

# **Mechanisms of national income distribution: a comparative SAM analysis of Canada, Germany, and Portugal**

by

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## **Abstract**

Modern income studies are firmly rooted in, and restricted to, the micro-approach. Following economic theory of the household they begin by defining a concept of “personal income” observable in household surveys, and end by correlating this variable to other variables of the same households. Households are thus the one, and only, object of inquiry.

While such focussing on one specific type of economic institution may be sensible for certain purposes it also has its short-comings for others. It seems, for example, that the current trend of income distribution towards social polarisation cannot be explained by looking at households alone, but that other institutional units, by their participation in the distribution process, also exert an important influence. As a consequence, it may be warranted to enlarge the scope of research to including all institutional units of an economy, adding a macro-economic perspective to the micro approach.

A means of carrying out such project is being provided by social accounting matrices (SAMs), which pursue each type of income, from its source to its use, through the whole economic circuit. Based on the assumption of constant column coefficients the effect of different mechanisms of distributing and redistributing national income to different groups of households may be brought to light and studied. The paper compares three countries, namely, Canada, Germany, and Portugal, in this respect.

## **1 Introduction**

Input-output analysis deals with economic production, by tradition. Beginning from some final demand assumed to be exogeneous to the model input-output techniques may determine input of primary factors, either paid out of value added, or unpaid such as environmental costs, incurred by a production satisfying the given final demand. The principal idea looming behind such studies is that of an economic circuit in which the products of an economy are mutually inputs to each other, and circulate in a complex manner, before they reach their final

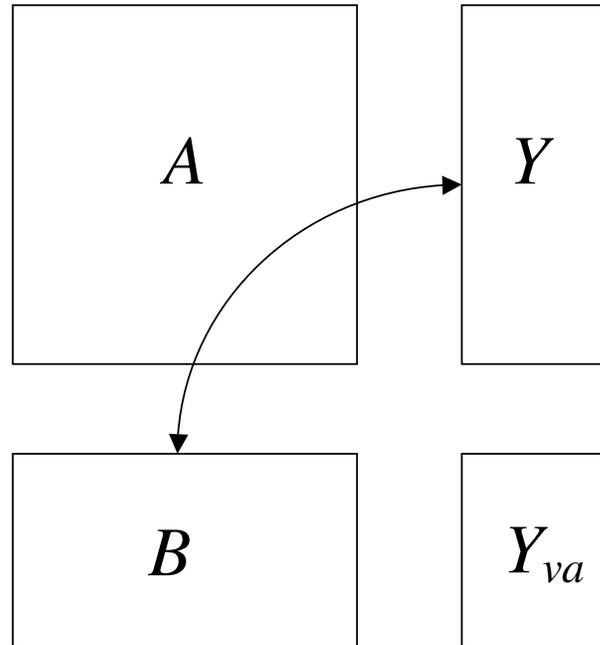
destination. Final use (the “second quadrant”) is linked to primary factors of production (the “third quadrant”) via intermediate use (the “first” quadrant). The “fourth quadrant”, in the language of input-output, is left empty, analytically and statistically.

The paper attempts to fill the empty space. Its focus is not the circuit of products, but circulation of income through the institutional sectors of an economy transforming primary income generated into final income disposable for purchase of goods and services. The statistical data required for such analysis are found in “social” accounting matrices that extend the concept of economic circuit beyond the realm of production into the social, and political, arena of distribution of income (Pyatt and Round 1977, 2012). Economic income is generated from value added in industries. It is paid out as employee compensation, and tax on production to households and general government, the remainder being withheld as operating surplus, within the corporate sector, in terms of national accounts. Institutional units use the receipts to pay property income to those whose property they use (interest, dividends etc.). The balance is termed “primary income” of a sector, in the national accounts. Secondary distribution begins with this aggregate and registers all direct taxes paid and received, contributions to, and benefits from social insurance institutions and so on. The circuit and transformation of different forms of income is as involved and complex as the circuit of products. And its analysis may be performed by means of similar tools, as will be shown in the following. We begin by recalling some basic features of input-output analysis of production (section 2). We then apply the same technique to distribution, taking Canada as the first example (section 3), followed by Germany (section 4), and finally Portugal (section 5), which prepares the most detailed social accounting matrix of the three countries considered. In section 6, a short step is taken from accounting to modelling in that the effects of a rise in wages, and of a rise in direct taxes are examined by means of the input-output model. Section 7 concludes.

## **2 Elements of input-output analysis**

Table 1 illustrates the basic set-up of an input-output table. Matrix  $A$  represents a matrix of input coefficients (intermediate use), matrix  $B$  represents a matrix of factor coefficients, and matrix  $Y$  stands for a matrix of final use which may be equal to GDP if exports are registered net.

