

# RESEARCH ON ECONOMIC INEQUALITY

Poverty, Inequality and Welfare

**Edited by** Sanghamitra Bandyopadhyay

RESEARCH ON  
ECONOMIC INEQUALITY

**VOLUME 25**

RESEARCH ON ECONOMIC  
INEQUALITY: POVERTY,  
INEQUALITY AND WELFARE

# RESEARCH ON ECONOMIC INEQUALITY: POVERTY, INEQUALITY AND WELFARE

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RESEARCH ON ECONOMIC INEQUALITY VOLUME 25

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EDITED BY

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# INTRODUCTION

*Research on Economic Inequality, Volume 25, Poverty, Inequality and Welfare* contains 10 papers, some of which were presented at the third meeting on the ‘Theory and Empirics of Poverty, Inequality and Mobility’ at Queen Mary University of London in October 2016. The contributions address issues that are at the forefront of the discussion on how we measure poverty, inequality and welfare and how we use such measurements to devise policies to deliver social mobility. While some of the papers deal with theoretical issues that question current methods on how we measure poverty, inequality and welfare, some of them use novel techniques and data sets to investigate the dynamics of poverty and welfare, with special reference to developing countries.

The volume begins by considering some theoretical questions that are at the frontier of the measurement of poverty and welfare literature. The first chapter touches upon the long-standing concern of the effect of redistributive policies on income inequality and social welfare. The contribution of Oded Stark, Grzegorz Kosiorowski and Marcin Jakubek provides a thoughtful reflection on situations where a social planner may inadvertently increase income inequality in the process of increasing social welfare. Taking into account the individuals’ concern about relative deprivation, the authors identify a Pigou-Dalton transfer that fails to reduce income inequality and does not increase wellbeing. They argue that the welfare-increasing transfer acts as a deterrent to the poorer individual to pursue higher wages, as the transfer will cater to some of the individual’s needs. The authors conclude that when formulating welfare-enhancing policies, a more demanding transfer principle might be needed to yield a decrease in inequality and an increase in wellbeing.

In the following two chapters, Gaston Yalonetzky offers two independent innovations for relative bipolarisation measures. In Chapter 2, he addresses the normalisation of relative bipolarisation indices. In particular, he deals with scale invariant bipolarisation indices and characterises the existence of a benchmark of maximum relative bipolarisation. He asserts that performing relative bipolarisation comparisons with indices that are not properly normalised is problematic since there is no connection between the maximum value they can attain and the benchmark of maximum relative bipolarisation. The chapter shows maximum relative bipolarisation as the only situation

consistent with the axioms of relative bipolarisation and illustrates how to normalise indices by taking into account the benchmarks of minimum and maximum bipolarisation.

In a following contribution in Chapter 3, Yalonetzky highlights the problems with the use of the median in the design and implementation of relative bipolarisation indices. The chapter identifies that the use of the median is in fact unnecessary as it violates the basic transfer axioms of bipolarisation which define spread and clustering properties. The median also proves to be problematic as median-dependent measures violate the basic transfer axioms of bipolarisation. With an illustration, he proposes a corrected median-independent version of the Foster–Wolfson index which always fulfills the basic transfer axioms.

In Chapter 4, Suman Seth and Sabina Alkire take up the concept of global multidimensional poverty and make a theoretical contribution in incorporating inequalities in deprivation across the distribution of the poor. Traditional methods that evaluate poverty do not address the dynamics of inequality of the poor. This is particularly pertinent in situations where the intensity of poverty is extremely high and poverty reducing measures do not reduce the intensity of deprivation for all, thus leading to a temporary increase in the inequality of the poor. They propose using a ‘variance’ inequality measure alongside a measure of poverty. Using their proposed method, Seth and Alkire show how different the poverty alleviation experience has been in India and Haiti, inasmuch as intensities in poverty has declined in both countries, but differing inequalities across the poor has meant that poverty alleviation has been less successful for the poor in India than it has been for Haiti. Thus the additional information about inequality among the poor allows us to assess the effectiveness of policies across the different kinds of poor.

