

Economy-wide Impacts of Income Inequality: Some Initial Explorations

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The renewed interest in the measurement and trajectory of income inequality within and between countries has revealed complex patterns whose interpretations are very sensitive to the time periods chosen, the spatial frame employed, the composition of income (especially the inclusion of non wage and salary income) and the methodology that is used. However, relatively few attempts have been made to exploit the opportunities to consider the economy-wide implications of income inequality or to explore the ways in which the circular flow of income might contribute to sustaining inequality. In this paper, some initial explorations are provided that position income receipts and expenditures in an analytical framework that captures the interdependence between income groups rather than focusing on income inequality per se. The framework exploits the work of Miyazawa (1976) whose estimation of an interrelational income multiplier matrix made possible an enhanced understanding of income dynamics within an economy. The system is estimated for the Chicago metropolitan region and a comparison of findings for 2009 (base year) and 2020 (forecasts) reveal some unexpected changes in the structure of the interrelational income matrix.