**Table 1** Elementary scheme of input-output analysis



The corresponding definitions and equations are well-known and standard (Miller, Blair 2009). If  $x_{i,j}$  describes the intermediate flows from industry  $i$  to industry  $j$ , exchanged between  $n$  industries, and  $x_j$  is the total output of industry  $j$  matrix  $A$  of input coefficients (first quadrant) is defined by equation 1,

$$(1) \quad A = \{a_{ij}\} = \{x_{ij} / x_j\}, \quad i, j = 1, \dots, n.$$

Furthermore, if  $\{v_{ij}\}$  represents the payments to primary factors of kind  $i$  (compensation of employees, entrepreneurial income, operating surplus, taxes on production) in industry  $j$  the corresponding matrix  $B$  of factor coefficients (third quadrant) is given by

$$(2) \quad B = \{b_{ij}\} = \{v_{ij} / x_j\}, \quad i = 1, \dots, 4; \quad j = 1, \dots, n.$$

Quadrants 1,2, 3 comprise the data underlying traditional input-output analysis; they describe flows of products, and ignore flows of income, except for the equation needed to close the circuit of products, namely that GDP generated (in terms of value added) equals GDP expended (in terms of products). The fourth quadrant that would have to contain the

flows of income distribution and redistribution remains empty. Social accounting matrices address this quadrant, and thus provide a more elaborate picture of the overall economic circuit than a traditional input-output table.

There is a certain table within the production circuit that fits into the empty space of the fourth quadrant, in that it links value added to products, in a direct way. The corresponding formula is

$$(3) \quad Y_{VA} = B(I - A)^{-1}Y ,$$

which maps GDP by products,  $Y$ , directly into its corresponding expression in terms of value added,  $Y_{VA}$ . The transformation  $(I - A)^{-1}$  is well-known as the „Leontief-Inverse“ and its use is standard in input-output analysis. Tables 1 and 2 apply equations 1 - 3 to a simple example. Two commodities (X1, X2) are produced paying wages for primary input of labor (L) and property income to capital (P); they are used for final consumption (C) or for capital formation (I).

**Table 1** Example of input-output table

	X1	X2	C	I	Sum
X1	2	5	3	0	10
X2	3	0	0	7	10
L	4	1			5
P	1	4			5
Sum	10	10	3	7	

Table 2 is compiled by entering data of table 1 into equation 3, and may be interpreted as follows: Products used for final consumption pay 1.98 value units to labor and 1.02 value units to capital, directly and indirectly, of both industries while products entering into capital formation pay 3.02 value units to labor and 3.98 value units to capital.

**Table 2** Mapping final use into primary factors

	C	I	Sum
L	1,98	3,02	5,00
P	1,02	3,98	5,00
Sum	3,00	7,00	

The paper attempts to extend the use of the tool from analysing the structure of production to that of flows of income circulating within an economy. The data required for that purpose are found in a social accounting matrix. We begin our exercise with a table of Canada.

### 3 Direct and indirect distribution of income: the case of Canada

Data of table 3 have been taken from a social accounting matrix constructed by Statistics Canada for year 2000. We put accounts 3, income generation, displaying components of value added, in the place of exogeneous variables (second quadrant), because it is from here where income distribution starts. Accounts 4 and 5 describe different intermediate income flows between the three sectors of households, corporations and government so they are treated as first quadrant. Accounts 6 contain the balances of disposable income as well as outflows of income to the rest of the world, and reflect the final or “personal” income remaining with sectors after all processes of distribution and redistribution have been completed.

**Table 3** Distribution of national income in Canada, 2000 (billion dollars)

	4a	4b	4c	5a	5b	5c	3a	3b	3c	3d	10	Sum
<b>4a</b>	0	106	5				545	66	54	0	4	780
<b>4b</b>	38	51	52				0	0	262	0	25	428
<b>4c</b>	0	37	5				0	0	20	128	1	191
<b>5a</b>	742	0	0	0	2	110					2	856
<b>5b</b>	0	192	0	0	0	0					0	192
<b>5c</b>	0	0	114	201	48	0					4	367
<b>6a</b>				653	0	0						653
<b>6b</b>				0	142	0						142
<b>6c</b>				0	0	254						254
<b>10</b>	0	42	15	2	0	3						62
<b>Sum</b>	780	428	191	856	192	367	545	66	336	128	36	1111

Account 3: Generation of income (a: Compensation of employees, b: Mixed income, gross, c: Operating surplus, gross, d: taxes less subsidies on production)

Account 4: Allocation of primary income, Account 5: Secondary distribution of income, Account 6: Disposable income, Account 10: Rest of the world.

