

Dear readers,

Completing this first year of *Inequality Matters*, this fourth issue contains two strong research briefs fielded in the poverty/gender research. Janet C. Gornick (Graduate Center CUNY), Director of the US Office of LIS, promotes her work on child poverty, its cross-national differences with respect to relative and absolute measurement of poverty, the impact of redistributive policies, and the policy lessons that can be drawn from it. Rense Nieuwenhuis (SOFI, Stockholm University) takes a closer look on the link between gender inequality and economic inequality; the brief (part of a full paper) that was commissioned by UN Women and LIS, demonstrates the association between women having labour income of their own and poverty rates across high- and middle income LIS countries. Both articles enrich the perspective towards a bigger agenda of investigating more in depth economic independence of women jointly with labour markets, family types, and social protection. The presented descriptive analysis and narratives of current patterns in the data may guide further defining this agenda.

The end of 2017 also coincides with the moment, where the Luxembourg Income Study (LIS) Database contains data for most of the countries in Wave IX (2012-2014), which is why we created a compilation of a few core inequality/poverty indicators. Teresa Munzi (LIS) looks at the change in the Gini coefficient as compared to 2007, the poverty rate by gender, and the redistributive effect from market income to disposable household income. In the second highlight, Jörg Neugschwender (LIS) looks at the methodological choice between relative vs. absolute measures of income levels and its development over time, exemplified for the elderly population.

At the same time, I would like to acknowledge my gratitude to those who made this launch of *Inequality Matters* possible and to all contributors to the four issues of this first year.

Enjoy reading!

Jörg Neugschwender, editor



Contents

Inequality Matters

- 1 **Children, Poverty, and Public Policy**
by Janet C. Gornick and Emily Nell
- 4 **Gender equality and poverty are intrinsically linked**
Rense Nieuwenhuis

Working Papers & Publications

- 7 **Focus on 'Wealth, Top Incomes and Inequality'**
by Frank Cowell, Brian Nolan, Javier Olivera
and Philippe Van Kerm
- 7 **Recent LIS/LWS working papers – publications**

Data News

- 8 **Data releases and revisions**
- 8 **Data release schedule**

News, Events and Updates

- 13 **LIS commissioned for UN Women flagship reports**
- 13 **Change of date for LIS/LWS User Conference 2018**
- 13 **Inequality Expert Miles Corak Joins the Stone Center**
- 13 **New Wealth Research Project Launched**
- 14 **Visiting scholars at LIS**

Highlights

- 9 **A snapshot of selected LIS Wave IX indicators**
by Teresa Munzi
- 11 **Relative vs. absolute income development among
the elderly between 2000 and 2010/13**
by Jörg Neugschwender

Inequality Matters



Children, Poverty, and Public Policy¹

Janet C. Gornick  and Emily Nell, CUNY Graduate Center

Child poverty raises widespread concern. While poverty is viewed as problematic throughout the life cycle – it affects children, prime-age adults, and the elderly – children’s poverty is especially worrisome. Child poverty compels attention for multiple reasons: it is widely accepted that children deserve protection from hardship; most children have little or no influence over their economic circumstances; deprivation during childhood can have lifelong consequences; and some effects of child poverty spill over, influencing schools, neighborhoods, and the health of communities. Many argue that child poverty in rich countries is particularly unacceptable, because it is shaped less by scarce national resources and more by the public and private institutions that distribute resources. Most countries tackle child poverty using a package of policy approaches, with policies targeted on families included as a powerful component. Over the last thirty years, a large literature on child poverty has emerged, much of it based on cross-national microdata produced by LIS, the cross-national data center in Luxembourg.

The issue of child poverty has attracted the attention of many scholars using the LIS microdata. Over the last 30 years, nearly 100 LIS Working Papers have assessed child poverty outcomes; in many of these papers, child poverty is the central concern. These studies are diverse with respect to conceptual frameworks, poverty measures, countries included, years covered, and content. Several focus on cross-national variation in within-country poverty determinants; many identify and decompose the drivers of cross-national variation. (For a detailed review of this literature, see Gornick and Jantti 2012.) Two comprehensive LIS-based studies – a 2003 book (on poverty levels) by Rainwater and Smeeding, and a 2008 journal article (on poverty trends) by Chen and Corak – influenced the empirical work reported here. In both studies, the core questions focus on explanations for cross-country variation in child poverty outcomes.

Rainwater and Smeeding consolidated and updated their earlier research on child poverty, in their 2003 book *Poor Kids in a Rich Country: America's Children in Comparative Perspective*. The book includes several lines of inquiry: cross-national variation in child poverty rates, effects of population characteristics on poverty, and the role of different income sources in mitigating child poverty in both one- and two-parent families. A primary focus in their work, which includes fifteen rich countries, is the role that household demography plays in explaining variability in child poverty rates, where demography includes household composition by gender, age, and size, and the earning status of the head, spouse, and other household adults. Focused on the exceptionally high U.S. child poverty rates, they concluded that demography is not destiny: the demographic composition of the U.S. contributes to its higher child poverty with respect to only half of their study countries and, in most of those cases, its contribution is modest.

Chen and Corak, in a 2008 *Demography* article, “Child Poverty and Changes in Child Poverty”, assessed trends during the 1990s in 12 high-income countries. They reach three main conclusions. First, demographic shifts played a fairly minor role in explaining child poverty trends throughout the 1990s (partly because demographic

factors evolve slowly). Second, changes in employment and earnings mattered much more. Third, income transfer policy reforms aimed at raising employment rates have inconsistent effects on families’ income, post-tax-and-transfer. Social policy reforms interact, in complicated ways, with other factors, including the overall level of child poverty, the magnitude and functioning of the service and other sectors, and the overall hospitability of the labor market to low-skilled and other disadvantaged workers. Chen and Corak close with a cautionary note: “There is no single road to lower child poverty rates. The conduct of social policy needs to be thought through in conjunction with the nature of labor markets (Chen and Corak, 2008, p.552).” Thus, like Rainwater and Smeeding (2003), Chen and Corak find that, when accounting for variation across countries in child poverty, demographic variation matters modestly; national labor market patterns and social policy designs matter a great deal.

Gornick and Nell (2017) recently assessed the state of child poverty in 24 LIS countries, using datasets from LIS’ Wave 8, centered on year 2010. Our study countries include 19 high-income countries – five Anglophone countries (Australia, Canada, Ireland, United Kingdom, United States), four Continental European countries (France, Germany, Luxembourg, Netherlands), three Eastern European countries (Estonia, Poland, Slovak Republic), four Nordic countries (Denmark, Finland, Iceland, Norway), and three Southern European countries (Greece, Italy, Spain) – and five middle-income countries, all in Latin America (Brazil, Colombia, Panama, Peru, Uruguay). (As we will explain, in Figure 2 we include only the Anglophone, Continental, Eastern European, and Nordic countries).

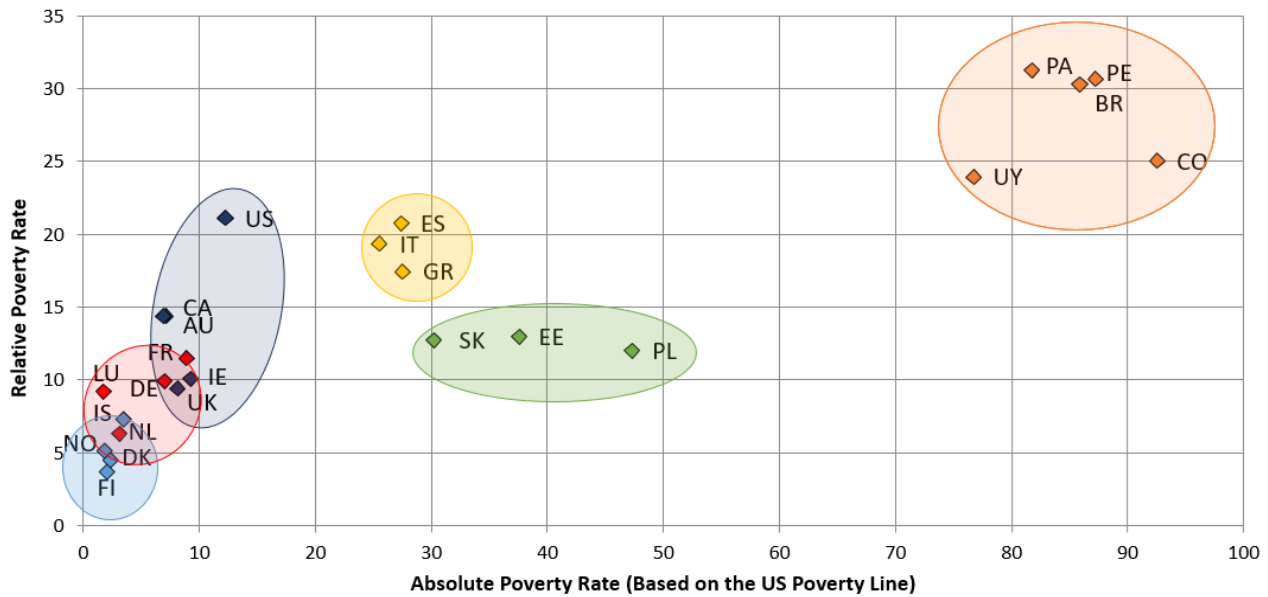
We begin with a general question: To what extent, and how, do child poverty rates vary across these 24 high- and middle-income countries? We ask that question, first, using a common approach in comparative research – that is, defining poverty in a relative framework, specifically with the poverty line set at 50 percent of each country’s median equivalized income. Using this approach, we base poverty rates on what households have “at their disposal”, that is, household income after state-provided taxes and transfers are taken into account.

