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.

**Inequality among the Wealthy**

*By Frank A Cowell*

Using the evidence from the Luxembourg Wealth Study it appears that the distribution of wealth in the UK is considerably less than in Canada, the US or Sweden. But does this result come from an underestimate of inequality among the wealthy and of the wealth differential between the rich and the rest? Using a Pareto model for the upper tail of the distribution we can see that the inequality of comparisons of the UK with the other countries is indeed robust.

**The Spanish survey of household finances (EFF): description and methods of the 2008 wave**

*By Olympia Bover*

This paper describes the methods of the third wave of the Spanish Survey of Household Finances (EFF2008), paying special attention to the innovations relative to the previous waves. The EFF2008 was designed to give continuity to the information on household finances collected through the EFF2002 and the EFF2005. A desirable characteristic present in all three waves is the oversampling of wealthy households. This is achieved on the basis of the wealth tax through a blind system of collaboration between the National Statistics Institute and the Tax Office which preserves stringent tax confidentiality. An additional important characteristic of the EFF is that the second and third waves have a full panel component. Further, a refreshment sample by wealth stratum has been incorporated in those two waves to preserve cross-sectional representativity and overall sample size. The EFF is the only statistical source in Spain that allows the linking of incomes, assets, debts, and consumption at the household level. The usefulness of the information contained in a survey such as the EFF has led to the decision from the European system of central banks to conduct a household wealth survey in all euro area countries following a methodology similar to the EFF. Therefore, the EFF2008 will allow harmonized comparisons with the new European wealth surveys.
What Explains Prevalence of Informal Employment in European Countries: The Role of Labor Institutions, Governance, Immigrants, and Growth

By Mihails Hazans

European Social Survey data on 30 countries, covering years 2004-2009, are used to look into joint institutional [and other macro] determinants of the rates of dependent employment without a contract, informal self-employment, and unemployment (secondary jobs are not accounted for). Consistently with theoretical predictions, quality of business environment has a significant negative impact on prevalence of both types of informal employment. The share of non-contracted employees is negatively affected by perceived quality of public services and is positively related to economic growth. GDP per capita has a positive impact on informality in Europe at large and within Eastern and Southern Europe. Other things equal, the share of non-contracted employees in the labor force across all European countries increases with the minimum-to-average wage ratio, with union density, with the share of first and second generation immigrants, and with income inequality, but falls with stricter employment protection legislation (EPL) and higher tax wedge on labor. Thus it appears that in Europe at large, labor cost effects of EPL and taxes are weaker than their impact via perceptions of job security and law enforcement, along with tax morale and the income effect. Yet the EPL effect on informality is positive (i.e., cost-related) when either Eastern and Southern Europe or Western and Northern Europe are considered separately. Furthermore, within Western and Northern Europe, the minimum wage effect is negative, whilst within Eastern and Southern Europe, the union effect is negative. Various panel data methods are used to confirm the robustness of the results.

Employed and Unemployed Job Seekers: Are They Substitutes?

By Simonetta Longhi, Mark Taylor

The job search literature suggests that on-the-job search reduces the probability of unemployed people finding a job. However, there is no evidence that employed and unemployed job seekers are similar or apply for the same jobs. We combine the Labour Force Survey and the British Household Panel Survey to compare employed and unemployed job seekers in terms of individual characteristics, preferences over working hours, job-search strategies, and employment histories. We find substantial differences, which persist over the business cycle and remain after controlling for unobserved heterogeneity. We conclude that the unemployed do not directly compete with employed job seekers.

Labor Supply Elasticities in Europe and the US

By Olivier Bargain, Kristian Orsini, Andreas Peichl
Despite numerous studies on labor supply, the size of elasticities is rarely comparable across countries. In this paper, we suggest the first large-scale international comparison of elasticities, while netting out possible differences due to methods, data selection and the period of investigation. We rely on comparable data for 17 European countries and the US, a common empirical approach and a complete simulation of tax-benefit policies affecting household budgets. We find that wage-elasticities are small and vary less across countries than previously thought, e.g., between .2 and .6 for married women. Results are robust to several modeling assumptions. We show that differences in tax-benefit systems or demographic compositions explain little of the cross-country variation, leaving room for other interpretations, notably in terms of heterogeneous work preferences. We derive important implications for research on optimal taxation.

**What Explains the German Labor Market Miracle in the Great Recession?**

*By Michael C. Burda, Jennifer Hunt*

Germany experienced an even deeper fall in GDP in the Great Recession than the United States, with little employment loss. Employers’ reticence to hire in the preceding expansion, associated in part with a lack of confidence it would last, contributed to an employment shortfall equivalent to 40 percent of the missing employment decline in the recession. Another 20 percent may be explained by wage moderation. A third important element was the widespread adoption of working time accounts, which permit employers to avoid overtime pay if hours per worker average to standard hours over a window of time. We find that this provided disincentives for employers to lay off workers in the downturn. Although the overall cuts in hours per worker were consistent with the severity of the Great Recession, reduction of working time account balances substituted for traditional government-sponsored short-time work.

