This series provides a reading list of the most recent research in the area of inequality and poverty reduction. The purpose of this note is to globally disseminate relevant work among academics, practitioners and civil society. Subscribe at nip.bulletin@gmail.com.

**Multidimensional Poverty Measurement in Europe: An Application of the Adjusted Headcount Approach**

*By Christopher T. Whelan, Brian Nolan and Bertrand Maître*

Read report

As awareness of the limitations of relying solely on income to measure poverty and social exclusion has become more widespread, attention has been increasingly focused on multi-dimensional approaches. To date efforts to measure multidimensional poverty and social exclusion in rich countries have been predominantly ad hoc and have relied on data that are far from ideal. Here we apply the approach recently developed by Alkire and Foster, characterized by a range of desirable axiomatic properties but mostly discussed so far in a development context, to European countries, exploiting the potential of harmonized micro data on deprivation newly available for the European Union. The analysis seeks to overcome the limitations of the union and intersection approaches that have characterized many earlier studies. Multidimensional poverty is characterized and decomposed in terms of the contribution of different deprivation dimensions, and an account of cross-national and socio-economic variation in risk levels is presented that is in line with theoretical expectations. Multilevel analysis of multi-dimensional poverty provides the basis for assessment of the role of macro and micro characteristics and their interaction in relation to levels and patterns of multidimensional poverty and social exclusion.

Keywords: poverty, social exclusion, multidimensional

**Income Comparisons and Non-Cognitive Skills**

*By Santi Budria and Ada Ferrer-i-Carbonell*

Read report

People gain utility from occupying a higher ranked position in the income distribution of the reference group. This paper investigates whether these gains depend on an individual’s set of non-cognitive skills. Using the 2000-2008 waves of the German Socioeconomic Panel dataset (SOEP), a subjective question on Life Satisfaction, and three different sets of non-cognitive skills indicators, we find significant and robust differences across skills groups. People who are more neurotic, extravert and have low external locus of control and low negative reciprocity are more sensitive to their
individual position in the economic ladder. By contrast, the Life Satisfaction reaction to changes in
economic status is significantly lower among individuals who score high (low) in negative (positive)
reciprocity, and are at the bottom of the distribution of neuroticism, extraversion. The
heterogeneity on the importance of income comparisons needs to be taken into account when, for
example, introducing them into economic models, predicting individuals' behaviour, or making
welfare judgments.

Keywords: Life satisfaction, income comparisons, personality traits

**Why Are Women Progressive in Education? Gender Disparities in Human Capital, Labor Markets, and Family Arrangement in the Philippines**

*By Yamauchi, Futoshi and Tiongco, Marites*

Read report

This paper shows mutually consistent evidence to support female advantage in education and
disadvantage in labor markets observed in the Philippines. We set up a model that shows multiple
Nash equilibria to explain schooling and labor market behaviors for females and males. Our
evidence from unique sibling data of schooling and work history and from the Philippine Labor Force
Survey support that family arrangement to tighten commitment between daughters and parents
keeps a high level of schooling investments in daughters. Because wage penalty to females in labor
markets means that education is relatively important as a determinant of their earnings, parental
investments in their daughters' education has larger impacts on the income of their daughters than
on their sons. Parents expect larger income shared from better-educated adult daughters. In
contrast, males stay in an equilibrium, with low levels of schooling investment and income sharing.

Keywords: Education, Family, Gender, Labor market

**Wage and Employment Determination in Volatile Times: Sweden 1913–1939**

*By Holmlund, Bertil*

Read report

The paper studies wage and employment determination in the Swedish business sector from the
mid-1910s to the late 1930s. This period includes the boom and bust cycle of the early 1920s as well
as the Great Depression of the early 1930s. The events of the early 1920s are particularly intriguing,
involving inflation running at an annual rate of 30 percent followed by a period of sharp deflation
where nominal wages and prices fell by 30 percent and unemployment increased from 5 to 30
percent. We examine whether relatively standard wage and employment equations can account for
the volatile economic development during the interwar years. By and large, the answer is a qualified
yes. Industry wages were responsive to industry-specific firm performance, suggesting a significant
role for “insider forces” in wage determination. Unemployment had a strong downward impact on
wages. There is evidence that reductions in working time added to wage pressure; yet estimates of
labor demand equations suggest that cuts in working time may have slightly increased employment
as firms substituted workers for hours.
Product and Labor Market Imperfections and Scale Economies: Micro-evidence on France, Japan and the Netherlands

