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Changes in Family Structure, Age Groups and Economic Inequality

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"Perhaps the greatest challenge is to develop more comprehensive models of the household income distribution, incorporating not only models of labour market earnings but also reflecting income from other sources including social benefits and investment income, and the demographic factors affecting who lives with whom" (Jenkins and Micklewright, 2007: 19).

The main aim of this paper is to study the different contribution to the level and trend of household income inequality in Europe and the US of the incomes received by household members of different age groups. The analysis will consider a long period of time from the 1980s to the present giving a special emphasis to the relevant changes that have taken place in family structures during those years.

An important part of the literature on income inequality has focused on the study of the changes in the incomes of the different members of a household as a source of inequality. Reed and Cancian (2001) determined, for example, that 62% of the increase in the Gini coefficient in the United States between 1969 and 1999 was explained by changes in the distribution of male incomes while those from females would have contributed to a reduction of the same index of approximately a 54%. Along the same lines, Daly and Valletta (2006) showed how an increase in the participation of women in the labor market had contributed significantly to the containment of inequality in the United States.

However, most of the literature analyzing the contribution to income inequality trends of different household members has focused solely on gender. That is, only the changes in the contribution of the typical two main active household members' incomes have been considered as relevant when evaluating inequality trends in time. As a result, the contribution of other household members' labour market participation and incomes has been ignored, while in particular, that of young people or the elderly may be relevant. Indeed, during the last economic recession, one of the main issues that have been raised as being most worrisome in developed countries is the severity of the effect of unemployment on all household members, excluding them from the labour market completely. In fact, over the last two decades, a certain divide has been widening between 'work rich' and 'work poor' households, as first noted by Gregg and Wadsworth (1996).

Our working hypothesis states that the income of all household members is relevant to explain the decrease or increase of inequality in a society. For example, in the context of the Mediterranean countries, a significant proportion of relatively young people live in their parental home. Often, their income is not sufficient to live independently but adds up to the total household income. Therefore, the increase or decrease in the income of young people, linked to the opportunities they may or may not find in the labor market, is relevant to understand changes in income inequality.

The paper also takes into account the changes in family structures that have taken place in recent decades that may have affected different age groups in different countries, such as residential emancipation, reduced coexistence of three generation households or the increase in the percentage of people living alone. The work places special emphasis on the recent global economic crisis, is based on data from the Luxembourg Income Study (LIS) and includes the United States and all European countries available in the data set.

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