Our results indicate that children’s poverty rates (defined as the percentage of children living in households with equivalized income less than 50% of the national household median) vary dramatically across these 24 study countries – ranging from over 30 percent in Brazil, Panama, and Peru down to 5 percent or less in Denmark and Finland (see Figure 1, vertical axis). We also see that patterns vary across clusters. The highest poverty rates are seen in the Latin American countries (cluster average, 28 percent), followed by the Southern European (19 percent) and Anglophone (14 percent) clusters. Lower poverty rates are seen, on average, in the Eastern European (12 percent), Continental European (9 percent) and Nordic (5 percent) countries. Clearly, national contexts matter.²

Poverty lines matter: poor compared to whom?

What about poverty with respect to a fixed real income poverty line, often called absolute poverty? Does the cross-national portrait of child poverty change when we consider not just poverty relative to one’s own country, but poverty with respect to a common standard-of-living threshold that is applied to all 24 countries?

Figure 1. Relative and Absolute Child Poverty Rates, 2010



Source: Luxembourg Income Study (LIS) Database

To assess this, we use U.S. children as an illustration – in two ways. One, we use the official U.S. poverty line to establish a threshold to be drawn across all 24 countries, and, two, we consider how child poverty in the U.S., specifically, stacks up in the two comparative frameworks. When we use the relative poverty framework, the child poverty rate in the U.S. is 21 percent, the sixth highest among these 24 countries; child poverty is higher only in the five Latin American countries. When we shift to the absolute poverty framework, the results shift (see Figure 1, horizontal axis). The U.S. rate falls to 12 percent, ranked eleventh among these 24 countries; now child poverty is higher in all of the Eastern and Southern European countries as well as in the Latin American countries. These results should not surprise us, given that all of these countries are less affluent (GDP/capita is lower) than the U.S. But what is surprising is that U.S. absolute poverty remains high among a core group of rich comparator countries. U.S. poverty, using the U.S. line, exceeds that reported in the other Anglophone countries, as well as in all of the Continental and Nordic cases – and most of these comparator countries are less affluent than the U.S. In cross-national terms, U.S. child poverty stands out – and that is true for both relative poverty and absolute poverty.

Two conclusions stand out from Figure 1. One, poverty definitions matter. Comparative child poverty results differ sharply between the two analytic frameworks. These results highlight the importance of considering absolute poverty comparisons when studying countries with widely divergent standards of living.

Second, some clear patterns emerge: Latin American children are clearly the most likely to be poor, both relatively and absolutely. Nordic children (along with children in the Netherlands) are the least likely to be poor, again, in both frameworks. Child poverty rates in the other clusters fall in between. Children in the Anglophone countries, on the whole, are about as likely to be relatively poor as are children in Southern and Eastern Europe, although they are notably less likely to live in absolute poverty.

Poverty and Redistribution in 16 High-Income Countries

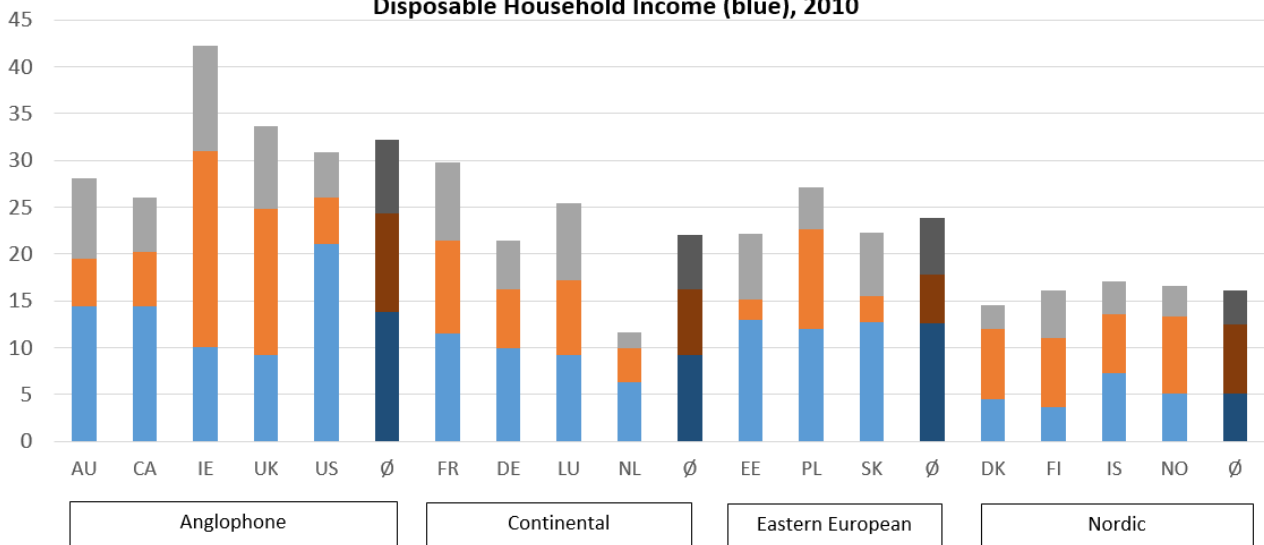
What role does the state play in reducing the risk of child poverty? In Figure 2, we report the results of an analysis using a simple accounting framework to shed light on redistribution. (Due to data limitations that restrict identifying family transfers precisely, we include only a subset

of 16 countries in Figure 2). We report poverty rates (with the line set at 50 percent of median equivalized disposable household income) based on market income alone (see the total length of the bars), and on market income *plus* family-related transfers (see the sum of the blue and orange segments)³. Finally, we report child poverty rates based on disposable household income – which is income from the market and family transfers, plus other transfers, net of taxes paid (see the blue segments).

Several results stand out. First, family transfers – i.e., transfers from maternity/paternity/ parental leave schemes, and from universal and means-tested transfers targeted on families – matter for children’s poverty. In the Anglophone countries, they remove nearly 8 percentage points of market-generated poverty – reducing the average (country-level) poverty rate in this cluster from 32 to 24 percent. In the Continental and Eastern European countries, family transfers remove about 6 percentage points of poverty – and, in the Nordic countries (where the market-driven poverty rate is the lowest), about 4 points. Second, other transfers (e.g., unemployment, disability, survivors) – even net of taxes paid – reduce children’s poverty further. Clearly, taxes and transfers, as a whole, serve to reduce children’s poverty everywhere – on average, by 18 points in the Anglophone countries, and 11 to 13 points in the other clusters.

Third, the share of total poverty reduction (from taxes and transfers) due to family transfers is substantial – but family transfers, overall, are not associated with the majority of poverty reduction. The amount of poverty-reduction associated with family transfers ranges from over three-quarters in Estonia to about one-quarter in Denmark. On average, across these sixteen countries, the average share of poverty reduction due to family transfers is 45 percent – or just less than half. It is crucial to note that these results must be taken as approximate. In the LIS data, it is not possible to render this variable (“IATFAM”) identical in every country; in some cases, some components of these family-related income sources cannot be isolated as they are combined, in the microdata, with other income sources – sometimes wages, sometimes other transfers. Nevertheless, we conclude, the overall finding holds: *about half of all child poverty reduction, associated with tax/benefit systems, is due to these family transfers.*

Figure 2. Relative Child Poverty Rates based on Market Income (total bar), Market Income plus Family Transfers (blue plus orange), and Disposable Household Income (blue), 2010



Source: Luxembourg Income Study (LIS) Database

One two-country comparison is especially useful. In the UK, the child poverty rate, based on market income, is 34 percent, slightly higher than in the U.S., where it is 31 percent. However, the magnitude of redistribution in the two countries is substantially different – with 25 percentage points of poverty “removed” by taxes and transfers in the UK (over a third of that from family transfers), compared with 10 in the U.S. (half from family transfers). The result? Disposable income poverty – that is, poverty after taxes and transfers – is considerably lower in the UK, at 9 percent – compared to 21 percent in the U.S.

