On the Measurement of Functional Income Distribution

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Abstract

The present study seeks to investigate the issue of income composition from a theoretical perspective. In order to make this possible, I introduce the concept of sources polarization among individuals (or groups), together with a novel methodological framework whereby further examining this subject. Such a framework hinges on two major elements. The first element is a new way to decompose individual and aggregate income. The second is a specific measure, called Functional Income Distribution Index, IF, directly derived from the framework, which summarizes with one number the polarization of income sources across the population. I illustrate several mathematical properties of the index, among which a singular connection with the Gini coefficient. In addition to that, I carry out a first empirical application of the methodology, which focuses on the case of the US during the 20th century. I find strong evidence that income sources are no longer polarized among rich and poor as in the past.

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