

Abstract

We extend the existing regression-based inequality decomposition methods to account for different income sources and different income regimes, and adequately correct for selectivity into the different income regimes. We apply these extensions to data on Korean farm households, and find that they lead 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 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 found 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 found 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.