Conclusion

First, child poverty rates clearly vary dramatically across the countries included in our empirical work. Variation in child poverty is evident with respect to both market- and disposable-income poverty. Cross-national variation in children’s poverty risk is especially compelling when we consider absolute (or “real-income”) poverty. In relative poverty terms, child poverty rates vary from 4 percent in Finland to 31 percent in Panama and Peru, whereas, in absolute terms, child poverty ranges from 2 percent in Luxembourg, Norway, and Finland to over 90 percent in Colombia. Clearly, where children reside markedly affects their likelihood of living in poverty.

Second, governments use a variety of instruments to alleviate market-driven poverty among families with children. One set of tools includes transfers targeted on families and/or children – i.e., leave schemes, universal allowances, and targeted family transfers. These are crucial for poverty reduction but they are not the whole story anywhere. We conclude that – in general, across 16 affluent countries included in this component of our analyses – about half of poverty reduction attributed to tax/benefit systems is achieved via these family transfers. Other, more generalized income supports are as crucial for reducing child poverty – and, in several countries, more so.

Finally, our results support a conclusion reached by many contributors to the cross-national literature on children’s poverty: keeping child poverty, especially relative poverty, at comparatively low levels is potentially achievable through government interventions. However, many countries fail to strenuously tackle children’s poverty. That failure cannot be explained by the absence of policy options; it is best explained by a lack of collective political will.

¹ This newsletter entry is based on LIS Working Paper 701, “Children, Poverty, and Public Policy: A Cross-National Perspective”, co-authored with Emily Nell. A version of LIS WP 701 is forthcoming as Chapter 13, “Children, Poverty, and Public Policy: A Cross-National Perspective” in *The Handbook on Child and Family Policy*, edited by Guðný Björk Eydal and Tine Rostgaard, Edward Elgar.

² Figure 1 contains 24 countries; due to data limitations, Figure 2 contains a subset of 16 countries.

³ To estimate the effects of family-related policies, we use a variable – “family/children transfers” (“IATFAM”, created by LIS and available in the LIS Database) – which includes (as available): (i) short-term work-related cash transfers from maternity, paternity, or parental leave insurance schemes, (ii) family-related cash transfers from public programs which are universal in structure, and (iii) family-related cash transfers that are targeted on individuals or households in need.

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Gornick, J. C., and Nell, E. (2017), Children, Poverty, and Public Policy: A Cross-National Perspective, LIS Working Paper No. 701. Luxembourg: LIS; forthcoming as Chapter 13, “Children, Poverty, and Public Policy: A Cross-National Perspective” in <i>The Handbook on Child and Family Policy</i> , edited by Guðný Björk Eydal and Tine Rostgaard, Edward Elgar.
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Gender equality and poverty are intrinsically linked

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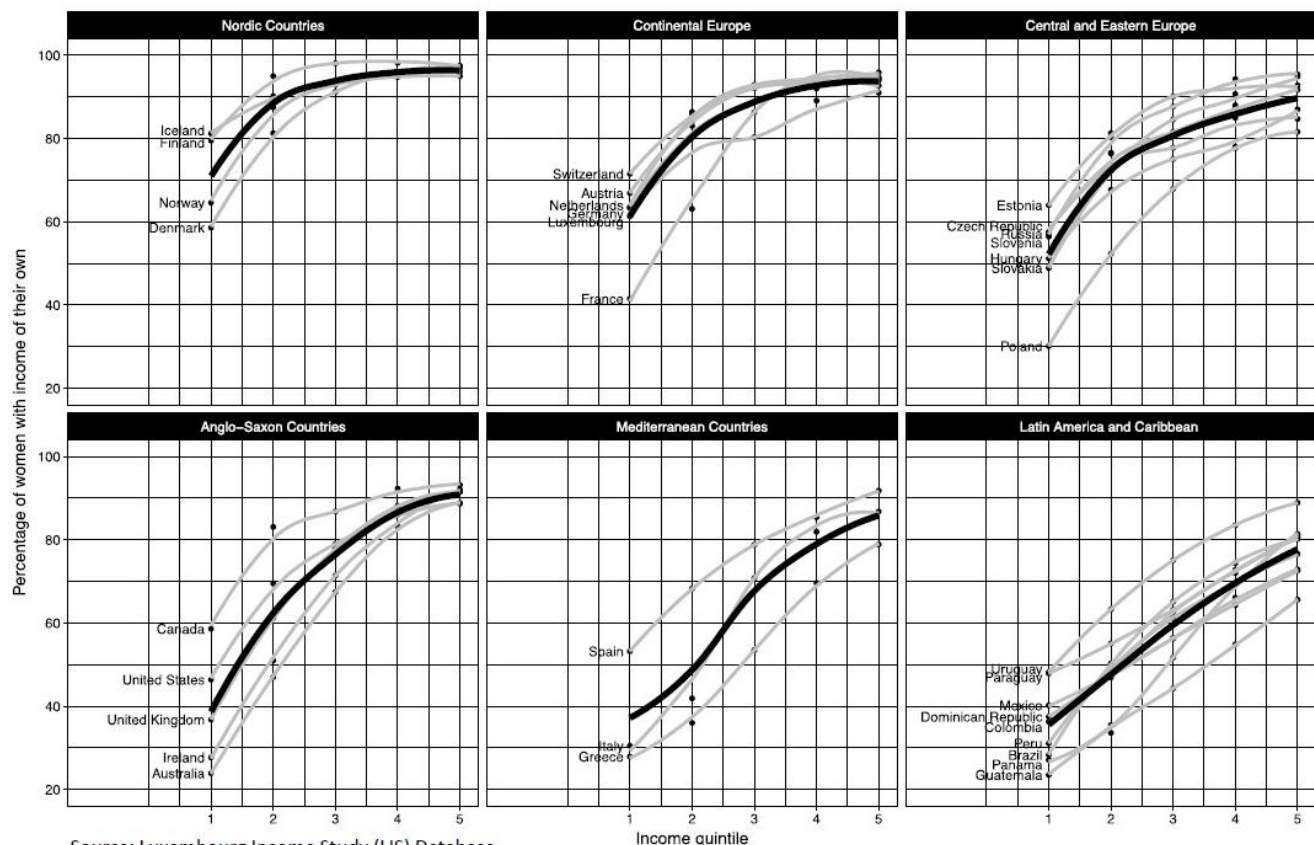
Prominent analyses of economic inequality often fail to incorporate gender equality, or address it as a rather isolated subject (Piketty, 2014; Atkinson, 2015; Milanovic, 2016), of course with notable exceptions (Gornick & Jäntti, 2014; Boushey, DeLong, & Steinbaum, 2017). Yet, in addition to reasons of social justice, understanding economic inequality from a gender perspective, with attention to economic inequality within households and women’s economic independence, is crucial for a multitude of reasons. First, women without labor income of their own typically will not qualify for “first class” social insurance but will have to rely on less generous “second class” social assistance. Secondly, in times of increasing family diversity, including relationship dissolution and single parenthood, having to rely on a single income puts greater demands on economic independence, and having been economically independent prior to separation is a great resource in that respect (Nieuwenhuis & Maldonado, 2018). Thirdly, access to and control over household income are not necessarily shared equally among (adult) household members (Bennett, 2013). Finally, gender equality contributes to other goals, that include reducing income inequality among coupled households (Nieuwenhuis, Van der Kolk, & Need, 2017), and protecting households against poverty (Nieuwenhuis, Van Lancker, Collado, & Cantillon, 2016).