By Sabien DOBBELAERE, KIYOTA Kozo and Jacques MAIRESSE

Read report

Allowing for three labor market settings, this paper relies on an extension of Hall’s econometric framework for simultaneously estimating price-cost mark-ups and scale economies. Using an unbalanced panel of 17,653 firms over the period 1986-2001 in France, 8,725 firms over the period 1994-2006 in Japan, and 7,828 firms over the period 1993-2008 in the Netherlands, we first classify 30 comparable manufacturing industries in six distinct regimes that differ in terms of the type of competition prevailing in product and labor markets. For each of the three predominant regimes in each country, we then investigate industry differences in the estimated product and labor market imperfections and scale economies. We not only find important regime differences across the three countries, but also observe cross-country differences in the levels of product and labor market imperfections and scale economies within a particular regime.

Keywords: labor market

How Pro-Poor and Progressive is Social Spending in Zambia?

By Cuesta, Jose; Kabaso, Pamela and Suarez-Becerra, Pablo

Read report

This paper analyzes the distributional effect of public spending in Zambia using the most recent data from the 2010 Living Conditions Monitoring Survey. The analysis focuses on both the "traditional" social sectors, such as education and public healthcare, as well as other spending areas less thoroughly studied, such as agricultural support programs. Ultimately, this benefit incidence analysis addresses the extent to which spending is pro-poor and progressive; that is, it primarily benefits the poor and does so at an increasing rate as welfare levels decrease.

The results indicate that overall public education spending in Zambia is neither pro-poor nor progressive, but while this is true for the system as a whole it is not true for all of its parts. The net unitary benefits of primary and secondary education are clearly both pro-poor and progressive. However, their progressivity is ultimately outweighed by the extreme concentration of tertiary education benefits among the wealthiest members of Zambian society. Health spending is also regressive and not pro-poor. Although unitary net benefits are slightly progressive, unequal access remains the key constraint. In contrast, the benefits of agricultural-input subsidy programs follow a somewhat progressive pattern (for each beneficiary in the top quintile there are almost two beneficiaries in the poorest quintile) but clearly suffer from targeting problems. Consequently, without better-designed and more conscientiously implemented targeting mechanisms, public spending on health, education, and fertilizers will not be able to further the government's larger objectives for pro-poor and progressive development policy.

Keywords: Health Monitoring & Evaluation, Public Sector Expenditure Policy, Access to Finance, Population Policies, Health Systems Development & Reform
The Impact of Redistributive Policies on Inequality in OECD Countries

By Philipp Doerrenberg and Andreas Peichl

Recent discussions about rising inequality in industrialized countries have triggered calls for more government intervention and redistribution. Due to obvious behavioral effects caused by redistribution, it is however not clear whether redistributinal policies are indeed able to combat inequality. This paper contributes to this relevant research question by using different contextual country-level data sources to study inequality trends in OECD countries since the 1980s. We first investigate the development of inequality over time before analyzing the question of whether governments can effectively reduce inequality. Different identification strategies, using fixed effects and instrumental variables models, provide some evidence that governments are capable of reducing income inequality despite countervailing behavioral adjustments. The effect is stronger for social expenditure policies than for progressive taxation, which seems to trigger more inequality increasing indirect behavioral effects. Our results also suggest that the use of secondary inequality data should be handled with caution.

Keywords: Inequality, Redistribution, Social Expenditure, Progressive Taxation.

Equality of Opportunities and Fiscal Incidence in Cote d'Ivoire

By Abras, Ana ; Cuesta, Jose ; Hoyos, Alejandro and Narayan, Ambar

This study analyzes opportunities for children in Cote d'Ivoire, where opportunities refer to access to basic services and goods that improve the likelihood of a child maximizing his or her human potential. The principle that guides this analysis is one of equality of opportunity, which is that a child's circumstances at birth should not determine his or her access to opportunities. The analysis computes the Human Opportunity Index, which measures the extent to which access to basic services is universal and evenly distributed among children of different circumstances.

