Deindustrialization and the Polarization of Household Incomes: The Example of Urban Agglomerations in Germany

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Paper Abstract: The tertiarcization, or perhaps more accurately, the deindustrialization of the economy has left scars on cities. It is evident not only in the industrial wastelands and empty factory buildings scattered throughout the urban landscape, but also in the income and social structures of cities. Industrialization, collective wage setting and the welfare state led to a stark reduction in income differences over the course of the twentieth century. Conversely, deindustrialization and the shift to tertiary sectors could result in increasing wage differentiation. The sectoral structural changes in the US and Western Europe in the mid-1970s also led to a change in regional growth patterns (Hall/Hay 1980; Norton 1986). The situation was now no longer defined by the development gap between the center and the periphery but rather by disparities among different urban agglomerations. Regions with large coal and steel industries were particularly hit hard and came to be referred to as “traditional industrial regions.” Typical examples are the Ruhr district and Saarland in West Germany.

Moreover, numerous studies on global cities, the dual city, and divided cities have also identified income polarization as a central phenomenon in the development of major cities. Using data from the German Socio-Economic Panel (SOEP), we find increasing polarization of household income structures since the mid-1990s. In agglomerations, this income polarization is even more pronounced than in the more rural regions. The income polarization in Germany is likely to have multiple causes, some of which are directly linked to policies such as the deregulation of the labor market. But extensive deindustrialization is probably also one of the drivers, that has led directly to the weakening of middle income groups.

There are many similarities between the developmental trajectories of income polarization and changes in economic structures. Between 2000 and 2006, the period with the strongest income polarization, the shares of industrial employment in eastern and western German conurbations have decreased significantly. Even after this period, income polarization as well as the importance of manufacturing continued to decline in western German agglomerations, while in eastern Germany, industrial employment began to increase again and the percentage of industry workers of all employed people continued to rise. At the same time, income polarization there stopped increasing using micro data from the SOEP.

However, the SOEP data has a rather sample sample size for analyzing regional differences. For an analysis of polarization at the level of communities we use new data from microm ([microm](http://www.microm-online.de/)). microm can provide the number of households with very low or very high socio-economic status at the level of street sections for all communities in Germany for the period 2005 to 2013. Using additional official data about the
economic structure of the communities we try to disentangle the multiple causes of polarization at the community level.