Using data from the Luxembourg Income Study (LIS) Database (technical details available upon request), this brief report suggests

that there is an association between (working age) women having a labor income of their own and poverty rates across high- and middle-income countries. It is beyond the scope of this brief report to detail the explanations for trends in women’s employment and economic independence. Yet, it is important to briefly note that the gender revolution has been described as “uneven and stalled” (England, 2010, p. 149), and that there is considerable consensus on how working women can be supported (Gornick & Meyers, 2003), including (but not limited to) paid parental leave and affordable and available public childcare services of high quality (Olivetti, & Petrongolo, 2017). In the absence of such institutional conditions, particularly lower educated women are outside of the labor market (Korpi, Ferrarini & England, 2013).

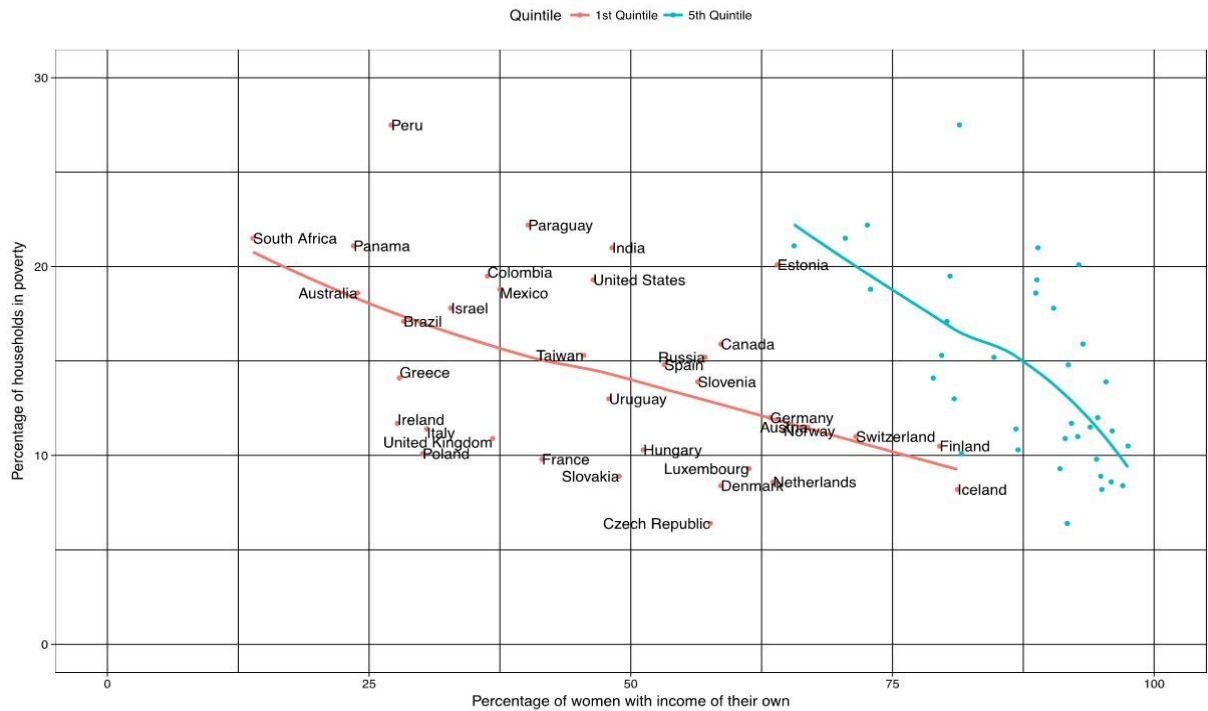
In Figure 1 we visualize the degree to which women (aged 25-54) have labor income of their own, across countries and by household income quintile. This labor income includes wages as well as short-term wage replacements, such as maternity/parental pay, sickness and work injury pay, and unemployment benefits. The grey lines represent individual countries, and the thicker black lines an average by region (using a LOESS curve). Compared to the Nordic countries, Anglo-Saxon countries, typically with market-driven solutions to work-family reconciliation policies, and Central and Eastern-European countries, show slightly lower percentages of women with independent labor income. Markedly fewer women have their own income (through labor) in the Mediterranean countries, and Latin America and the Caribbean. The black lines are steeper in countries that typically have weaker institutional support for working women, indicating that their

Figure 1. Women having labour income of their own, by household income quintile (latest year)



Source: Luxembourg Income Study (LIS) Database

Figure2. Association between women having labour income of their own and poverty rates (latest year)



Source: Luxembourg Income Study (LIS) Database

Note: Data on Egypt removed from this figure because it was too much of an outlier

likelihood of having an own income is lower particularly among low-income households and in some countries also in middle-income households. In the Nordic countries, and to a lesser extent in Continental Europe, the line is much more level for the middle- and higher income quintiles. This observation allows for two interpretations, that need not be mutually exclusive. The first is that in many countries dual-income households are a near-prerequisite to earn a top-quintile income. The second is that women’s employment is socially stratified, with those women with more limited earnings potential not having their own income particularly in those countries with limited institutional support for women’s employment (Korpi, Ferrarini, & Englund, 2013).

In Figure 2, we associate relative poverty risk² (among all families) with the percentage of women having an income of their own, for women in households in the first and fifth income quintile. The results are clear: poverty rates are lower in countries where a larger share of women have an income of their own. Particularly women not having labor income of their own in low-income households seems to be important in relation to countries’ poverty rates. Although this association is not intended to convey a causal effect, this evidence clearly suggests that gender equality and economic inequality are closely linked. Countries differ particularly in the degree to which women in low-income households have an income of their own, which not only is an indicator of gender inequality but also associated with these countries’ poverty rates.

Conclusion

Women having income from labor (or short-term wage replacement) of their own is not only an important indicator of gender equality, but it is also linked to economic inequality in the form of poverty. An important pattern was observed that in countries where many women have an income of their own, poverty rates were lower. This suggests that gender inequality and economic inequality (in the form of poverty)

It should, of course, be made clear that the mere existence of the association between women’s economic independence and poverty rates in a country does not imply causality. For that, more detailed research is required. The current associations, for instance, do not make clear whether women having labor income of their own are indeed less likely to be poor. With the rise of in-work poverty, this needs not be the case (Lohmann & Marx, 2018). The results also do not show whether women’s economic independence is associated with reductions in poverty among single women (including single parents) or among women in couples. Nevertheless, the introduction listed four reasons why integrating gender into discussions on economic inequality is important. With the relevant caveats in place, the results presented here indeed suggest that promoting gender equality has, often underexplored, potential of reducing inequality and in particular poverty. As mentioned above, this brief report is based on (and contains parts of) a background paper that was commissioned by UN Women’s Research & Data Section as a background paper to feed into *Progress of the World’s Women Report 2018*, and *Gender Equality in the 2030 Agenda for Sustainable Development 2018*. With respect to the United Nations’ Sustainable Development Goals, progress has been made with regards to sustainable development goal #5 to achieve gender equality and empower all women and girls. Although often ignored in major analyses of economic inequality, efforts towards greater gender equality also pay off in terms of achieving other sustainable development goals such as #1 to end poverty (understood as relative poverty here) in all its forms everywhere and #10 reduce inequality within and between countries. More generally, in times of high and rising inequality and poverty, Atkinson (2015) warned that the limits of redistribution were in sight, and that inequality before redistribution should be addressed. Promoting gender equality in the labor market is one way of doing so.

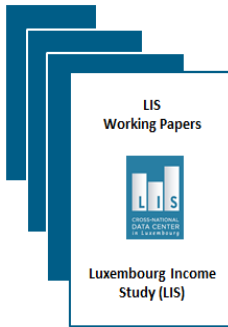
¹ This brief report is based on joint work with Teresa Munzi, Jörg Neugschwender, Heba Omar, and Flaviana Palmisano, based on pre-defined tables. The work was commissioned by UN Women's Research & Data Section as a background paper to feed into Progress of the World's Women Report 2018, and Gender Equality in the 2030 Agenda for Sustainable Development 2018. The current brief report highlights selected findings. The full background paper, including more technical details, is available upon request.

² At Risk of Poverty Rates (AROP, 50% of median equalized disposable household income)

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Working Papers & Publications



Focus on 'Wealth, Top Incomes and Inequality'- LWS WP No. 24

by Frank Cowell (London School of Economics), Brian Nolan (University of Oxford), Javier Olivera (LISER), Philippe Van Kerm (University of Luxembourg and LISER)

The 20th century concentrated on analyses of the income distribution and inequality, whereas wealth analyses were still rare to find. In the 21st century, the discussion of accumulation and ownership of personal wealth has turned into a hot topic among journalists, and become a serious academic concern.

