

Regional differences in the polarization of household incomes in Germany

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While regional income disparities are often assessed in terms of overall inequality, less attention has been paid to income polarization, i.e. the erosion of the middle-income group and the growing distance between lower- and upper-income households. This paper analyzes the long-term development and spatial differentiation of household income polarization in Germany, with a particular focus on urban–rural and East–West divides.

We draw on data from the German Socio-Economic Panel (SOEP), covering more than 25,000 households over several decades, and apply the Esteban-Ray-Gradín polarization index, which explicitly captures changes in the relative size and separation of income groups. Polarization is examined across different regional types, distinguishing between urban and rural regions as well as between eastern and western Germany.

The results reveal three main findings. First, income polarization increased sharply in the early 2000s, followed by a phase of relative stability and a slight decline after 2015, before recent developments again indicate rising polarization. Second, substantial regional disparities persist, with higher polarization levels in western compared to eastern Germany and noticeable differences between northern and southern regions of the former Federal Republic. Third, and most importantly, urban-rural differences dominate the spatial pattern of income polarization. Polarization is consistently higher in urban regions and has increased significantly more strongly since the 1990s. Currently, polarization indices in urban areas exceed those in rural regions by almost one-sixth.

A closer comparison shows that once these urban–rural differences are considered, East-West differences largely disappear. Urban regions in eastern and western Germany exhibit very similar levels of income polarization, as do rural regions. These findings suggest that urbanization-related processes rather than historical East-West legacies are the main drivers of regional income polarization in Germany. The paper contributes to the regional science literature by highlighting the importance of polarization measures for understanding spatial income dynamics and by providing evidence with broader relevance for regions facing increasing urban-rural divides across Europe.