TITLE: STATISTICAL BASES FOR INCOME REPRESENTATION IN A SOCIAL ACCOUNTING MATRIX: USING HOUSEHOLD HEADS VERSUS ECONOMICALLY ACTIVE HOUSEHOLDS

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ABSTRACT:

This paper attempts to measure the extent to which household heads should be used as a statistical basis for income representation in a social accounting matrix (SAM). We argue that it is more appropriate to use economically active households for that purpose. Economically active households capture the employment of all household members, including household heads. Therefore, economically active households reflect the employment composition and income distribution better than household heads do. To sketch the problem, the household head may generate all the household's income in rural areas, whereas in urban areas the share of the household head is significantly less than one. Using a national average multiplication factor to estimate the household income would induce an overestimation in rural areas and an underestimation in urban areas. To quantify our arguments, sensitivity analyses are conducted by constructing two SAMs for Malaysia. One uses household heads as its statistical unit, the other is based on economically active households. Our results show that multiplier effects obtained from the SAMs differ largely, depending on the statistical basis that is used in the SAM's construction. Interestingly, the multipliers for the "household head" type of SAM tend to overestimate the income effect, which in turn could have a serious implication on policy.