Although the authors find it 'heartening to see wealth inequality being taken seriously', they find main concepts in wealth are often mixed up. The distinction between income and wealth is a crucial one. Therefore, this paper highlights issues that arise in making ideas and facts about wealth distribution and wealth inequality. The measurement of wealth requires valuing a wide range of financial and nonfinancial assets; in particular public and private pension rights raise some difficulties. Besides the different methods of assigning values to assets and liabilities, the choice of unit of analysis and whether differences in household size need to be considered, are essential methodological choices to make.

The authors use the newly-available data (LWS & HFCS) to take a 'fresh look' at wealth and wealth inequality in a comparative perspective. According to their findings, the composition of wealth is similar across countries, with housing wealth being the key asset. Wealth is considerably more unequally distributed than income, and it is distinctively so in the United States. Extending definitions to include pension wealth however reduces wealth inequality substantially. The investigation of the joint distribution of income and wealth suggests that interactions between increasing top income shares and the concentration of wealth and income from wealth towards the top is a critical topic to be further studied in conjunction with household survey and administrative/tax data.

Published: Cowell F., Nolan B., Olivera J., Van Kerm, P. (2017). Wealth, top incomes and inequality. In: K. Hamilton and C. Hepburn (Eds.). *National Wealth: What is missing, why it matters*. New York: Oxford University Press, pp. 175-206.

LIS working papers series

LIS working papers series - No. 717

Fiscal Redistribution in Comparative Perspective: Recent Evidence from the Luxembourg Income Study (LIS) Datacenter

by David Jesuit, Vincent Mahler

Published in *The Political Economy of Public Finance*, edited by M. Buggeln, M. Daunton and A. Nützenadel, 177-198. Cambridge, UK: Cambridge University Press (February 2017).

LIS working papers series - No. 718

The Effect of Attitudes toward Migrants on Migrant Skill Composition

by Besart Avdiu

LIS working papers series - No. 719

Educational assortative mating as a determinant of changing household income inequality: A 22-country study

by Diederik Boertien, Iñaki Permyer

LIS working papers series - No. 720

Dualization and inequality revisited: Temporary employment regulation and middle-class incomes

by David Weisstanner

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Heterogeneous labor earning shock process in finite horizon

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Wage Differentials between Immigrants and Native Workers in the United States

by Morakot Chaikwaeng

LIS working papers series - No. 723

Taxation and self-employment

by Zsófia L. Bárány

LIS working papers series - No. 724

Income inequality and fiscal redistribution in 47 LIS-countries, 1967-2014

by Koen Caminada, Jinxian Wang, Kees Goudswaard, Chen Wang

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LWS working papers series - No. 26

Inequality in an Equal Society

by Laura A. Harvey, Jochen O. Mierau, James Rockey

Data News



LIS is happy to announce the release of one additional micro data set to the Luxembourg Income Study (LIS) Database and two additional micro data sets to the Luxembourg Wealth Study (LWS) Database.

Data releases

Luxembourg Income Study (LIS)

Uruguay

One new dataset from Uruguay, UY16 (Wave X) has been added to the LIS Database. The dataset is based on the 2016 wave of the Continuous Household Survey (ECH) carried out by the National Institute of Statistics (INE).

Luxembourg Wealth Study (LWS)

Sweden

Two new datasets, SE02 (wave V) and SE05 (Wave VI), have been added to the LWS Database. The datasets are based on the 2002 and 2005 data of the Household Finance Survey (HEK) carried out by Statistics Sweden (SCB).

Data revisions

Luxembourg Income Study (LIS)

Canada - CA94, CA97, CA98, CA00, and CA04: family transfers added to additional income set

Israel - IL05, IL07, IL10, IL12: family transfers paid

Poland - PL95, PL99, PL04, P7, PL10, PL13: private transfers received
 Uruguay - UY07, UY10, UY13: substantial revisions especially for educational variables, wage income, family and social assistance benefits, leading to some changes in the Key Figures.

Luxembourg Wealth Study (LWS)

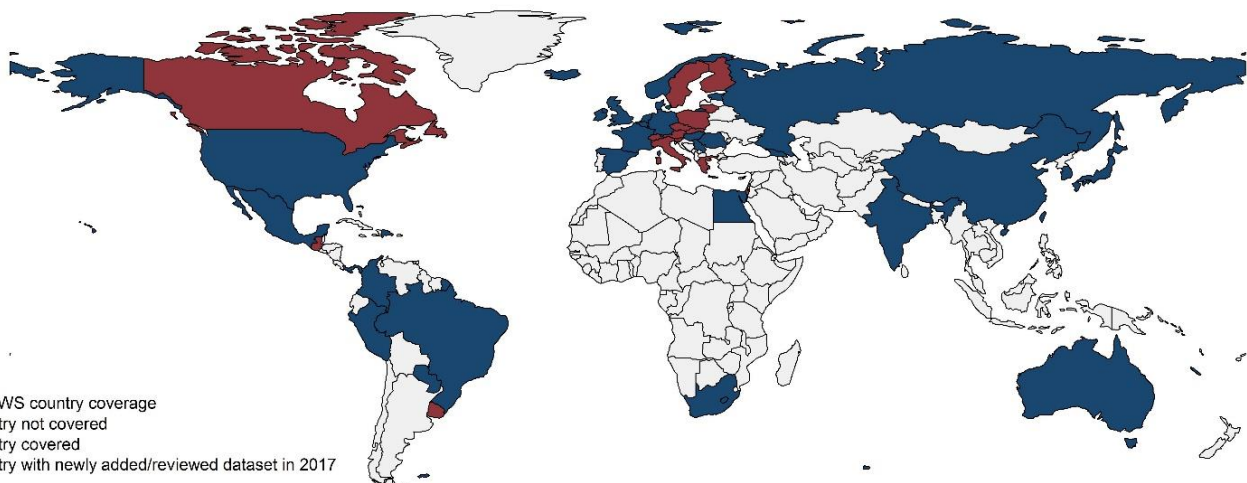
Italy - IT04: simulations of social security contributions and income taxes as carried out by the Bank of Italy have been added, note however, the dataset is still considered as a net dataset.

An error in the creation of LWS variables PIY1-4 (year inheritance/gift received) has been corrected. Datasets affected are GR09, GR14, SI14, SK10, SK14.

LIS/LWS Data Release Schedule

	Spring 2018	Summer 2018	Fall 2018
LIS Database			
Australia		AU04/14	
Chile	CL15/13/11/09/06/ CL03/00/98/96/94/ 92/90		
China	CN13		
Germany	DE87/91/15		
Hungary	HU15		
Iceland		IS13	
Japan			JP10/13
Paraguay		PY00/04/07/16	
Russia		RU16	
South Africa		ZA15	
United States		US16	
LWS Database			
Australia		AU04/14	
Germany	DE02/07/12		
Japan			JP10/13
Spain			ES09/11/14
South Africa		ZA15	
United States		US16	

