This series provides a reading list of the most recent research in the area of inequality and poverty reduction. The purpose of this monthly note is to globally disseminate relevant work among academics, practitioners and civil society. To subscribe please: nip.bulletin@gmail.com. Editor: Maximo Rossi: maximo.rossi@gmail.com.

Gender Gaps across Countries and Skills: Supply, Demand and the Industry Structure
By Claudia Olivetti, Barbara Petrongolo

The gender wage gap varies widely across countries and across skill groups within countries. Interestingly, there is a positive cross-country correlation between the unskilled-to-skilled gender wage gap and the corresponding gap in hours worked. Based on a canonical supply and demand framework, this positive correlation would reveal the presence of net demand forces shaping gender differences in labor market outcomes across skills and countries. We use a simple multi-sector framework to illustrate how differences in labor demand for different inputs can be driven by both within-industry and between-industry factors. The main idea is that, if the service sector is more developed in the US than in continental Europe, and unskilled women tend to be over-represented in this sector, we expect unskilled women to suffer a relatively large wage and/or employment penalty in the latter than in the former. We find that, overall, the between-industry component of labor demand explains more than half of the total variation in labor demand between the US and the majority of countries in our sample, as well as one-third of the correlation between wage and hours gaps. The between-industry component is relatively more important in countries where the relative demand for unskilled females is lowest.
Inequality and poverty under Latin America’s new left regimes

By Darryl McLeod and Nora Lustig

Web link for this reading

Inequality and poverty fell sharply in many Latin American countries during a decade in which voters in ten countries chose left-leaning leaders. Are these developments related? Using data for 18 Latin American countries, this paper presents econometric evidence that social democratic regimes in Brazil and Chile were more successful at reducing inequality and poverty than the so-called populist regimes of Argentina, Bolivia, and Venezuela. Both groups implemented policies to redistribute income, but the social democratic regimes’ efforts were more effective. The left populists regimes such as Argentina and Venezuela started the 1990-2008 sample window with lower levels of inequality, so to some extent recent reductions in inequality are a return to “normal” levels (as estimated by fixed effects). Conversely, inequality and poverty in Brazil and Chile fell to historic lows. Moreover, overall terms of trade shocks were more favorable to Argentina and Venezuela, so part of the drop in inequality can be attributed to commodity price booms.

Multidimensional indices of achievements and poverty: What do we gain and what do we lose?

By Nora Lustig

Web link for this reading

Poverty and wellbeing are multi-dimensional. Nobody questions that deprivations and achievements go beyond income. There is, however, sharp disagreement on whether the various dimensions of poverty and wellbeing can be aggregated into a single, multi-dimensional index in a meaningful way. Is aggregating dimensions of poverty and wellbeing useful? Is it sensible? Here I summarize and contrast three key papers that respond these questions in strikingly different ways. The papers are: The HDI 2010: New Controversies, Old Critiques by Jeni Klugman, Francisco Rodríguez and Hyung-Jin Choi; Understandings and Misunderstandings of Multidimensional Poverty Measurement by Sabina Alkire and James Foster; and, On Multidimensional Indices of Poverty by Martin Ravallion.

Does Positional Concern Matter in Poor Societies? Evidence from a Survey Experiment in Rural Ethiopia

By Peter Martinsson and Haileselassie Medhin
On average, we find very low positional concerns both for income per se and for income from aid projects. The results support the claim that positional concerns are positively correlated with absolute level of income. The implications of our results on implementation of aid projects are discussed.

Are Conditional Cash Transfers Effective in Urban Areas? Evidence from Mexico

By Jere R. Behrman, Jorge Gallardo-Garcia, Susan W. Parker, Petra E. Todd and Viviana Velez-Grajales

Conditional cash transfer (CCT) programs have spread worldwide as a new form of social assistance for the poor. Previous evaluations of CCT programs focus mainly on rural settings, and little is known about their effects in urban areas. This paper studies the short-term (one and two-year) effects of the Mexican Oportunidades CCT program on urban children/youth. The program provides financial incentives for children/youth to attend school and for family members to visit health clinics. To participate, families had to sign up for the program and be deemed eligible. Difference-in-difference propensity score matching estimates indicate that the program is successful in increasing school enrollment, schooling attainment and time devoted to homework and in decreasing working rates of boys.


