealth distribution and those in the lower half have diverged sharply. Households in the upper half of the distribution have doubled their wealth in real terms in the past 25 years. By contrast, wealth of households in the bottom 50% has barely grown at all. As a result, the share of total wealth owned by the bottom 50% has nearly halved from above 5% to less than 3% today. The wealth gap between households in the bottom 50% and those in the upper half has widened dramatically. In 1993, the average wealth of households in the top-10% was 50 times higher than of those in the bottom half. Today, households in the top-10% are 100 times richer. East Germany has witnessed the most pronounced widening of wealth inequalities between the bottom half and the top. Capital gains from rising equity prices at the top and middle-class gains in housing wealth were of equal magnitude, but the boom in equity and house prices in the past decade has almost entirely by-passed households in the bottom half of the population. We also discuss that official statistics underestimate German business and real estate wealth by substantial amounts. We present more accurate estimates showing that Germany is much richer than official statistics suggest.

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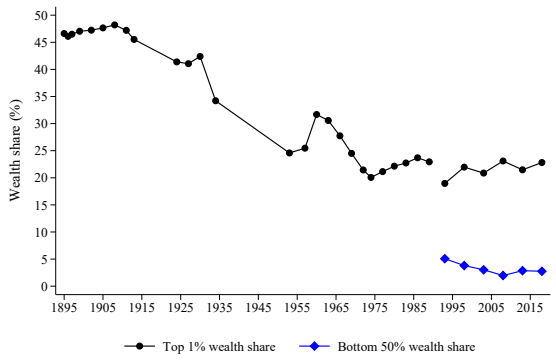
Summary

German wealth inequality over the long run

This study presents the first comprehensive analysis of long-run wealth inequality in Germany from 1895 until today. We harmonize and combine several data sources – wealth tax data, survey data, household balance sheets from national accounts and lists of large wealth holders – to compile an estimate of the long-run evolution of the top-1% wealth share in Germany that allows us to look at recent inequality trends from a long-run perspective. Measuring aggregate wealth and its distribution is particularly challenging in a country like Germany whose 20th century history has been marked by two World Wars and five different forms of government – the Kaiserreich, the Weimar Republic, the Nazi Regime, the Federal Republic and the German Democratic Republic.

Top 1% and bottom 50% wealth share, Germany, 1895-2018



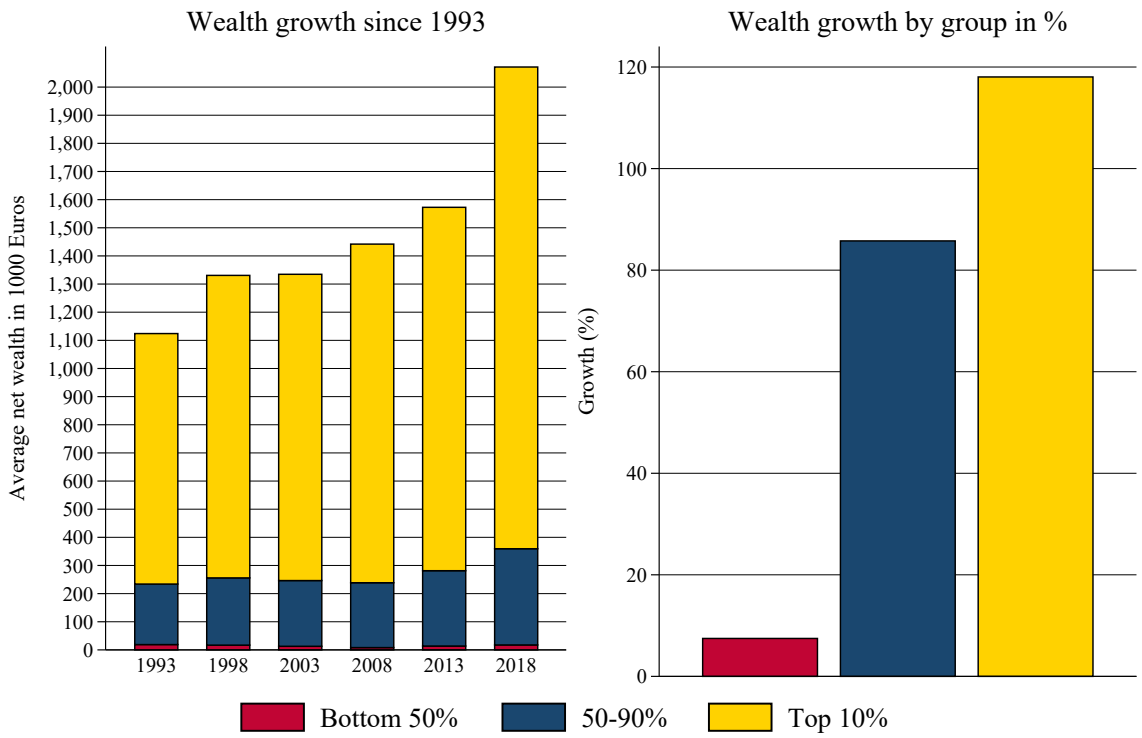
The figure above shows that the concentration of wealth in the hands of the top 1% has fallen by half, from close to 50% in 1895 to less than 25% today. Almost all of this decline occurred in the time span of a generation between World War I and the early 1950s. It has fluctuated around its post-WWII level ever since.