LIS country coverage by end of 2017



Highlights



A snapshot of selected LIS Wave IX indicators

Teresa Munzi LIS

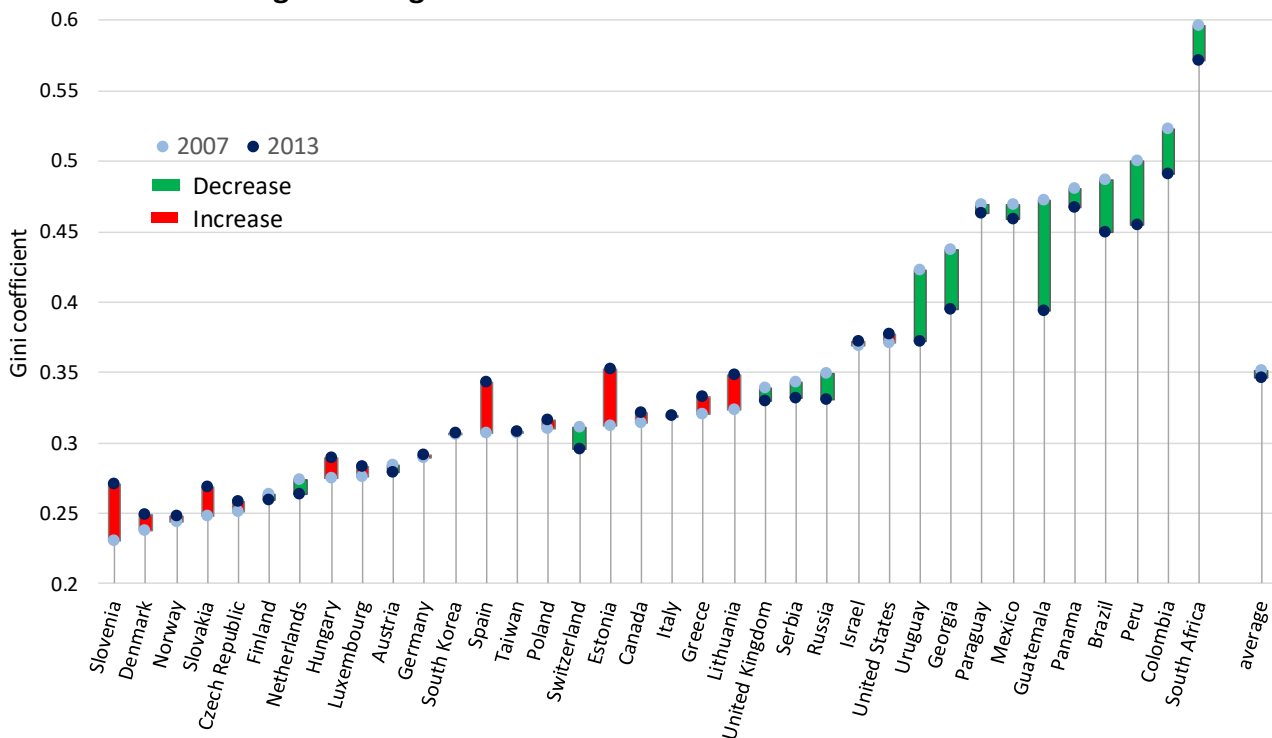
With the end of 2017, LIS Wave IX (data with income reference period centered around the year 2013) has come near to its completion. This note reviews a few indicators of poverty and inequality for all the countries for which Wave IX data are now available.

Figure 1 presents the variation in Gini coefficient in all the LIS countries for which there are data available for both Waves IX and VII (with the exception of Georgia, Lithuania and Paraguay for which the earlier data point refers to Wave VIII). Over this period, which coincided for many LIS countries with the period of the financial crisis 2007/08 and its subsequent recovery, there was little change in inequality for the whole group of countries taken together. However, when looking at the individual countries, there seems to be a rather clear pattern of increasing inequality in countries where inequality was low (or below average) to start with, and decreasing inequality in the countries where it was rather high (all middle income countries, including mostly Latin America, Georgia and notably South Africa); this seems to imply an overall convergence of inequality. The exceptions to this pattern are, on one side, Switzerland and especially the Netherlands, with low and decreasing Gini indices, and

on the other side the United States, which is the only country with a higher than average Gini index, which has experienced a further increase in inequality over the period in consideration. Various other countries seem to be following the US example. Spain, Estonia and Lithuania show large increases of inequality over the period in consideration reaching the level close to the average of this country group (0.35).

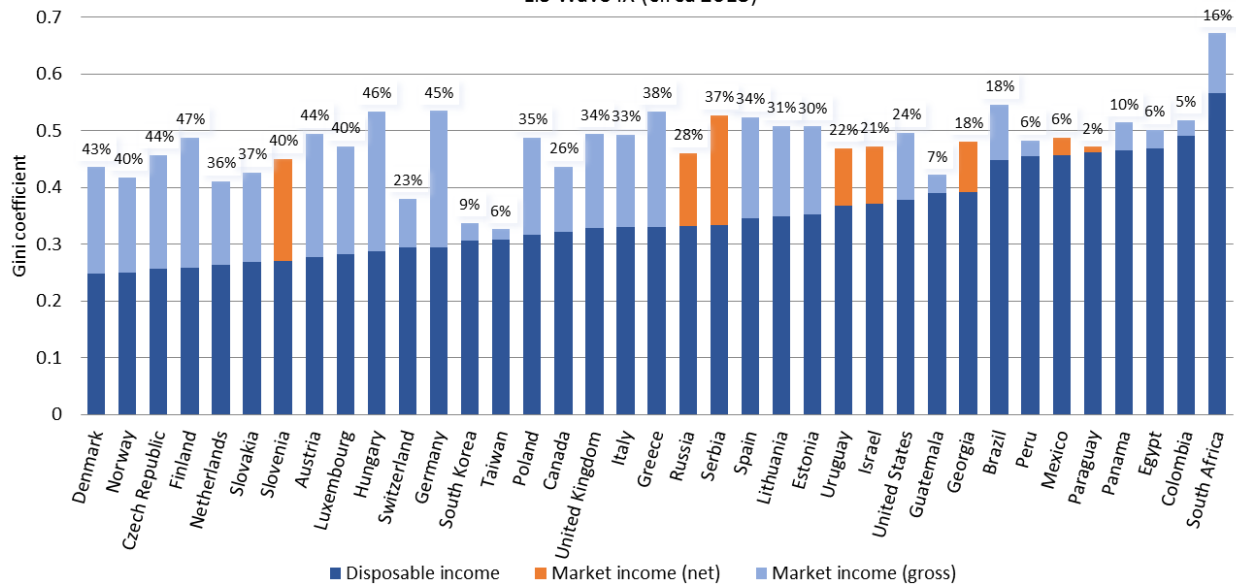
For the same country group, we are now taking a closer look on the impact of the state redistribution on inequality. In Figure 2 the impact of the redistribution is measured as the difference in Gini index when measured on market income (defined as labour earnings plus capital income, private transfers and occupational pensions) versus disposable income (hence when social security transfers and taxes are taken into account). The picture is a rather standard one, where countries with more developed public redistributive systems (typically the richer ones) exhibit higher reductions in Gini index (above 0.30 in most of them), while countries with less developed system exhibit much smaller reductions. Switzerland, Taiwan and South Korea are the three big outliers, as they achieve low inequality through a rather equal primary distribution rather than through the redistribution of social security and tax systems.

Fig. 1: Change in Gini coefficient between 2007 and 2013



Source: Luxembourg Income Study (LIS) Database

Fig. 2: Gini Index on Market Income and Disposable Income and percent reduction
LIS Wave IX (circa 2013)



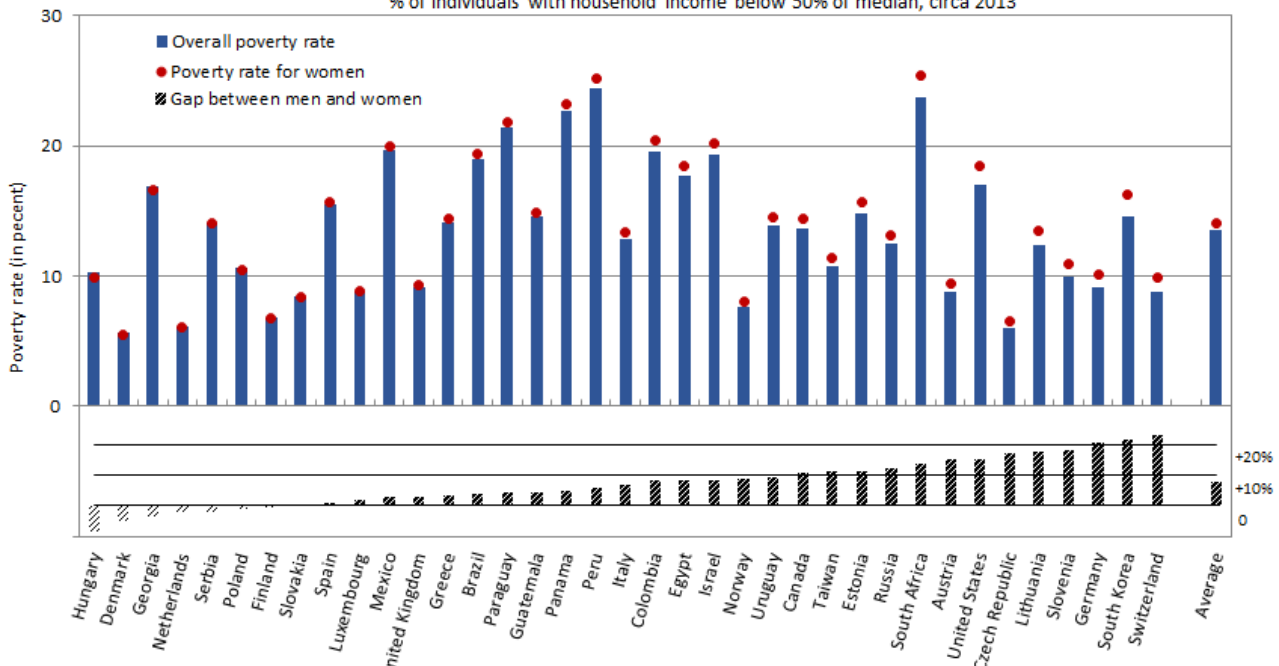
Market income is defined as labour income, capital income, occupational pensions and private transfers. The number at the top of the bar represents the percent reduction of Gini after redistribution.
Source: Luxembourg Income Study (LIS) Database.