Codes for accounts 4, 5, 6, 10. a: Households and NPISHs, b: Corporations, c: Government.

Source: Statistics Canada

In order to compare this macroeconomic view to its microeconomic counterpart, table 4 reconstructs the income/outlay account of households with rows 4a, 5a, and 6a of table 3 forming the side of receivables, and columns 4a, and 5a describing the corresponding outlays.

**Table 4** Income and outlay account of households

	Payables	Receivables
3a: Compensation of employees		545
3b: Mixed income, gross		66
3c: Operating surplus, gross		54
4: Property income	38	111
5: Taxes on income, social contributions, Social benefits	201	112
10: Rest of the World	2	6
6: Disposable income (balance)	653	
Total	894	894

Source: Table 3

The account defines what is called “disposable” income in the national accounts.<sup>1</sup> It is called “personal” income in household studies, and forms the basis of all indexes of inequality applied there. The perspective of households accounts, alone, is insufficient in two ways. First, in isolating the concept of disposable (or personal) income all memories of the physical and mental effort required to earn it, or social status conveyed by it, have been defined away. Income is considered under the one aspect, only, as a means of buying goods and services. This reduction in meaning is insufficient in so far as a comparison of welfare cannot ignore such aspects of human, and social life. Second, and more relevant in our context, the simple income/outlay account registers all flows as if they were independent of each other, each coming from a different source. Wages are earned, taxes are paid, interest is paid and received, all appear as original flows determining the final balance of disposable income. The view is adequate for a single individual household, but it is not correct for the sector as a whole (Atkinson 1983). The social accounting matrix exhibits the multiple processes of transformation and interconnectedness income flows undergo in their circulation through the economy. Wages are paid to households from which interest is paid to banks, which again pay

<sup>1</sup> The term is somewhat misleading, because it includes outlays that are hardly disposable such as rents for housing, and includes payments more disposable than those such as voluntary contributions to private organisations. A more appropriate term would be “distributed income”, because it is the income that remains after all processes of distribution and redistribution have been completed.

interest to government from which households receive social benefits and so on, through many different channels. The macroeconomic perspective on income distribution taken by the social accounting matrix allows to put some order into this network of flows. By means of the same input-output technique as is applied to analysing the circuit of products, such as equations 1 – 3, we are able to follow up the flow of value added to income distributed as follows. A matrix of intermediate flows  $A$  may be derived from table 3:

$$(4) \quad A = \begin{pmatrix} 0 & .248 & .026 & 0 & 0 & 0 \\ .049 & .119 & .272 & 0 & 0 & 0 \\ 0 & .086 & .026 & 0 & 0 & 0 \\ .951 & 0 & 0 & 0 & 0 & .300 \\ 0 & .449 & 0 & 0 & 0 & 0 \\ 0 & 0 & .597 & .235 & .250 & 0 \end{pmatrix}.$$

The corresponding matrix  $B$  of coefficients of disposable income is shown in equation 5,

$$(5) \quad B = \begin{pmatrix} 0 & 0 & 0 & .763 & 0 & 0 \\ 0 & 0 & 0 & 0 & .740 & 0 \\ 0 & 0 & 0 & 0 & 0 & .692 \\ 0 & .089 & .079 & .002 & 0 & .008 \end{pmatrix}$$

and finally, the matrix  $Y$  of income generated from value added is given by the second Quadrant in table 3. Inserting these data into formula 3 leads to the desired mapping of income generated into income distributed as shown in table 5:

**Table 5** Final (direct and indirect) distribution of gross value added in Canada, 2000  
(billion dollars)

		B(I-A) <sup>-1</sup> Y					
		3a	3b	3c	3d	10	Disp. Inc.
HH	6a	433	52	122	32	13	653
Corp	6b	10	1	106	14	10	142
GG	6c	96	12	71	66	9	254
ROW	10	6	1	36	16	3	62
Generated inc.		545	66	336	128	36	1111

For explanations see table 3.

Source: Table 3 and own calculations

Table 5 reads as follows: Of a total of 545 billion dollars paid out as compensation of employees, 433 billion dollars remain with households, 96 billion dollars end up in government, 10 at corporations and 6 flow abroad. Read the other, horizontal way the table says that of a disposable income of households of 653 billion dollars, 433 originate in employee compensation, 52 in self-employment, 122 stem from operating surplus, 32 from taxes on products, and 13 from abroad, similar for disposable income of the other sectors. Operating surplus is interesting. Of a total of 336 billion dollars, 262 have been earned by corporations, originally (see table 3). But only a value 106 billion dollars remains there while 122 billion dollars it have been versed to households, directly and indirectly through other channels. 36 billion dollars (142 – 106) have been generated by other sources.

