

## How labor market and earnings affect family income? Disparities in market income and household disposable income in the Czech Republic between 1988 and 2002

### Non-Technical Summary

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This paper analyzes changes in the inequality of earnings and family incomes in the Czech Republic, their causes, and the relationship between these two distributions. The purpose of the study is to fill in the existing gap in research between the analysis of earnings and household incomes. Studies on these phenomena have rarely elaborated the dynamics between the two. Our study uses income surveys (Microcensuses) of 1988, 1996 and 2002 to highlight the changing disparities. It also employs regression analysis and decomposition techniques to measure the changing importance of individual factors in earnings and household income.

Pre-1990 Czechoslovakia was characterized by the equalization of earnings. Among the remaining disparities, individuals' demographic characteristics (gender and age) surpassed their market abilities (skills and occupation) in determining earnings levels. Family income was largely dependent on the number of active earners in a household. After 1989, the overall range of inequalities in earnings and family income has increased and their determinants have changed:

- In determining earnings, the gender gap has diminished and the age profile of earnings has become almost flat. The wage structure by branch has changed considerably. In addition to education, occupation also matters much more, owing to the value ascribed to managerial and intellectual work.
- The packaging of family income changed considerably after 1989. Earnings opportunities have given family members more decision-making freedom regarding their labor market participation. The former two-earnings model has given way in favor of a dominant role being taken up by the household head.
- More inequalities are being produced by the labor market, which faces state intervention to equalize them. The progressive nature of taxes and transfers greatly weakens the disparities in market income. The reduction of income inequality through redistribution is slightly stronger in 2002 compared to 1996, as a consequence of the lower number of children in families.

Overall, much more than simple quantitative shifts in income distribution have taken place. The systemic change that has occurred is due to one principal axis – the significantly increased role of education. Its importance in determining earnings has doubled, and its influence on adjusted family income has increased even more, despite the fact that the number of children is no longer dependent on education levels. Nevertheless, the role of the family burden on income packaging remained greater than expected, and the relative position of children in income distribution worsened in the period 1988-2002.

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