

**Accounting for imputed and capital income flows in
inequality analyses**

by *Joachim R. Frick*^{*1,2,3} & *Markus M. Grabka*^{1,2}

*Presented at OECD Conference on
“European perspectives on poverty and inequality”,
Paris, 16-17 March 2009*

Berlin, April 2009

¹ SOEP at DIW Berlin, ² Berlin University of Technology ³ IZA Bonn

* Corresponding author <jfrick@diw.de>

Mail Address: c/o DIW Berlin, Department SOEP, Mohrenstr. 58, 10117 Berlin, Germany.

Abstract:

Using representative and consistent microdata from the German Socio-Economic Panel Study (SOEP) from 1985-2007, we illustrate that capital income (CI) and imputed rent (IR) have become increasingly important sources of economic inequality in Germany over the last two decades. While both of these components represent some kind of return on alternative private investments (CI = return on financial investments in general, IR = return on investments in owner-occupied housing), we find that they do not coincide in their impacts on income inequality and poverty. In line with the literature, *net* IR tends to exert a dampening effect on inequality and relative poverty, very much driven by the increasing share of outright ownership among the elderly. On the other hand, inequality is boosted by CI especially when looking at the upper tail of the income distribution. As the German public pension scheme gradually loses its ability to maintain people's living standards into retirement, we find these effects to increase over time. The analyses presented here make a clear case for the joint consideration of all components of private investment income for the purpose of welfare analysis, be they of a monetary or non-monetary nature. This appears to be relevant in at least three dimensions of comparative research: (1) across time; (2) across space, regions, welfare regimes; (3) across the individual life course, thus analyzing the impact of investment income on intrapersonal mobility patterns.

Keywords: Income Inequality, Decomposition, Capital Income, Imputed Rent, SOEP

JEL-Codes: D31, D33, I31