#### **4 Financial sector and property income: the case of Germany**

The Canadian SAM serves as good introduction into analysis of macroeconomic distribution, a thorough analysis, however, requires more detail. The German SAM separates financial from non-financial corporations, permitting to study the particular role this sector assumes in the process of income distribution. The German table differs from the Canadian table in that value added is registered net, instead of gross<sup>2</sup>, and in the ordering of sectors (table 6).

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<sup>2</sup> Gross is preferable to net in that is more in line with the transactor/transaction principle of national accounting, because figures of consumption of fixed capital are not observed by survey but computed by statistical offices, and imputed to the data, afterwards.

**Table 6** Distribution of national income in Germany, 2000 (billion euros)

	4. Primary distribution				5. Secondary distribution				3. Income generation				ROW	
	4a	4b	4c	4d	5a	5b	5c	5d	3a	3b	3c	3d	10	Sum
4a	11	19	3	0					0	0	226	0	27	286
4b	76	158	39	98					0	0	-49	0	66	388
4c	4	10	0	1					0	0	-3	218	-7	223
4d	185	108	5	1					1099	181	57	0	9	1645
5a	-11				0	6	3	25	0	0	0	0	0	23
5b		30			6	1	5	70	0	0	0	0	1	113
5c			154		32	8	151	600	0	0	0	0	5	950
5d				1545	12	68	389	1	0	0	0	0	3	2018
6a					-28									-28
6b						29								29
6c							385							385
6d								1310						1310
10	21	63	22	0	1	1	17	12						137
Sum	286	388	223	1645	23	113	950	2018	1099	181	231	218	104	1833

Account 3: Generation of income (a: Compensation of employees, b: Mixed income, net, c: Operating surplus, net, d: taxes less subsidies on products).

Account 4: Allocation of primary income, Account 5: Secondary distribution of income, Account 6: Disposable income, Account 10: Rest of the world.

Codes for accounts 4, 5, 6, 10. a: Non-financial corporations, b: Financial corporations, c: Government, d: Households and NPISHs.

Source: Federal Statistical Office, Germany.

The financial sector may now be identified in its role of distributing property income within the economy. 158 billion euros of interest and dividends circulate within the sector itself, 108 are paid to households while an almost equal amount of 98 billion euros is raised from them. Here, clearly, some disaggregation of the household sector is required in order to recognise the social effect of this redistribution of value added. The non-financial corporations are also distributing much of their operating surplus to households, namely 185 billion euros. It is so much that deducting the imputed consumption of fixed capital leads to a negative disposable income for non-financial corporations, which result is not very plausible to hold for the sector as a whole. But we accept it here as the official starting point of our calculation. Applying equations 1 –3 as before yields table 7.

**Table 7** Final (direct and indirect) distribution of net value added in Germany, 2000

(billion euros)

Sector	Income generation				10	Disp. inc.
	3a	3b	3c	3d		
5a Non-fin. Cpt.	-26	-4	6	-3	-1	-28
5b Financial cpt	16	3	3	3	4	29
5c Government	208	34	33	94	16	385
5d Households	862	142	161	85	60	1310
10 ROW	39	6	28	39	25	137
General inc.	1099	181	231	218	104	1833

For explanation of codes see table 6

Source: Table 6 and own calculations

The structure of national distribution appears to be similar to the Canadian case, at the given level of aggregation, except for the difference between gross and net recording of operating surplus. We may facilitate the comparison by normalising both structures to a GDP of 1000 (table 8) where the German figures have been changed to gross recording, in order to improve comparability. The observed structures are surprisingly similar. Households retain 39 and 39.6 percent of the economy's gross value added, respectively, in their disposable income, in spite of the fact that the share of total labor income is higher in Germany (65.5 percent) than in Canada (58.8 percent). Flows of income to and from abroad are equal in relative size; Germany pays more labor (16 as against 5 percent), while Canada loses more operating surplus (33 as against 20 percent of gross value added).

**Table 8** Comparison of national distribution structures in Canada and Germany, 2000**Canada**

Sector	Generated income, gross					Disp.inc.
	3a	3b	3c	3d	10	
Corporatns	9	1	96	13	9	128
Governmt.	86	10	64	59	8	229
Househds.	390	47	110	29	12	588
ROW	5	1	33	14	3	56
Gentd. inc.	491	59	302	115	32	1000

**Germany**

Sector	Generated income, gross					Disp.inc.
	3a	3b	3c	3d	10	
Nonfin. Cp.	7	1	53	2	5	67
Fin. Cpts.	8	1	4	2	2	17
Governmt.	88	14	41	46	7	196
Househds.	396	65	132	37	25	655
ROW	16	3	20	16	10	64
Gentd. Inc.	515	85	250	102	49	1000

For explanation of codes see table 3.