The last figure presents relative poverty rates, with a special focus on the gap between men and women. The gap is defined as the difference between women's and men's poverty rate in percent. A positive gap means a higher risk of poverty for women. The countries are ranked in increasing size of the gap, and it is immediately obvious that there is no clear link between the gap and the level of the overall poverty rate itself. While on average in LIS countries women's poverty rates are 8 per cent higher than men's rates, this gap goes up

to above 15 per cent in many countries, all high income countries, some of which with very low overall poverty rates. In particular, Germany, South Korea and Switzerland have gaps of above 20 per cent: while in South Korea and Switzerland, this high women's poverty rate can in large part be explained by very high elderly poverty rates, as a substantial share of elderly women live alone. The situation is less obvious for a country like Germany, where the elderly poverty rate is lower than the overall one.

Fig. 3: Relative poverty rates - gap between men and women

% of individuals with household income below 50% of median, circa 2013



Relative vs. absolute income development among the elderly between 2000 and 2010/13

Jörg Neugschwender , LIS

During the last decades, younger cohorts of the elderly population strongly benefitted from the continued maturing of more generous contribution-based pension systems. At the same time, many countries further introduced non-contributory minimum pension protection systems, resulting in a rather steep decrease in poverty rates among the elderly throughout this period. However, besides this positive development, one might wonder what has happened to income inequality among the elderly? Who are the best performers with respect to increased income standards? And is it actually true that the elderly are better off in all advanced economies?

Foremost, the argument in this article concentrates on the technical side, i.e. the choice of measurement techniques for analysing income levels in a comparative perspective. A specific focus is placed on equivalisation, ppp-conversion and the distinction between relative and absolute income measures. Lastly, this article attempts to briefly respond to some of the questions raised with respect to the nuances of income inequality and income growth among the elderly over time.

A standard approach in inequality research is to equivalise household income. This means two things: First equivalisation assumes full sharing of income sources across all household members. Second equivalisation also assumes that larger households share resources and thus need less resources compared to smaller households, they achieve *economies of scale* (Jenkins and Van Kerm, 2009). This approach has some limitations, which should be acknowledged at this point. In Latin American countries as well as in most other developing countries in the LIS Database, every second person aged 65 or older is living in a multi-generation/family situation. This has two implications: First, the pooling of income sources and equal sharing between all household members is a strong assumption to make for the elderly. And second, the financial well-being of the elderly is heavily defined by the reallocation of other income sources (particularly employment

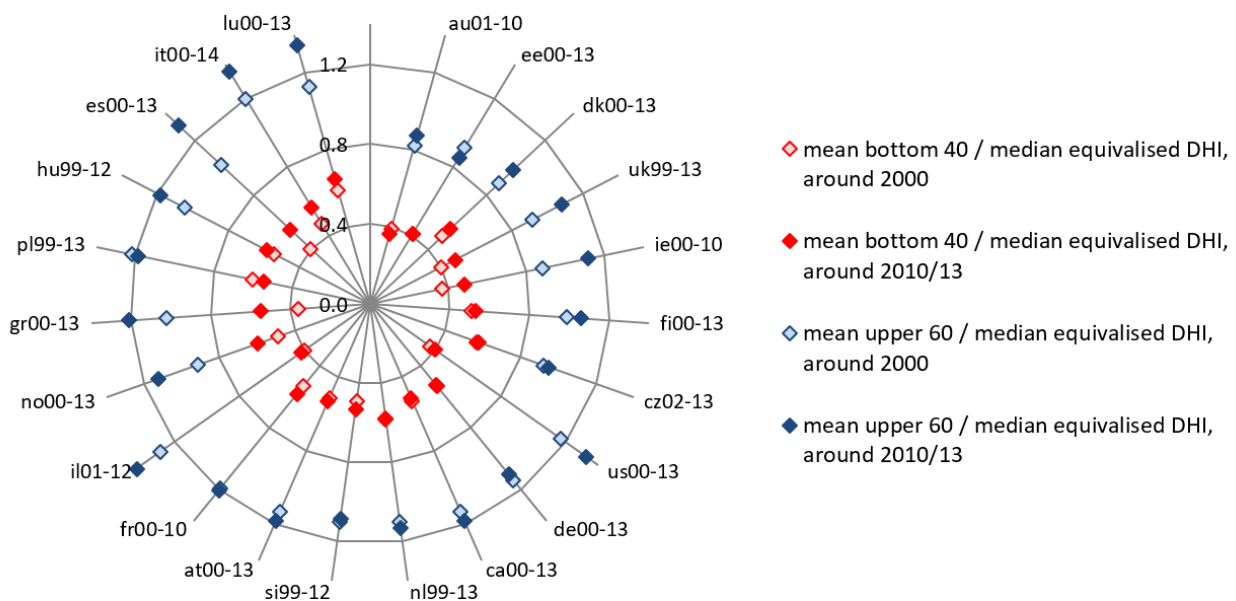
from other family members. Therefore, these countries are excluded from this comparative overview, the narrative becomes more a story of generosity of pension systems.¹ For the remaining countries, the common equivalisation approach by LIS is applied, which divides the disposable household income (DHI) by the square root of number of household members. Note the remaining numbers have to be understood as individual level income measure.

Both figures refer to the same underlying income thresholds. First, the *median of equivalised disposable household income (DHI) of the total population* was calculated. Then for the reduced sample of the elderly population (defined as persons aged 65+), three thresholds were calculated: the *median of equivalised DHI of the 65+*, the *mean equivalised DHI of the four lower income deciles (bottom 40) of the 65+*, and the *mean equivalised DHI of the six upper income deciles (upper 60) of the 65+*.² For each country two points in time have been selected, one around 2000 and one around 2010/13 depending on data availability.

Figure 1 shows two relative measures applied on both time points (repeated cross-section): the mean equivalised DHI of the bottom 40 respectively the upper 60 of the 65+ each divided by the median equivalised DHI by the total population. The countries are ranked clockwise by starting with the lowest level of median equivalised DHI for the 65+.

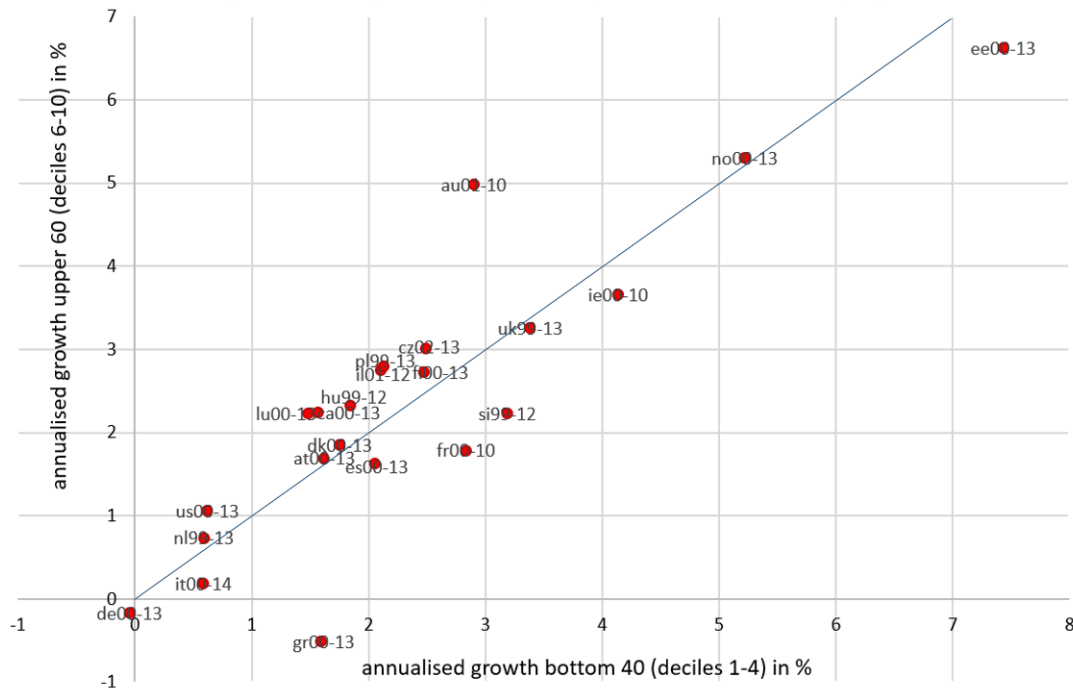
Australia's position in the graph is unique, but acknowledged, as major parts of the contribution-based superannuation schemes were introduced only in the 1980s; those systems need to further mature, persons who started their working career in the 1980s are not yet retired. Hence the current retirees receive only partial benefits from these schemes. Moreover, many pensioners received their pension rather as a lump sum than as an annuity (King et al., 2001). Also, Denmark ranks only third on median equivalised DHI of the 65+. Similarly, like in Australia, the pension system concentrated on providing basic pensions, and only in the 1990s introduced major quasi mandated contribution-based pensions (Andersen, 2011).

