INEQUALITY AFTER THE 20TH CENTURY: PAPERS FROM THE SIXTH ECINEQ MEETING

RESEARCH ON ECONOMIC INEQUALITY

Series Editors:

John A. Bishop
East Carolina University, Greenville, NC, USA

Juan Gabriel Rodríguez
Universidad Complutense de Madrid, Madrid, Spain

RESEARCH ON ECONOMIC INEQUALITY VOLUME 24

INEQUALITY AFTER THE 20TH CENTURY: PAPERS FROM THE SIXTH ECINEQ MEETING

EDITED BY

JOHN A. BISHOP
East Carolina University, Greenville, NC, USA

JUAN GABRIEL RODRÍGUEZ
Universidad Complutense de Madrid, Madrid, Spain

Emerald

United Kingdom – North America – Japan
India – Malaysia – China

Emerald Group Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2017

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-78560-994-7
ISSN: 1049-2585 (Series)

LIST OF CONTRIBUTORS

Elif Oznur Acar	Department of Banking and Finance, Cankaya University, Ankara, Turkey
Bénédicte H. Apouey	Paris School of Economics – CNRS, Paris, France
Sanghamitra Bandyopadhyay	School of Business and Management, Queen Mary University of London, London, UK
Francis Menjo Baye	Department of Economics, Faculty of Economic and Management, University of Yaoundé II, Yaoundé, Cameroon
Satya R. Chakravarty	Indian Statistical Institute, Kolkata, India
Nachiketa Chattopadhyay	Indian Statistical Institute, Kolkata, India
Joseph Deutsch	Department of Economics, Bar-Ilan University, Ramat Gan, Israel
Veronika V. Eberharter	Department of Economics, University of Innsbruck, Innsbruck, Austria
Boniface Ngah Epo	Faculty of Economic and Management, University of Yaoundé II, Yaoundé, Cameroon
Xiangming Fang	China Agricultural University, Beijing, China
Roberto Fantozzi	Italian National Institute of Statistics (ISTAT), Rome, Italy
Fernando Groisman	University of Buenos Aires, Buenos Aires, Argentina; National Council of Scientific and Technical Research, Buenos Aires, Argentina

Marcin Jakubek	Institute of Economics, Polish Academy of Sciences, Warsaw, Poland
Rosalyn D. Lee	Division of Violence Prevention, National Center for Injury Prevention and Control, Centers for Disease Control and Prevention, Atlanta, GA, USA
Matthew Loveless	Center for Research and Social Progress, Ponte dell'Olio, Italy
Feijun Luo	Division of Analysis, Research, and Practice Integration, National Center for Injury Prevention and Control, Centers for Disease Control and Prevention, Atlanta, GA, USA
Gustavo A. Marrero	Department of Economics, Universidad de la Laguna, Tenerife, Spain
Zoya Nissanov	Department of Economics and Business Management, Ariel University, Ariel, Israel
Ilaria Petrarca	Veneto Banca, Treviso, Italy
Roberto Ricciuti	Department of Economics, University of Verona, Verona, Italy
Juan Gabriel Rodríguez	Department of Economic Analysis I, Universidad Complutense de Madrid, Madrid, Spain
Jacques Silber	Department of Economics, Bar-Ilan University, Israel; CEPS/INSTEAD, Luxembourg
Oded Stark	University of Bonn, Bonn, Germany; University of Warsaw, Warsaw, Poland; Georgetown University, Washington DC, USA

Aysit Tansel	Department of Economics, Middle East Technical University, Ankara, Turkey; Institute for the Study of Labor (IZA), Bonn, Germany; Economic Research Forum (ERF), Cairo, Egypt
Claudia Trentini	United Nations Conference on Trade and Development (UNCTAD), Geneva, Switzerland

INTRODUCTION

Research on Economic Inequality, Volume 24, Inequality after the 20th Century: *Papers from the Sixth ECINEQ Meeting*, is primarily a collection of papers presented at July 2015, Luxembourg meeting. As is typical with volumes in this series, the contributions range from senior scholars to emerging scholars in the field of income distribution and poverty studies.

The volume begins with three papers devoted to the study of poverty. The first of these papers proposes an axiomatic approach to the determination of an amalgam poverty line. Satya R. Chakravarty, Nachiketa Chattopadhyay, Joseph Deutsch, Zoya Nissanov, and Jacques Silber adopt a poverty line that is a weighted average of the absolute poverty line and the reference income (e.g., the mean or the median), where the weights depend on the policy maker's preferences for aggregating the two components. In an empirical illustration comparing urban and rural areas in the People's Republic of China and India, they find that the extent of poverty is generally smaller in China than in India.

The second paper, Sanghamitra Bandyopadhyay attempts to identify persons who although may not be poor, is vulnerable to income shocks. Her title, "The Vulnerable Are Not (Necessarily) the Poor," summarizes her main findings. While the permanent income hypothesis predicts that savings and earnings from second jobs smooth consumption, Bandyopadhyay finds their sources do little to protect the vulnerable. She points to the success of transfer programs like Working Families Tax Credit (the United Kingdom) and the Earned Income Tax Credit (the United States) in reducing vulnerability. That is, programs like these designed to help the near poor are an important factor in minimizing vulnerability.

The paper "Effects of Reducing Inequality in Household Education, Health and Access to Credit on Pro-Poor Growth: Evidence from Cameroon" also addresses poverty, but the focus is on nonmonetary aspects, education, health, and access to credit. In this paper, Boniface Ngah Epo and Francis Menjo Baye investigate pro-poor growth in Cameroon between 2001 and 2007. They compute the difference between the pro-poor growth index and a modified index that attributes the average value of the source to all households. They find that both monetary and nonmonetary factors (education, health, and access to credit) experienced relative pro-poor growth driven by a fall in inequality among poor households.

