

Identifying Determinants of Income Inequality in the Presence of Multiple Income Sources: the Case of Korean Farm Households

by

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Summary

This paper combines the method of inequality decomposition by income components and the regression-based inequality decomposition, in order to identify determinants of inequality in the presence of multiple income sources. Our estimation procedure involves estimating regime-specific income generating equations, where the regimes are defined by the combination of income sources, and adequately correct for selectivity into the different income regimes. We apply this procedure to data on Korean farm households, and find that it leads to different and more informative conclusions. We also find that the correction for selectivity is essential. In particular, our results show that much of the explained inequality in farm household income comes through variations in family size and composition and in land ownership. However, family size and land ownership contribute to income inequality mostly through farm income, while family composition contributes mostly through non-farm labor income. We also find that education contributes to income inequality mainly through its effect on non-farm labor income, but this result was obtained only after differentiating the decomposition results by income regimes. Overall, we find that non-farm labor income is an equalizing source of income while farm income is disequalizing. Our results imply that a continued increase in the variability of landholding distribution could worsen income inequality among farm households in Korea.

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