**The Happiness-Income Paradox Revisited**

*By Richard A. Easterlin, Laura Angelescu McVey, Malgorzata Switek, Onnicha Sawangfa, Jacqueline Smith Zweig*

The striking thing about the happiness-income paradox is that over the long-term – usually a period of 10 y or more – happiness does not increase as a country’s income rises. Heretofore the evidence for this was limited to developed countries. This article presents evidence that the long term nil relationship between happiness and income holds also for a number of developing countries, the eastern European countries transitioning from socialism to capitalism, and an even wider sample of developed countries than previously studied. It also finds that in the short-term in all three groups of countries, happiness and income go together, i.e., happiness tends to fall in economic contractions and rise in expansions. Recent critiques of
the paradox, claiming the time series relationship between happiness and income is positive, are the result either of a statistical artifact or a confusion of the short-term relationship with the long-term one.

**Inequality, Growth and Public Spending in Central, East and Southeast Europe**

*By Mario Holzner*

The article analyses the joint determinants of inequality and growth with a special emphasis on public spending structures in transition. The mutual benefit of low real interest rates, to both equity and economic development is a major result of this paper. In terms of public spending items we find a positive correlation with equity and a negative with growth as several of the government expenditure items seem to act counter-cyclically. In the late 1990’s and early 2000’s the European integration process allowed most of the transition economies to aim for the best of both worlds: equity and economic development.

**The Effect of Public Sector Employment on Women’s Labour Market Outcomes**

*By Anghel, Brindusa, de la Rica, Sara and Dolado, Juan José*

This paper addresses the role played by Public Sector (PS) employment across different OECD labour markets in explaining: (i) gender differences regarding choices to work in either PS or private sector, and (ii) subsequent changes in female labour market outcomes. To do so, we provide some empirical evidence about cross-country gender differences in choice of employment in the PS vs. the private sector, using the European Community Household Panel (ECHP), in the light of different theories on gender behaviour in the labour market. We also analyze the main determinants of the hourly wage gaps across these two sectors for males and females separately. Finally, we document the main stylized facts about labour market transitions by male and female workers among inactivity, unemployment, working in the PS and working in the private sector.

**Trade and Inequality in India**

*By Pravin Krishna, Guru Sethupathy*

To study the effects of the dramatic economic reforms undertaken in India in the early 1990s
on inequality, this paper examines Theil inequality as well as other inequality measures constructed using Indian household expenditure survey data from 1988-2005. Overall inequality shows some variation over the period, falling between 1988 and 1994, rising between 1994 and 2000, but falling again by 2005. The evolution of inequality in the post reform period is thus non-monotonic. A similar inequality trend is seen within most Indian states over this time period. Finally, the change in inequality across households within states is found to be uncorrelated with the change in state-level measures of tariff and non-tariff protection.

An Assessment of the Effectiveness of Anti-Poverty Programs in the United States

By Yonatan Ben-Shalom, Robert A. Moffitt, John Karl Scholz

We assess the effectiveness of means-tested and social insurance programs in the United States. We show that per capita expenditures on these programs as a whole have grown over time but expenditures on some programs have declined. The benefit system in the U.S. has a major impact on poverty rates, reducing the percent poor in 2004 from 29 percent to 13.5 percent, estimates which are robust to different measures of the poverty line. We find that, while there are significant behavioral side effects of many programs, their aggregate impact is very small and does not affect the magnitude of the aggregate poverty impact of the system. The system reduces poverty the most for the disabled and the elderly and least for several groups among the non-elderly and non-disabled. Over time, we find that expenditures have shifted toward the disabled and the elderly, and away from those with the lowest incomes and toward those with higher incomes, with the consequence that post-transfer rates of deep poverty for some groups have increased. We conclude that the U.S. benefit system is paternalistic and tilted toward the support of the employed and toward groups with special needs and perceived deservingness.

Multimedia

Banerjee on Poverty and Poor Economics

Abhijit Banerjee of MIT talks with EconTalk host Russ Roberts about Banerjee's book (co-authored with Esther Duflo), Poor Economics. The conversation begins with how randomized control trials (a particular kind of social experiment) have been used to measure the effectiveness of various types of aid to the poor. Banerjee goes on to discuss hunger, health, and education—the challenges in each area and what we have learned about what works and what does not. The conversation closes with a discussion of the role of the labor market in the private sector.
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Consortium on Financial Systems and Poverty.

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