

# Can Subjective Data Improve Inequality Measurement?

## An Index of Relative Inequality

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Based on the common understanding that economic inequality cannot only be described by the distribution of income and wealth, multiple designs and applications of multidimensional inequality measures have been developed in the last decade. However, the process of selecting and weighting different dimensions of inequality has always been controversial. This paper asks, whether subjective assessments of individuals can improve the measurement of relative inequality.

Given that purely normative as well as data-driven methods have distinct drawbacks, this paper relies on a hybrid method to select and weight dimensions of economic inequality. In the first step, normalized weights for 15 European countries including Germany are calculated, based on the 2009 ISSP cross-sectional wave. Instead of life satisfaction or happiness, the subjective social status of individuals is regressed on different dimensions of inequality, which are related to the types of capital as described by Bourdieu. The results show that besides income and wealth, especially the parental background and the working status affect the assessment of relative inequality and that the heterogeneity between countries is significant.

In the second step, an aggregate index of multidimensional inequality following Maasoumi (1986) is constructed for the sample case of Germany combining the SOEP waves from 2002, 2007 and 2012 with the regression weights from the ISSP. The unified index of multidimensional relative inequality shows a different level and time trend and the cross-tabulation of deciles reveal significant changes within the distribution compared to common univariate measures of income or wealth inequality.

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