The main reason for the pronounced decline in the interwar period is that the value of business wealth – the most important part of wealth of households at the very top of the distribution – collapsed in the Great Depression. A second important factor for the decline was the significant wealth tax that was levied in 1952 to share the financial burden of the war ("Lastenausgleich"). This large wealth tax turned Germany into one of the most egalitarian countries in the early phase of the post-war boom. War destructions in World War II also affected wealth at the top, but the quantitative effect was smaller than that of the other two factors.

Surging wealth polarization in the unified Germany

Our second main contribution is to zoom in on the evolution of wealth inequality in the unified Germany. The central finding here is that underneath the stability of the top-1% wealth share and the Gini-Coefficient, the polarization of wealth has increased substantially in the past 25 years, driven

Distribution of total wealth and growth, 1993-2018



by diverging rates of wealth growth across the population.

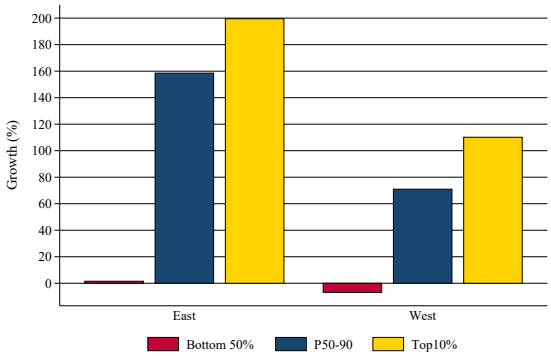
The upper half of the wealth distribution has effectively doubled their wealth in the past 25 years. By contrast, wealth in the bottom half of the population has barely grown at all, resulting in a sizable polarization of economic fortunes and a widening gap between the "haves" and the "have-nots" in the German population. In 1993, the average wealth of households in the top-10% of the wealth distribution was 50 times higher than in the bottom half. In 2018, the gap has grown to 100 times.

Moreover, the share of total wealth owned by the bottom-50% has nearly halved from above 5% to less than 3%. The polarization was particularly pronounced in East Germany where fortunes at the top tripled. In the West, average wealth of households in the lower half declined slightly in real terms since 1993.

So far, this considerable dispersion of wealth was missed in summary indicators of inequality, because two different trends off-set each other. On the one hand, business wealth of households at the very top of the distribution doubled since 1993, with rising equity valuations playing an important role. Yet on the other hand, thanks to rising house prices, middle-class households also made substantial gains in housing wealth. At around 2 trillion Euros, they have been of similar magnitude as the

business wealth gains at top. However, the asset price boom in housing and equity markets has almost entirely bypassed households in the bottom 50% of the distribution resulting in a growing gap between the bottom and top of the population.

Wealth growth in East and West, 1993-2018



New estimates for household wealth

Our third main contribution is to present new series for the aggregate level and the composition of household wealth in Germany from the Kaiserreich until today. While our definitions and methods to estimate aggregate private household wealth are often in line with Piketty and Zucman (2014), we also undertake several important modifications.

Most importantly, we provide alternative estimates for the trajectory of aggregate wealth since reunification. In particular, our new estimates for business wealth represent an improvement over existing series. While the value of publicly listed companies is accurately captured in existing statistics, the value of Germany's large number of private limited companies and quasi-corporations represents the main challenge. The statistical office (Destatis) knows about these shortcomings but has not yet embarked on a thorough revision of household balance sheets. To arrive at a new and better estimate, we capitalize the earnings streams from private limited companies and quasi-corporations using corporate and income tax data. For the capitalization method, we follow the U.S. approach to use the earnings multiples and dividend-price ratios of publicly listed companies, applying a generous liquidity and risk discount.

We estimate that by international standards, official statistics undervalue German business wealth by close to 2 trillion Euros. Real estate values are also underestimated as current statistics are (too) slow to reflect market prices. We estimate that the total value of German business wealth amounts to about 4 trillion Euros in 2018, and real estate wealth to more than 9 trillion. Our corrected wealth-to-income ratio is about 120% higher relative to GDP. Put differently, Germany is much richer than official statistics make us believe.

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