Income sources and income inequality – a SAM analysis

Topic: Input-output analysis for policy making 5
Author: Utz Peter Reich

Income sources and income inequality – a SAM analysis
by
Utz-Peter Reich
Mainz University of Applied Sciences (em.)

Abstract

Income studies, in their ordinary fashion, begin by defining a concept of income in some way, following up and studying the distribution of this variable through households and other institutions of an economy. Such studies take income as a concept homogeneous in itself. They ignore the sources on the basis of which a certain income is being claimed.
These sources are, however, are quite different in nature. In terms of welfare it is evident that an income of 1000 dollars provides for a different way of life depending on whether it is being derived from property, from a forty- hours week of work, or as an unemployment benefit. The order of preferences of these three forms of income is also clear enough for everyone not to warrant any scientific investigation. But it may be that the source of a certain income affects not only its welfare content but also its distribution. This is the hypothesis of the paper.

All income of a nation is generated in production. The national accounts, and input-output tables, in particular, demonstrate this economic process in detail. They stop short, however, of informing about the social distribution of the flows. Social accounting matrices are then the appropriate tool, connecting these two realms of the income circuit. The paper uses ordinary input-output techniques to discriminate income flows running through an economy by their source, and thus to test the hypothesis of source dependency of its distribution. It may be the present general drive towards income inequality is caused by the fact that there is already inequality (and growth potential) in its specific sources.