Source: Tables 3 and 6 and own calculations

### 5 Distribution among households and labor heterogeneity: the case of Portugal

Of the three countries considered here Portugal prepares the most elaborate social accounting matrix (Santos 20003, 2009). Disaggregating labor input by sex and by education, separating NPISHs from households, and dividing the latter into four groups of different socio-economic characteristics, the resulting table actually justifies its name as a “social” accounting scheme (table 9). Its first part (a) describes gross flows of income between sectors, the second part (b) shows how income has been generated from value added, and the last part (c) provides an explanatory note for the corresponding classification.

An important detailing in comparison to the other tables is achieved by disaggregating labor input, because in the assessment of economic inequality heterogeneity of the labor plays an important, and not yet fully understood, role. Level of education designates heterogeneity, and is considered to justify inequality in pay, gender, in contrast, not. Both variables are under political discussion, and deserve being explicated in statistics.

**Table 9** Distribution of national income in Portugal, 2000 (million euros)

## (a) Intermediate flows and disposable income

	4a	4b	4c	4d-1	4d-2	4d-3	4d-4	4e	5a	5b	5c	5d-1	5d-2	5d-3	5d-4	5e
4a	983	905	26	0	1	0	0	0								
4b	5,359	3,083	1,279	2,574	466	127	48	40								
4c	289	486	17	4	0	0	0	5								
4d-1	122	1,375	168	1	2	0	0	0								
4d-2	875	1,921	336	10	25	5	1	0								
4d-3	34	839	150	2	5	1	0	0								
4d-4	12	670	27	0	0	0	0	0								
4e	126	243	0	0	0	0	0	0								
5a	3,222								74	874	5	1,312	61	40	13	0
5b		2,410							816	51	6	2,410	144	138	313	22
5c			12,203						4,450	529	12,384	18,211	1,497	1,025	211	27
5d-1				61,484					296	607	3,073	189	40	18	4	3
5d-2					15,421				66	115	674	57	8	3	1	1
5d-3						3,838			989	1,177	9,876	37	30	4	1	11
5d-4							1,440		75	354	855	156	31	15	3	1
5e								13	549	40	1,295	446	81	43	9	3
6a									-1,847							
6b										2,571						
6c											22,218					
6d-1												44,339				
6d-2													14,631			
6d-3														14,930		
6d-4															4,044	
6e																2,410
10	2,871	2,943	1,766	0	7	0	0	0	212	56	851	435	72	40	8	0
FISIM	-1,302	1,940	-15	-1,429	-259	-71	-27	-20								
Sum	12,591	16,816	15,957	62,646	15,667	3,900	1,463	38	5,679	6,374	51,237	67,591	16,595	16,25	4,605	2,477

## (b) Income generated from net value added, by kind and direct receivers

	3a-1	3a-2	3a-3	3a-4	3a-5	3a-6	3b-1	3b-2	3b-3	3b-4	3b-5	3b-6	3c	3d	10	FISIM	Sum
4a	0	0	0	0	0	0	0	0	0	0	0	0	9.691	0	642	342	10.675
4b	0	0	0	0	0	0	0	0	0	0	0	0	2.764	0	4.157	-3.083	3.838
4c	0	0	0	0	0	0	0	0	0	0	0	0	-70	14.972	186	68	15.156
4d-1	25.800	4.915	6.951	10.312	3.180	6.010	443	100	196	509	42	33	2.189	0	1	297	60.978
4d-2	478	150	80	574	183	286	1.982	214	218	744	53	93	6.841	0	6	594	12.495
4d-3	671	148	71	501	158	97	82	17	0	119	1	6	734	0	0	265	2.869
4d-4	164	70	7	151	72	54	23	0	2	51	0	0	113	0	0	47	755
4e	0	0	0	0	0	0	0	0	0	0	0	0	-349	0	0	17	-331
Total	27.113	5.283	7.109	11.537	3.594	6.448	2.530	331	416	1.423	96	132	21.913	14.972	4.993	-1.453	106.435

