Dr. Markus Grabka is a Research Associate at the Research Infrastructure Socio-Economic Panel (SOEP) study at DIW Berlin

SIX QUESTIONS TO MARKUS GRABKA

»German Investment Behavior Contributes to Real Losses in Net Worth of Households«

1. Dr. Grabka, you've analyzed the real net worth of households in Germany. What approach did you take? In Germany, household assets are typically presented as nominal values, meaning they are shown in the prices of the given year. In our study, we attempted to analyze the asset situation while also taking inflation into account.
2. What were your findings? Our study comes to the surprising conclusion that in Germany, net worth have declined in the past ten years. If we examine the data for the period between 2003 and 2013 from the Income and Expenditure Survey, conducted by the German Federal Statistical Office, we can observe a nominal increase of only 500 euros, based on an initial level of more than 100,000 euros per household. In real terms, however, accounting for inflation, household assets in fact decreased by 15 percent. An alternative dataset, namely DIW Berlin's Socio-Economic Panel study, also confirms this development pointing to a decline of more than 11 percent between 2002 and 2012.
3. How can this sharp decline be explained? Quantitatively, the most important component of wealth in Germany is real estate. However, between 1995 and 2010, we experienced a protracted period of declining property prices, which was the primary reason for the drop in net worth observed between 2002 and 2012.
4. What differences are there between the various age and income groups? If we look at the different age groups, we can see a typical life cycle process of saving and spending. Individuals in the 30-to-39 age group, in particular, tend to save considerable sums, with an annual median of 8,000 euros in the past ten years. At the same time, around retirement, people begin to spend more due to additional health costs or the desire to prematurely transfer some of their assets to their children, for instance.
5. The Germans have a reputation for being particularly keen savers. Do Germans make bad investment decisions? Over the past ten years, German households have regularly saved an average of ten percent of their income. This is a notable amount, but the money is primarily spent on highly liquid investments such as savings accounts, checking accounts, and overnight funds which frequently don't even offset the effect of inflation. The way people in Germany invest their money ultimately leads to them having less net worth in real terms.
6. What are the fundamental difficulties with capturing private wealth statistics? It is surprising, even to us, just how limited our knowledge of individuals' assets and the development of private wealth in Germany actually is. This is because the concept of private wealth is faced with a gamut of problems related to measuring and capturing data. For example, population surveys usually don't even include the country's largest asset-holders, that is, multimillionaires and billionaires, even though it is highly probable that these individuals have a major impact on overall wealth levels in Germany. We also know very little about the size of the population's pension entitlements as a whole since this wealth component is not usually measured at all, despite being one of the most important factors affecting the majority of citizens. The different methods used to evaluate wealth components is also an issue. The evaluation method used on the macro level is replacement values whereas population surveys usually only enquire about the market value. This raises the problem that many people don't even know exactly what their assets are worth at any given time.

Interview by Erich Wittenberg

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