By Bargain, Olivier, Dolls, Mathias, Immervoll, Herwig, Neumann, Dirk, Peichl, Andreas, Pestel, Nico and Siegloch, Sebastian

We assess the effects of U.S. tax policy reforms on inequality by applying a new decomposition method that allows us to disentangle mechanical effects due to changes in pre-tax incomes from direct effects of policy reforms. While tax reforms implemented under Democrat administrations, in particular the EITC reforms in the 1990s and the ARRA in 2009, had an equalizing effect at the lower half of the distribution, the disequalizing effects of Republican reforms are due to tax cuts for high-income families. As a consequence of partisan politics, overall policy effects almost cancel out over the whole time period.

Distributive impacts of alternative tax structures. The case of Uruguay

By Verónica Amarante; Marisa Bucheli; Cecilia Olivieri and Ivone Perazzo
This article considers the distributional impact of different changes in Uruguayan tax system, using a static micro-simulation framework based on the combination of data from household and expenditure surveys. On the indirect taxes side, we consider two alternatives that imply the same reduction in tax revenue: a general reduction of 2 points in the VAT basic rate, and a selective reduction in the VAT rate applied to specific goods that make up a large share of consumption of low income population. In relation to direct taxes, we consider the effects of increasing the upper limit of the tax free zone of the labor component of the dual income tax. We analyze separately the impact of each of these changes, and we also simulate a joint scenario including changes in direct and indirect taxes. Our results indicate that redistribution through the analyzed modifications in direct and indirect taxes in Uruguay is limited.

Job Re-grading, Real Wages, and the Cycle

By Robert A. Hart, J. Elizabeth Roberts

This paper makes use of the British New Earnings Survey Panel Dataset between 1976 and 2010. It consists of individual-level payroll data and comprises a random sample of 1% of the entire male and female labor force. About two-thirds of within- and between-company moves involve job re-grading (measured at 3-digit occupation level) while one-third of movers retain their job titles. We find that the real wages of both male and female workers who change job titles within companies are significantly more procyclical than job stayers. This lends support to the predicted procyclical real wage effects of the Reynolds-Reder-Hall job re-grading hypothesis. On the extensive margin, title changers and title retainers who move jobs between companies exhibit the same degrees of wage cyclicity and these are considerably greater than for job stayers.

Relative Cohort Size, Relative Income, and Women’s Labor Force Participation 1968-2010

By Diane Macunovich

Relative cohort size – the ratio of young to prime-age adults – and relative income – the income of young adults relative to their material aspirations, as instrumented using the income of older families their parents’ age – have experienced dramatic changes over the past 40 years. Relative cohort size has been shown to cause a decline in men’s relative wages – the wages of young relative to prime-age workers – due to imperfect substitutability, and the results here show that this applies perhaps even more strongly to women’s relative – and absolute – starting wage. Relative cohort size first declined by 30% and then increased by 47%. Results here show that those
changes explain about 60% of the declines in women’s starting wage – both relative and absolute – in the first period, and 100% of its increase in the second. Relative income is hypothesized to affect a number of demographic choices by young adults, including marriage, fertility and female labor force participation, as young people strive to achieve their desired standard of living. Older family income – the denominator in a relative income variable – increased by 58.6% between 1968 and 2000, and then declined by 9%. Its changes explain 66% of the increase in the labor force participation of women in their first five years out of school between 1968 and 2000, and 75% of its decline thereafter. The study makes use of individual-level measures of labor force participation, with instrumented wages, and employs the lagged income of older families in a woman’s year-state-race-education group to instrument parental income and hence material aspirations.