(c) Classification

3. Generation of income	Compensation of employees	Male	Primary/lower secondary (ISCED 1-2)	<b>3a-1</b>
			Upper or post secondary (ISCED 3-4)	<b>3a-2</b>
			Tertiary (ISCED 5-6)	<b>3a-3</b>
		Female	Primary/lower secondary (ISCED 1-2)	<b>3a-4</b>
			Upper or post secondary (ISCED 3-4)	<b>3a-5</b>
			Tertiary (ISCED 5-6)	<b>3a-6</b>
	Mixed income (compensation of employees)	Male	Primary/lower secondary (ISCED 1-2)	<b>3b-1</b>
			Upper or post secondary (ISCED 3-4)	<b>3b-2</b>
			Tertiary (ISCED 5-6)	<b>3b-3</b>
		Female	Primary/lower secondary (ISCED 1-2)	<b>3b-4</b>
			Upper or post secondary (ISCED 3-4)	<b>3b-5</b>
			Tertiary (ISCED 5-6)	<b>3b-6</b>
Net operating surplus/mixed income (capital)				<b>3c</b>
Other taxes less subsidies on production				<b>3d</b>
4. Allocation of primary income	Non-Financial corporations			<b>4a</b>
	Financial corporations			<b>4b</b>
	General Government			<b>4c</b>
	Households classified by main source of income	Wages and salaries		<b>4d-1</b>
		Mixed income (including property income)		<b>4d-2</b>
		Income in connection with old age (retirement)		<b>4d-3</b>
		Other transfers income (including other households)		<b>4d-4</b>
	NPISH			<b>4e</b>
5. Secondary distribution	Sectors as above			<b>5a - e</b>
6. Use of income	Sectors as above			<b>6a - e</b>

For applying equations 1 – 3 to these data, coefficients *A* and *B* are derived from table 9a, the first by dividing entries of accounts 4 and 5 into their corresponding column sums, and the second by performing the same operation on accounts 6. The exogenous value added matrix *Y* is supplied by table 9b, the resulting comprehensive analysis is exhibited in table 10.

**Table 10** Final (direct and indirect) distribution of net value added in Portugal, 2000  
(million euros)

	3a-1	3a-2	3a-3	3a-4	3a-5	3a-6	3b-1	3b-2	3b-3	3b-4	3b-5	3b-6	3c	3d	10	FISIM	Disp. income
<b>6a</b>	-241	-46	-64	-98	-30	-56	-9	-1	-2	-7	-1	-1	-1071	-40	-192	13	-1847
<b>6b</b>	541	105	143	223	70	127	24	4	6	18	1	1	877	148	509	-225	2571
<b>6c</b>	4649	892	1243	1895	586	1092	202	31	48	142	11	12	2975	7026	1487	-71	22218
<b>6d-1</b>	17271	3292	4651	6910	2131	4025	318	69	133	350	29	23	2531	859	1794	-47	44339
<b>6d-2</b>	743	194	156	635	201	325	1742	189	193	659	47	82	7735	641	947	142	14631
<b>6d-3</b>	2934	581	686	1404	438	635	180	32	24	181	6	11	3260	3155	1462	-59	14930
<b>6d-4</b>	481	126	96	270	106	127	38	3	6	56	1	1	708	341	1803	-118	4044
<b>6e</b>	531	102	142	218	67	125	28	4	6	18	1	2	536	442	210	-23	2410
<b>10</b>	677	131	180	280	87	160	43	6	8	26	2	2	4590	2273	1428	-634	9260
<b>FISIM</b>	-474	-92	-125	-199	-62	-112	-35	-5	-6	-21	-1	-2	-229	126	484	-430	-1183
<b>Gener. income</b>	27113	5283	7109	11537	3594	6448	2530	331	416	1423	96	132	21913	14972	9931	-1453	111374

For explanation of codes see table 9c

Source: Tables 9 and own calculation

Male labor of primary or lower secondary education (3a-1) earns 27,113 million euros of wages, altogether (last row in table 10). Households whose main source of income are wages and salaries (d-1) are paid 25,800 million euros of this sum, directly (table 9b); they retain 17,271 million euros, or 67 percent of this amount, in their disposable income of 44,339 million euros (last column of table 10), after social distribution and redistribution have been performed. Female labor of the same qualification (3a-4) is paid 11,537 million euros altogether (last row, column 3a-4, in table 10) of which a sum of 10,312 million euros goes to the same households (table 9b), and 6,910 million euros, or 67 percent are retained there after distribution. Male and female labor are not treated differently in the distribution process (whether they are paid on equal terms, originally, cannot be ascertained in this analysis). In contrast, entrepreneurial or “mixed income” earned by male self-employed workers of primary or lower secondary education amounts to 2,530 million euros altogether (last row, column 3b-1 in table 10), of which 1,989 million euros flow to households, directly, where this income is prevalent (table 9b), and 1742 million euros, or 88 percent are retained within disposable income of these households. Labor income and mixed income do not undergo the same distribution process. So much for the social sector of households.

Institutional sectors also receive part of value added directly: taxes on production go to government, and operating surplus remains with the corporate sector, in part, although a significant amount is also paid out to households, those whose of self-employed income, in particular (column 3-c in table 9). Payment is so high, in fact, that it turns net disposable income into the negative for the corporate sector (cell 6a, 5a in table9), entrepreneurial households and, surprisingly, foreign owners retaining major portions of it in their disposable income (7,735 and 4,590 million euros, columns 3-c in table 10). Taxes on production, go to government alone, directly; after distribution, half of this generated income is retained in government's disposable income (7026 million euros), the other half flows into disposable income of pensioner households (3155 million euros), and foreigners again (2273 million euros).