Opportunities are limited in Cote d'Ivoire, despite some improvements in access to electricity and timely access to primary education. Otherwise, trends on access remain stagnant. Scale effects (variations across the board) are behind these trends, with little improvement observed from equalizing interventions. Circumstances such as region and household head characteristics affect a child's access to opportunities, while household incomes and a child's gender and ethnicity play a relatively small role in access differentials. Public spending on education opportunities is shown to be regressive and pro-rich, especially when analyzed across the distribution of circumstances rather than across income level. The groups of children that are particularly behind in terms of educational opportunities are those whose household heads lack primary education and reside in rural areas. Closing the enrollment gap of these children should be a priority for targeted educational interventions. However, improving opportunities may require more than a single type of intervention: opportunities with low coverage may need to be scaled up, while those with large inequalities of access may require equalizing interventions.

Keywords: Primary Education, Population Policies, Disability, Gender and Law, Rural Poverty Reduction
Urban-Rural Disparities of Child Health and Nutritional Status in China from 1989 to 2006

By: Hong Liu, Hai Fang and Zhong Zhao

This paper analyzes urban–rural disparities of China's child health and nutritional status using the China Health and Nutrition Survey data from 1989 to 2006. We investigate degrees of health and nutritional disparities between urban and rural children in China as well as how such disparities have changed during the period 1989–2006. The results show that on average urban children have 0.29 higher height-for-age z-scores and 0.19 greater weight-for-age z-scores than rural children. Urban children are approximately 40% less likely to be stunted (OR = 0.62; P < 0.01) or underweight (OR = 0.62; P < 0.05) during the period 1989-2006. We also find that the urban–rural health and nutritional disparities have been declining significantly from 1989 to 2006. Both urban and rural children have increased consumption of high protein and fat foods from 1989 to 2006, but the urban-rural difference decreased over time. Moreover, the urban-rural gap in child preventive health care access also reduced during this period.

Keywords: China, child health

The European Origins of Economic Development

By: William Easterly and Ross Levine

A large literature suggests that European settlement outside of Europe played a major role in shaping institutional, educational, technological, cultural, and economic outcomes. This literature has had a serious gap: a lack of data on colonial European settlement. In this paper, we (1) construct a new database on the European share of the population during the early stages of colonization and (2) examine its impact on the level of economic development today. We find a remarkably strong impact of colonial European settlement on development. According to one illustrative exercise, 47 percent of average global development levels today are attributable to Europeans. One of our most surprising findings is the positive effect of even a small European population during the colonial period on per capita income today, contradicting traditional and recent views. We find that colonial European settlement continues to matter even after controlling for institutions. Our findings are most consistent with human capital playing a central role in the way that colonial European settlement affects development today.

Keywords: Institutions; Human Capital; Political Economy; Natural Resources
**Ethnic Inequality**

*By: Alberto Alesina, Stelios Michalopoulos and Elias Papaioannou*

Read report

This study explores the consequences and origins of contemporary differences in well-being across ethnic groups within countries. First, we construct country-level measures of ethnic inequality combining anthropological data on the spatial distribution of ethnic/linguistic groups with satellite images on light density at night. Second, we show that ethnic inequality is strongly negatively correlated with per capita income; this result pertains even when we condition on fractionalization, income inequality, and numerous other country characteristics. Third, when we explore the roots of ethnic inequality, we find that differences in geographic endowments across ethnic homelands explain a sizable portion of contemporary ethnic inequality. Fourth, we show that deeply rooted inequality in geographic endowments across ethnic regions in inversely related to contemporary development. Fifth, we show that the strong negative correlation between ethnic inequality and well-being obtains also when we solely explore within country variation using micro data from the Afrobarometer surveys.

