

Economic Inequality and the Role of the Family: do household characteristics account for level and changes in income inequality?

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In this paper we study the role that household plays in shaping inequality in four EU countries (DE, IT, SE and UK). Increases in income inequality have been paralleled by demographic and economic changes in households. Demographic changes include transformations in household structure, and in particular the growth of single-headed households due to the increase in marital dissolution and in individuals who do not marry. Changes in the economic composition of households include the rise of dual-earner households and a decrease in the proportion of male-breadwinner HHs. This phenomenon can be mainly attributed to the increasing role that women have played in the labour market. We employ LIS data, from the mid '80s up to recent years and select single and coupled HHs headed by individuals aged 25-54.

Inequality decomposition (by HH's structure and economic composition) and counterfactuals (from t1 to t2 and from t2 to t3) by country

	DE			IT			SE			UK		
	Theil	Between		Theil	Between		Theil	Between	Theil	Between		
Observed in t1:	1984	9.16	4.86	1987	18.43	6.02	1987	4.76	2.65	1986	14.41	6
Change from t1 to t2 in:	p_j	9.19	5.13	p_j	18.83	6.83	p_j	5.92	3.11	p_j	14.49	6.52
	\bar{x}_j	9.78	5.51	\bar{x}_j	18.52	6.36	\bar{x}_j	4.78	2.58	\bar{x}_j	15.37	5.59
	T_j	9.02	4.87	T_j	16.27	6.02	T_j	4.66	2.64	T_j	15.69	5.97
Observed in t2:	1994	9.81	5.91	1995	17.73	7.03	1995	5.06	2.79	1995	18.44	7.53
Change from t2 to t3 in:	p_j	9.63	5.73	p_j	16.29	6.78	p_j	5.32	2.97	p_j	17.71	7.09
	\bar{x}_j	10.72	6.82	\bar{x}_j	20.52	11.73	\bar{x}_j	5.61	3.36	\bar{x}_j	20.65	12.07
	T_j	9.75	5.91	T_j	15.38	7.02	T_j	4.93	2.81	T_j	15.06	7.54
Observed in t3:	2007	10.3	6.62	2008	16.79	11.08	2005	5.57	3.44	2007	18.37	11.69

The table above shows that in the period considered inequality in equivalent disposable income measured by the Theil index has increased in every country but Italy – although with different intensity and starting from different levels.

Here we present results of decomposition and counterfactual analyses. In order to decompose inequality in income we take into account the structure of HH (single vs couple) as well as the employment status of its members (if employed, they are distinguished according to their position in the labour income distribution – by quartile). In this way it is possible to simultaneously consider both the demographic and the economic composition of HHs (also in terms of partners' earnings similarity), and their changes. Results of decomposition reveal that characteristics used to define HH types are becoming more important in determining inequality levels – indeed the between component is increasing.

Overall, counterfactual analyses suggest that changes in the distribution of HH types (p_j) slightly contribute to the increase of inequality in the first period and to its decrease in the second one. However, observed changes in inequality are mainly driven by increasing income differences between HHs (\bar{x}_j) and by decreasing income dispersion within HHs types (T_j). Therefore, while the first pushes toward the increase of inequality, the second operates in the opposite direction, with the former dominating the latter. In particular, HHs situated at the top of the income ladder have experienced the highest increase in income, leading to a sharpening of the polarization between HHs. Concluding, counterfactuals suggest that changes in HHs composition have not contributed significantly to inequality increase, and that *ceteris paribus*, if only HHs' mean income was changed, inequality today would be even higher than observed, especially for Italy and the UK.



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