Comments and Discussions

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This paper examines income inequality and its determinants among farm households in Korea. As the authors insist, much concern has been expressed with regard to increased inequality in fast-growing economies. Because this type of empirical analysis has never been conducted for Korean farm households, this paper will be a benchmark for future research.

The authors extend a regression-based inequality decomposition method of Morduch and Sicular (2002) and apply their method to a micro data set collected in 2003. Methodological features of this paper include disaggregation of the Gini index of inequality by six income sources and four income regimes, after estimating effects of such variables as age, education and land on those incomes under each regime. Another methodological feature is use of a selectivity-correction method proposed by Dahl (2002) to clearly recognize endogeneity which arises from the farm household's choice of income regimes.

The empirical analysis of this paper finds that an increase in farm income expands total income inequality of Korean farm households, whereas an increase in non-farm labor income decreases that inequality. More importantly, it is found that variables including age, education and land affect various incomes in a very different way under different income regimes. In particular, a marginal increase in land owned per capita increases farm income under all the regimes, which consequently increases total income inequality. This result seems to be consistent with our intuition that the difference in assets causes income inequality.

Although disaggregation by income sources and regimes has many advantages, it might have some disadvantages. First, this type of disaggregation reduces the degrees of freedom in estimating income generating functions. In fact, many parameters in the income generating functions shown in Tables 8 and 9 are not significant when total income is disaggregated by income sources and regimes. These results seem to suffer from multicolinearity, as the authors themselves suspect. Second, the disaggregation complicates interpretations about the empirical results. As mentioned above, explanatory variables have different effects on various incomes under different income regimes. I hope that the authors try to give a little more systematic interpretation to relate these individual effects each other.

References

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