Keywords: Ethnicities, Fractionalization, Development, Inequality, Geography

**Declining Fertility and Economic Well-Being: Do Education and Health Ride to the Rescue?**

*By: Klaus Prettner, David E. Bloom and Holger Strulik*

Read report

It is widely argued that declining fertility slows the pace of economic growth in industrialized countries through its negative effect on labor supply. There are, however, theoretical arguments suggesting that the effect of falling fertility on effective labor supply can be offset by associated behavioral changes. We formalize these arguments by setting forth a dynamic consumer optimization model that incorporates endogenous fertility as well as endogenous education and health investments. The model shows that a fertility decline induces higher education and health investments that are able to compensate for declining fertility under certain circumstances. We assess the theoretical implications by investigating panel data for 118 countries over the period 1980 to 2005 and show that behavioral changes partly mitigate the negative impact of declining fertility on effective labor supply.

Keywords: Fertility, Well-Being, Health.
Nobel Laureate Ronald Coase of the University of Chicago talks with EconTalk host Russ Roberts about his career, the current state of economics, and the Chinese economy. Coase, born in 1910, reflects on his youth, his two great papers, "The Nature of the Firm" and "The Problem of Social Cost". At the end of conversation he discusses his new book on China, How China Became Capitalist (co-authored with Ning Wang), and the future of the Chinese and world economies.

About ideas and people mentioned in this podcast:

Books:

- Risk, Uncertainty, and Profit, by Frank H. Knight. What distinguishes a firm from other economic activities? Free on Econlib.

Articles:

- Milton Friedman, Biography. Concise Encyclopedia of Economics.
- George Stigler, Biography. Concise Encyclopedia of Economics.
- James M. Buchanan, Biography. Concise Encyclopedia of Economics.
- Property Rights, by Armen A. Alchian. Concise Encyclopedia of Economics.
- Tragedy of the Commons, by Garrett Hardin. Concise Encyclopedia of Economics.
Podcasts and Blogs:

- Munger on Subsidies and Externalities, EconTalk podcast.
- Munger on the Nature of the Firm, EconTalk podcast. Readings and Links related to this podcast.

Source: EconTalk

Religions and Babies

By Hans Rosling

Read report

Hans Rosling had a question: Do some religions have a higher birth rate than others -- and how does this affect global population growth? Speaking at the TEDxSummit in Doha, Qatar, Rosling graphs data over time and across religions.

CAFE MONTEVIDEO

Incentives and Economic Behavior

Arjan Non (Maastricht University) "Employee Recognition and Performance - A Field Experiment", with Christiane Bradler, Robert Dury, and Susanne Neckermann.

Vanessa Mertins (University of Trier): Non-monetary awards within team-based compensation: Incentive effects vs. group selection effects Incentives on Participation and Performance in Platform-Based Innovation Contests", with Pia Lunstroth.

Christiane Bradler (Centre for European Economic Research, ZEW) "A Motivational Production Function: A Field Experiment", with Susanne Neckermann.

Alec Sproten (Heidelberg University) "Age differences in the reaction to incentives. do older people avoid competition?", with Christiane Schwieren.

Katharina Hilken (Vrije Universiteit Brussel): “A Real Effort Experiment on Optimal Incentive Schemes with an Exogenous Reference Point”, with Stephanie Rosenkranz, Kris de Jaegher, and Marc Jegers.

Ilaria Castelli (UCSC, Milan) “Candies and Stickers: Children’s Decision-Making With Non-Monetary Incentives”, with Antonella Marchetti and Davide Massaro.

NEWS

LACEA ANNOUNCEMENTS

LACEA XVII Annual Meeting will take place in Lima, Perú on November 1st to 3rd, 2012, and will be hosted by Universidad del Pacífico (UP). click here.

The XIII Annual Meeting of the Political Economy Group of LACEA (PEG) will take place in Cartagena, Colombia, on May 24-25, 2012 and will be organized by Universidad de Los Andes and Fedesarrollo. For more information click here.

Economia, the Journal of LACEA will hold its 26th Panel Meeting in Lima-Perú on November 2012. For more information click here.

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LINKS

- Population Studies Center (PSC) of the University of Pennsylvania (Penn)
- National Poverty Center (NPC)
- CEGA - Center of Evaluation for Global Action
- The Abdul Latif Jameel Poverty Action Lab
- Poverty Reduction and Equity
- Network on Inequality and Poverty
- BREAD - Bureau for Research and Economic Analysis of Development
- NYU-Development Research Institute
- GDN-The Global Development Network
- IPA-Innovation for Poverty Action
- VoxLACEA
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