For time-dependent analyses, tracking poverty using traditional measures, such as a headcount-based measure, often misses the effects of ‘churning’ – namely individuals leaving and entering poverty. Thus, while poverty metrics may accurately estimate the impact of policy on the number of poor, changes in poverty at the individual level remain unaddressed. Natalie Quinn in Chapter 5 offers a few solutions to this problem with a novel approach. She proposes an estimation of the entire trajectory of an individual’s wellbeing or experience in poverty over an extended period of time, rather than a simple focus on the time period in question. One can then use a normative measure of intertemporal poverty in combination with the prediction of the positive model. Using data from the Ethiopian Rural Household Survey she estimates several models of the evolution of household wellbeing and estimates intertemporal poverty measures. These

measures are found to substantially differ from those obtained with naïve application of the same measures to the observed period only.

The second part of the volume is a collection of empirical papers documenting the dynamics of poverty in several countries using new approaches. In recent years the development and availability of new data sets that are increasingly detailed at the individual level has led to the development of highly sophisticated methods of tracking the dynamics of poverty. In the sixth chapter Sabina Alkire and Yangyang Shen explore the extent of multidimensional poverty in China using the global multidimensional poverty index with a novel data set, the China Family Panel Studies for 2010 and 2014. The multidimensional poverty index reveals that poverty has decreased significantly in China between 2010 and 2014. Strikingly, they find a clear mismatch between households deprived in monetary and multidimensional poverty, suggesting that the monetary measures of poverty do not tell a complete story of poverty.

In the seventh chapter Joseph Deutsch, Jacques Silber and Guanghua Wan use the consumption approach for the measurement of poverty in Armenia, Azerbaijan and Georgia to observe the dynamics of poverty in the Caucasus between 2009 and 2013, using the Caucasus Barometer. They investigate the process by which households fall into poverty using asset indices, measured by the curtailment in consumption in times of stress. Following the approach used by Krishna (2010) in his large-scale examination of the reasons why people fall into poverty and how they escape it in diverse contexts, they use several different statistical approaches to the measurement of curtailment in consumption and find that poverty in Armenia, Azerbaijan and Georgia has diminished between 2009 and 2013. They also find that there is a significant positive correlation between the ordering of the individuals when classified by total consumption expenditures or total income of the household and when ranked by the number of consumption categories curtailed.

An often neglected group of the chronically poor have been immigrants, especially in developed countries. In the eighth chapter Romina Gambacorta focuses on the chronic nature of poverty amongst immigrants in Italy using a novel data set on household income and wealth. Using a unique data set, The Survey on Household Income and Wealth, she reveals that the economic conditions of the migrants has worsened in comparison to those born in Italy, and this is mostly tied to the lower wages of foreign-born workers in spite of their higher levels of employment. In particular, 30% of immigrant households are estimated to be in severe poverty and up to 50% of immigrant households are estimated to be vulnerable. The observed gap between poor native Italians and the poor immigrants has increased over the observed period 1989–2014

and the differences in outcomes are explained by their socio-economic characteristics, namely the lack of education, and that they are younger and with little financial wealth.

The last two chapters are empirical studies investigating the effects of inequalities on individual welfare and on economic development. In the ninth chapter Francisco Ferreira, Deon Filmer and Norbert Schady uncover inequalities in the impact of social assistance via conditional cash transfers for school enrolment in Cambodia using an intra-household allocation model. They find large direct impacts of cash transfers on a child's enrolment and take up of work, but not on that of the siblings. The model explains this mechanism via an income and substitution effect which predicts a displacement effect, but the authors also propose that a possible fourth effect, operating through non-pecuniary spillovers of the intervention among siblings, might also be at work. The findings thus question the full effectiveness of conditional cash transfers on the education and work outcomes of siblings in that it may exacerbate intra-household inequalities. They suggest that the characteristics of siblings not targeted by the program should also be taken into account in the design of conditional cash transfers.

In the following chapter, Roxana Gutiérrez-Romero and Luciana Méndez-Errico examine the impact of historical income inequality on the development of entrepreneurship using a unique cross-country survey, the Global Entrepreneurship Monitor for 66 countries over 2005–2011, with historical data on income inequality. Distinguishing between firms that were historically created out of need and those that were naturally created, the authors use panel methods to investigate the dynamics of enterprise setup over time, in particular whether historical inequality levels still affect these dynamics. They find that past inequality is a predictor of future low entrepreneurial activity. This matters for both start up e-businesses and those that survive beyond the initial years. Their analysis reveals a robust negative relationship between both early and survived entrepreneurial activity. In addition, they also find a positive relationship between historical inequality and out of need entrepreneurial activity and an inverse relationship between country-level development and the need for out of need entrepreneurship.

Sanghamitra Bandyopadhyay  
*Volume Editor*