

What did you really earn last year? Measurement error in survey income data

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This paper provides an empirical evaluation of reasons for income measurement error resulting from inaccurate survey responses by using a unique data-set. The Austrian 2008-2011 waves of the EU-SILC provide income information from survey and administrative register data for the same individuals. We follow the traditional literature on income measurement error and check survey income data against administrative records. Compared to previous literature, using the Austrian EU-SILC 2008-2011 for assessing income measurement error has two advantages. First, we do not have to fall back on two sample matching processes and are able to compare survey and register data within one dataset. Second, we are able to evaluate income measurement error for various components of total disposable household income in the same dataset.

The theoretical and empirical literature on income measurement error emphasizes four main reasons for measurement error. These are (i) social desirability, (ii) socio-demographic characteristics of the respondent, (iii) the survey design, and, (iv) the presence of learning effects. In our empirical application, we are interested in the effects of these error sources on the nature and extent of income measurement error in three types of personal income: wages, pensions and unemployment benefits. Besides providing descriptive evidence, we estimate a pooled multinomial logit model in order to evaluate error sources (i) through (iv). Further, by exploiting the panel structure of the EU-SILC, we are able to assess (i) and (iv) in more depth.

We find evidence for the presence of social desirability bias in income and a significant correlation between various socio-demographic characteristics and features of the survey-design and income misreporting. Evidence for the presence of learning effects is mixed and crucially depends on the type of income under consideration.

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