### Intergenerational Wealth Mobility in Rural Bangladesh

**By Niaz Asadullah**

Unique residential history data with retrospective information on parental assets are used to study household wealth mobility in 141 villages in rural Bangladesh. Regression estimates of father-son correlations and analyses of intergenerational transition matrices show substantial persistence in wealth even when we correct for measurement errors in parental wealth. We do not find wealth mobility to be higher between periods of a person's life than between generations. We find that the process of household division plays an important role: sons who splinter off from the father’s household experience greater (albeit downward) mobility in wealth. Despite significant occupational mobility across generations, its contribution to wealth mobility, net of human capital attainment of individuals, appears insignificant. Low wealth mobility in our data is primarily explained by intergenerational persistence in educational attainment.

### Enforcement of Labor Regulation and Informality

**By Rita K. Almeida, Pedro Carneiro**

Enforcement of labor regulations in the formal sector may drive workers to informality because they increase the costs of formal labor. But better compliance with mandated benefits makes it attractive to be a formal employee. We show that, in locations with frequent inspections workers pay for mandated benefits by receiving lower wages. Wage rigidity prevents downward adjustment at the bottom of the wage distribution. As a result, lower paid formal sector jobs
become attractive to some informal workers, inducing them to want to move to the formal sector.

Sustainability and Inequality in Human Development
By Eric Neumayer

This paper analyzes the theoretical and empirical links between inequality in human development on the one hand and sustainability on the other. It specifically looks at causality in both directions.

Inequality and the Lifecycle
By Greg Kaplan

I structurally estimate an incomplete markets lifecycle model with endogenous labor supply, using data on the joint distribution of wages, hours and consumption. The model is successful at matching the evolution of both the first and second moments of the data over the lifecycle. The key challenge for the model is to generate declining inequality in annual hours worked over the first half of the working life, while respecting the constraints imposed by the data on consumption and wages. I argue that this is a robust feature of the data on lifecycle labor supply that is strongly at odds with the intra-temporal first order condition for labor supply. Allowing for a realistic degree of involuntary unemployment, coupled with preferences that feature non-separability in the disutility of the extensive and intensive margins of hours worked, allows the model to overcome this challenge. The results imply that labor market frictions are important in jointly accounting for observed cross-sectional inequality in labor supply and consumption and may have quantitative relevance for analyses that exploit the intra-temporal first-order condition for labor.

Multimedia
Hanushek on Teachers

Eric Hanushek of Stanford University's Hoover Institution talks with EconTalk host Russ Roberts

This paper analyzes the theoretical and empirical links between inequality in human development on the one hand and sustainability on the other. It specifically looks at causality in both directions.

Eric Hanushek of Stanford University's Hoover Institution talks with EconTalk host Russ Roberts about the importance of teacher quality in education. Hanushek argues that the standard measures of quality—experience and advanced degrees—are uncorrelated with student performance. But some teachers consistently cover dramatically more material and teach more than others, even within a school. Hanushek presents evidence that the impact of these differences on lifetime earnings for students can be quite large. The conversation closes with a discussion of school finance and the growth of administrators within school systems.

Readings and Links related to this podcast

About this week's guest:

- Eric Hanushek's Home page

About ideas and people mentioned in this podcast:

Articles:


Web Pages:

- "James Samuel Coleman" (author of the Coleman Report) at Wikipedia.
- "Waiting for Superman" Official Website.

Podcasts and Blogs:
News

Web link for this reading

NEP-LTV Blog: Discussion about the latest research in Unemployment, Inequality & Poverty

http://nepltv.wordpress.com/

Links

CEGA - Center of Evaluation for Global Action

The Abdul Latif Jameel Poverty Action Lab

Poverty Reduction and Equity

Network on Inequality and Poverty

NIP - Poverty Reduction and Equity Bulletin

Agosto 2011

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