The evolution of income inequality in Chicago: Test for the trickle-down effects using an input-output model

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Abstract: Income equality in the US has been deteriorating over the past several decades in large part due to declining middle-income family shares. Despite the growing global- and nation-wide concerns about deepening income inequality, the same issue at the sub-national level has not been investigated as comprehensively as at the higher geographical levels. This paper explores the evolution of income inequality in Chicago for the past three decades. We are particularly interested in assessing the dynamics of income distribution in the Chicago economy that has experienced dramatic structural characterized by an "hollowing-out" process (Hewings et al., 1988). The extended input-output framework proposed Miyazawa (1968) is implemented to account for the heterogeneity of households by income group. Following Kim et al. (2015) and Kim and Hewings (2015), the time series of the Chicago's input-output tables are disaggregated by income group using Census microdata and simulated data. Empirical test for the trickle-down effects are conducted by examining the progression of the Miyazawa's interrelational income multipliers that capture how one unit of labor income shock in one income group is transmitted to the labor income of other income groups.