Table 11 compares the distribution structure of Portugal to that Germany, aggregating data of the first to the level of the latter. Both structures have been normalised to a total of net value added (NDP) of 1000. In relative terms, disposable income of households is the same in Portugal than in Germany (72.1 as against 71.5 percent) although the labor share in GDP is smaller (54.8 against 60.0 percent). Disposable income shares of government are almost equal (19.9 and 21.0 percent) in line with taxes on production (11.9 against 13.4 percent). Net operating surplus is lower in Germany than in Portugal (12.6 against 19.7 percent), and households receive a lower share of NDP (8.8 against 13.2 percent).

**Table 11** Comparing distribution structures of Portugal and Germany, 2000

<b>Germany Sector</b>	<b>3a</b>	<b>3b</b>	<b>3c</b>	<b>3d</b>	<b>10</b>	<b>Disp. inc.</b>
Nonfin. Corp.	-14	-2	3	-2	0	-15
Fin. Corporatns.	9	1	2	2	2	16
Government.	113	19	18	51	9	210
Househlds.	470	77	88	46	33	715
ROW	21	3	15	21	14	75
<b>Generated Income (net)</b>	<b>600</b>	<b>99</b>	<b>126</b>	<b>119</b>	<b>57</b>	<b>1000</b>

<b>Portugal Sector</b>	<b>3a</b>	<b>3b</b>	<b>3c</b>	<b>3d</b>	<b>10</b>	<b>Disp. inc.</b>
Nonfin. Corp.	-5	0	-10	0	-2	-17
Fin. Corpts.	11	0	8	1	3	23
Government	93	4	27	63	13	199
Households	445	40	133	49	55	721
ROW	4	0	39	22	8	73
<b>Generated Income (net)</b>	<b>548</b>	<b>44</b>	<b>197</b>	<b>134</b>	<b>76</b>	<b>1000</b>

For explanation of codes see table 3

Source: Tables 6 and 9, and own calculations.

## **6 Two simulations: wage increase, and income tax increase**

The straight application of equations 1 –3 to an input-output table is no more than a somewhat sophisticated technique of accounting, answering questions such as how much labor, or capital is contained in a certain product, or how much imports or emissions are connected with it. But it also standard to use the equations as a thought experiment predicting the possible effect of an exogenous change on the endogenous variables. The assumption is that coefficients remain constant in the change, which is counterfactual in most cases, but nevertheless provides a quick, and cheap overview of the possible effects. In this spirit, we calculate to examples of possible political interest, the first assumes a wage increase of 1000 which goes fully at the expense of operating surplus, and the second studies the effect of increasing income tax, fully borne by a corresponding reduction of disposable income of employee households.

Table 12 describes the first simulation. 1000 are paid to employee households directly as earned wages (column 3a while operating surplus (3c) of non-financial corporations shrinks by the same amount. 669 of this initial rise is retained by employee households, after the full distribution process, 178 go to government through taxes, 89 to pensioner households, and even financial corporations participate by way of increased interest payments. The corresponding loss, on the other hand, is also distributed. Its major impact hits abroad, 394 are borne there, 205 are borne by the government because of smaller taxes, 142 by entrepreneurial households, by way of smaller withdrawals. The net effect is compiled in the last column for each sector. If you add the information that entrepreneurial households earn higher incomes than those of employees, in general, the compilation proves, crude as it is, that a variation in functional distribution of income may change personal income distribution, as well.

**Table 12** Simulation of a wage increase (3a) at the expense of operating surplus (3c) in Portugal, 2000

<b>Y: Income generated</b>	<b>3a</b>	<b>3c</b>	<b>Sum</b>
<b>4a:</b> Non-financial corporations	0	-1000	-1000
<b>4b:</b> Financial corporations	0	0	0
<b>4c:</b> Government	0	0	0
<b>4d-1:</b> Employee households	1000	0	1000
<b>4d-2:</b> Entrepreneurial households	0	0	0
<b>4d-3:</b> Pensioner households	0	0	0
<b>4d-4:</b> Other households	0	0	0
<b>4e:</b> NPISH	0	0	0
<b>B(I-A)<sup>-1</sup>Y: Income disposable</b>			
<b>6a:</b> Non-financial corporations	-9	102	93
<b>6b:</b> Financial corporations	20	-59	-39
<b>6c:</b> Government	178	-205	-27
<b>4d-1:</b> Employee households	669	-80	589
<b>4d-2:</b> Entrepreneurial households	12	-142	-130
<b>6d-3:</b> Pensioner households	89	-191	-102
<b>6d-4:</b> Other households	13	-41	-28
<b>6e:</b> NPISH	20	-51	-31
<b>10</b>	26	-394	-368
<b>FISIM</b>	-18	60	42
<b>Total income distributed</b>	1000	-1000	0