The second topic of the volume presents three papers that evaluate the functioning of the labor market. In her paper, Claudia Trentini evaluates the contribution of labor market measures to the falling informality, unemployment, and wage dispersion observed in Argentina during the last decade. After extending a search model with exogenous human capital accumulation to include the informal sector, she finds that institutional factors did not contribute to the positive labor market trends observed. In particular, her results show that higher severance pay and minimum wages increase informality and that the introduction of unemployment assistance contributed to the spread of informal contracts across the work force.

In the paper "The Formal/Informal Employment Earnings Gap: Evidence from Turkey," Aysit Tansel and Elif Oznur Acar question the traditional segmented markets theory view that for institutional or efficiency wage reasons "labor informality is nothing but a survivalist alternative for those rationed out of formal jobs." Using the *Income and Living Conditions Survey* (SILC) for Turkey, they find that the unobserved individual fixed effects, when combined with observable controls, explain the entire formal/internal earnings gap. They conclude that labor market segmentation in Turkey may not be a stylized fact.

The paper "The Role of Minimum Wage and Income Transfer Policies on the Labour market: The Case of Argentina" is the third paper to discuss informal labor markets. Fernando Groisman attempts to measure the input that these two policies have on labor markets, with a particular emphasis on whether or not they encourage informality in the labor market. The paper finds that modifications to the minimum wage did not produce a negative input on employment of a substantial movement to the informal sector. Additionally, there is some evidence that income transfer encouraged a movement from inactivity toward employment of men in the beneficiary homes. We note with sadness the untimely passing of Professor Groisman in early 2016. Fernando was a valued contributor to the *Research on Economic Inequality* series.

Bénédicte H. Apouey and Jacques Silber investigate "Performance and Inequality in Health: A Comparison of Child and Maternal Health across Asia." The authors begin by addressing two shortcomings often found in studies measuring changing health status over time. The first is that such measures rarely recognize that it is more difficult to improve health attainment when the health attainment level is already high; the exception to this is most notable (Kakwani, 1993). Furthermore, changes in health attainment fail to account for the level of health disparities. If health progress is restricted to the rich alone, is this really an improvement? Empirically, they find that countries that are good at improving health "are also successful in reducing inequalities." The country rankings by choice of health indicators are "rather similar" but "not exactly the same."

The second health-related paper is, "Parental Incarceration and Social Exclusion: Long-Term Implications for the Health and Well-Being of Vulnerable Children in the United States," co-authored by Rosalyn D. Lee, Xiangming Fang, and Feijun Luo. The authors use four waves of the National Longitudinal Study of Adolescent Health which contains data on social exclusion (maternal hardships, political exclusion, parental incarceration history, and their own incarceration), and a large number of socioeconomic indicators. Risk of material challenges was found to be significant for those with an incarcerated parent. An incarcerated parent is found to increase the child's risk of incarceration by threefold and to increase their risk of overall incarceration by two to threefold.

Oded Stark and Marcin Jakubek search for a framework under which a utilitarian social planner will select the same income distribution as a Rawlsian social planner. This occurs when individuals prefer not only to have more income but also to avoid low status conceptualized as low relative income. When this distaste is incorporated in the individuals' utility functions with a weight that is greater than a specified critical level, the selections of the two social planners will be the same.

Matthew Loveless's paper, "How Individuals' Perceptions of Inequality May Affect Their Perceptions of Corruption: A Challenge to New Democracies" develops a micro-level model linking individuals' perceptions of inequality to official corruption. In his approach, corruption can be divided into official corruption (i.e., politicians openly engage in illegal behavior) and bureaucratic corruption (bribes for driver's licenses, etc.). Loveless finds that higher levels of inequality "have substantively positive and significant effect on individuals' perceptions of 'official' corruption." In contrast, perceptions of bureaucratic corruption do not appear to be influenced by high levels of inequality.

The next paper addresses the question of how tax evasion affects the income inequality computed in official statistics. For this task, Roberto Fantozzi applies a Dagum type (three parameters) parametric model of the gross personal income for 27 European countries. His results for the self-employed confirm that tax evasion distorts inequality indices, generating an underground inequality. Interestingly, he finds that tax evasion tends to reduce inequality as measured by regular wage statistics.

The literature on income distribution has highlighted that changes in macroeconomic conditions significantly affect income inequality. Gustavo A. Marrero and Juan Gabriel Rodríguez propose that how macroeconomic conditions affect inequality depends on how these conditions influence the two main constituents of total inequality, inequality of opportunity (IO) and inequality of effort (IE). Using the PSID database for the United States (1970–2009), they find that real GDP and outstanding credits have a negative and significant effect upon IO and IE, while inflation has a positive and significant effect only on IE. Additionally, welfare expenditures have a negative and significant effect only on IO.

Veronika V. Eberharter considers "Occupational Choice and Earnings Mobility in the Work Life – Empirical Evidence from Europe and the United States." She estimates earnings elasticities by birth cohort and gender for the United States, Germany, and Great Britain. The paper's hypothesis is that earnings mobility will decrease as work life advances. She presents evidence that such is the case in all three countries. She also compares the gender gap in mobility in each country. She concludes that the gender gap increases in mid-career which contributes to economic stratification.

The volume ends with a study on the evolution of market and disposable income distribution in six European countries (the United Kingdom, Germany, France, Spain, Italy, and Poland). Using the LIS database, Roberto Ricciuti and Ilaria Petrarca find that polarization increased in all the considered countries, with polarization being the largest in the United Kingdom and the smallest in Italy. At the beginning of the period, relative polarization was lower for disposable income than for market income, but this pattern has reversed over time. In addition, their findings point to a middle class that has become poorer.

John A. Bishop
Juan Gabriel Rodríguez
Editors