Our second thought experiment raises income tax of employee households from 18,211 to 19,211 million euros diminishing their disposable income by the same amount (from 44,339 to 43,339 million euros). Disposable income of government rises, in correspondence, from 22,218 to 23,218 million euros. Initial value added remains the same as before. Table 13 gives the result and shows how different forms of factor income contribute to the payment. Disposable income shrinks by 870, instead by 1000, as the original cut, the effect being softened in the ensuing distribution. Different forms of labour contribute according to their share. Households in retirement gain from the income of workers (3a – 3e), and lose income from operating surplus (3c) and taxes on production (3d) to government through the higher tax.

**Table 13** Simulation of a direct tax increase of 1000 for employee households in Portugal, 2000

Sectors	Types of generated income										FISI	Disp. Inc.	
	3a-1	3a-2	3a-3	3a-4	3a-5	3a-6	3b	3c	3d	10			
6°: Non-financial corporations	0	0	0	0	0	0	0	0	0	0	0	0	0
6b: Financial corporations	0	0	0	0	0	0	0	0	-1	0	0	0	0
6c: General government	297	57	79	121	37	70	29	113	142	56	-2	1000	
6d-1: HH of wages and salaries	-331	-63	-89	-132	-41	-77	-17	-51	-32	-36	1	-870	
6d-2: HH of mixed income	-1	-1	0	-2	-1	-1	-14	-38	-8	-5	-1	-71	
6d-3: HH in retirement	25	5	7	9	3	6	2	-19	-79	-9	1	-49	
6d-4: HH of other transfer income	2	0	1	1	0	0	0	-2	-7	-5	0	-10	
6e: NPISH	5	1	1	2	1	1	0	-1	-10	-1	0	0	
10: Rest of the world	3	1	1	1	0	1	0	-1	-7	0	0	0	
<b>FISIM</b>	0	0	0	0	0	0	0	0	0	0	0	0	
<b>Total</b>	0	0	0	0	0	0	0	0	0	0	0	0	

For explanation of headings see table 9c

Source: Table 9 and own calculations

## 7 Conclusion

Input-output technique is known for analysing economic activity of industries, and division of labor in an economy, by tradition. In this paper, we advocate its extension to analysing the ensuing social distribution of the income generated in production as well. Empirical foundation for such endeavour is found in the statistical tool of a social accounting matrix, which assesses the flows of different kinds of income circulating between institutional sectors of an economy.

Three national examples of such matrices have been studied, namely of Canada, Germany, and Portugal. The tables are comparable in concept, but differ in degree of detail, with Portugal providing the most information. But even for the more aggregated tables it could be shown how a certain type of income generated from value added in production is diffused over the members of society by way of the institutionalised distribution process. For example, of the wages and salaries paid to Canadian households directly only 79 percent are retained in their disposable income, after the whole distribution process has been completed (table 5); the corresponding figures are 78 percent for Germany (table 7), and 81 percent for Portugal (table 11). Distribution structures appear to be surprisingly similar, in these three different countries.

Besides developing such accounting studies, input-output technique may also serve as a base for primitive, and cheap modelling of potential variation of the parameters of an economy. Calculating the effect of a wage increase paid out of operating surplus has shown that employee households in Portugal retain 58.9 percent of the increase while entrepreneurial households lose only 13 percent disposable income of theirs.

This approach is new, and our investigation exploratory. It demonstrates, nevertheless, that the traditional disciplinary division of research fields into production of goods and services, on the one hand, and distribution of the resulting income, on the other, is insufficient in explaining the functioning of an economy. It is an old saying of Adam Smith's that animals differ from humans, not in that they know no division of labour, but because they do not bargain and conclude contracts between them. The macroeconomic mechanisms of these social contracts may be studied in the way sketched above.

Furhermore, it is not be difficult to join the results of SAM studies to conventional analysis of personal income distribution. These begin with disposable income, retained after distribution is over, and look for personal characteristics of households explaining distribution of this net income (see Peichl et al.2012, for example). By adding information about the number of households in each socio-economic group, and of individuals in each household, you may translate the results of SAM analysis into figures of income per household or income per head and thus compile, and investigate, inequality indexes caused by mechanisms of the social distribution process. In this way, IO-SAM analysis may help fill in a lacuna of distribution analysis that has existed for a long time, and is very unwarranted.

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