Fig.1:Relative income level of equivalised disposable household income (65+)



Source: Luxembourg Income Study (LIS) Database

Fig.2: Annualised growth of equivalised disposable household income (65+)



Source: Luxembourg Income Study (LIS) Database

More generalised, the higher the distance between the bottom 40 and upper 60, the more stratification in elderly income there is in a country. This is partly related to primary market inequality which is translated to the retirement phase (Ebbinghaus and Neugschwender, 2011). The best examples in this respect are the United States and Israel, both countries compare reasonably well with respect to median equivalised DHI of the 65+. However, both countries (as also Australia and Estonia) remained in 2010/13 at a level of only 40 percent of median equalised income for the bottom 40 of the 65+.⁴ On the other hand, the United States and Israel are also among the countries with the highest relative levels for the upper 60 group.

For Figure 2, all amounts were converted to real amounts (ppp-adjusted), applying Consumer Price Indices (CPI) and conversion factors to adjust to 2011 country's currency as calculated by the World Bank Development Indicators for 2011³. Figure 2 takes these ppp-adjusted and equalised mean DHI values for each group, the bottom 40 respectively the upper 60 of the 65+, and looks at the overall percentage increase between the two points in time. As the interval between the country years varies, the numbers are converted to annualised growth rates by dividing the overall increase by the number of years between the earlier and the later year. Data points below the diagonal signify decreases in the distance between the bottom 40 and the upper 60 measure; in these countries, over the whole period, income levels among the bottom 40 have grown more as compared to the upper 60.

A broader research agenda is needed for carefully interpreting Figure 2. Reasonably high numbers in growth might be linked to high wage growth, depending on existing indexation rules in the various pension schemes. Also, the countries below the diagonal may have concentrated rather on better inclusion or higher generosity of targeted pensions to the income poor elderly; hence these countries have undertaken a relatively higher investment in increasing income of the poor elderly as compared to increasing payments from contribution-based schemes. Cost containment in pension systems might particularly affect the upper 60 group in future, when e. g. partly privatised pension provision for future retirees does not result in a

replacement of previous public provision. On the other hand, cross-national and intertemporal variation in continued employment beyond the legal retirement age among the elderly across this period may heavily affect this narrative. Future research may aim at better capturing the joint analysis (multivariate modeling) of institutional characteristics of pension systems, living arrangements and labour market attachment, and its overall implication for pension outcomes and inequality trends among the elderly.

- ¹ See Chapter 3 on living arrangements, labour market attachment, and the income mix of the elderly for LIS countries in Neugschwender (2016). The remaining country group is characterised by a rather high share of single/couple elderly households, hence a substantial share of income is drawn from pension income in these countries.
- ² The breakdown in Bottom 40 and Upper 60 has been borrowed from the 'Poverty and Shared Prosperity' report by the World Bank (2016).
- ³ PPP deflators (Consumer Price Index (2011 = 100), and conversion factor to adjust 2011 country's currency into 2011 international USD) adjusted to the LIS country years can be found on the LIS webpage: <http://www.lisdatacenter.org/data-access/web-tabulator/methods/ppp>.
- ⁴ this measure mirrors the highest at-risk-of-poverty for the elderly in these countries in these four countries, see LIS Key Figures.

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News, Events and Updates



LIS commissioned for UN Women flagship reports

Earlier this year, LIS was commissioned by UN Women's Research & Data Section to provide a background paper to feed into *Progress of the World's Women Report 2018*, and *Gender Equality in the 2030 Agenda for Sustainable Development 2018*. *Progress of the World's Women 2018*, entitled *Families in a Changing World*, seeks to make visible the diversity of family structures and dynamics around the world, and tackles intersecting inequalities, especially by class, gender and race/ethnicity. *The SDG Monitoring Report* aims to provide a comprehensive and authoritative assessment of progress, gaps and challenges in the implementation of the Sustainable Development Goals (SDGs) from a gender perspective.

Making use of the LIS Database, the LIS team in collaboration with Flaviana Palmisano (University of Rome "La Sapienza") produced a set of tables deemed critical for the gender analysis focus in the two reports, specifically, women's economic status, family expenditure patterns, families and social stratification, market vs disposable income amongst men and women, poverty of single-parent families, and SDG Goal 10 Indicators. Building upon the LIS produced tables, Rense Nieuwenhuis (SOFI, Stockholm University) framed the background paper "*Gender equality and poverty are intrinsically linked*" that provides an updated analysis of *gendered* economic inequality in high- and middle-income countries. Such gendered analysis explicitly recognizes that gender, poverty, and (economic) inequality are intrinsically linked.

Change of date: LIS/LWS User Conference 2018

The date of the second LIS/LWS user conference has been changed to 3-4 of May 2018. This year's conference is dedicated to Tony Atkinson, our former President, and his contribution to the development of the research on inequality. We aim to receive unpublished papers that have applied or further elaborated one of Tony Atkinson's many ideas about inequality analysis. The use of LIS and/or LWS data is a precondition for submitting a paper. A selection of the papers that will be presented at the conference will be published in a volume, "The legacy of Tony Atkinson in inequality analysis", edited by Andrea Brandolini, Daniele Checchi and Timothy Smeeding.

Deadline for paper submission: 10th of January 2018. For more information see [full call for papers](#).

Inequality Expert Miles Corak Joins the Stone Center

Miles Corak has been appointed to the faculty of the Graduate Center of the City University of New York (CUNY), effective January 2018. He will also serve as a Senior Scholar in the Stone Center on Socio-Economic Inequality, which houses the US Office of LIS.

Corak is currently professor of economics at the University of Ottawa, and economist in residence at Employment and Social Development Canada, the department of the Canadian federal government responsible for social policy. A prolific scholar and author, he is best known for his groundbreaking research



on inequality and the ways in which it affects opportunity and socio-economic mobility. Much of Corak's scholarly work involves comparisons of labor markets and social and economic policies across countries. He has published four books and numerous journal articles, book chapters, and op-eds. He regularly addresses topics such as child poverty, access to university education, social mobility, and unemployment.

Prior to joining the University of Ottawa in 2007, he was a member of the senior management at Statistics Canada, Canada's national statistical agency. He has been a visiting researcher with the UNICEF Innocenti Research Centre in Florence, Italy; the Centre for Longitudinal Studies at the University of London; the Office of Population Research at Princeton University; and the Russell Sage Foundation.

"All of us at the Stone Center are thrilled that Miles is joining our team," Gornick said. "His unrivalled expertise on mobility adds a crucial element to the Center's collective scholarship."

New Wealth Research Project Launched

We live in an age of increasing wealth concentration. Who holds this wealth and in what forms? To what extent is high-end wealth passed on inter-generationally? With a focus on the U.S., these questions motivate the Graduate Center Wealth Project, a new research initiative based in the Stone Center.



Officially launched this autumn, this project, still in its design phase, aims to:

- Create a publicly accessible repository for curated information, research, and news related to wealth inequality
- Assess and extend data capacity related to household wealth
- Contribute to the growing methodological literature on wealth measurement; and
- Conduct research on high-end wealth in the U.S., compared to selected other rich countries.

Salvatore Morelli, an Oxford-trained economist and inequality scholar, joined the Stone Center in September 2017 to lead the project in coordination with Stone Center Director Janet Gornick. For the next two years, Morelli will serve as Visiting Assistant Professor at the Graduate Center, Distinguished Fellow at the Graduate Center's Advanced Research Collaborative, and Stone Center Senior Scholar.

Morelli brings extensive experience researching the economics of income and wealth distribution. His comparative work on the evolution and measurement of economic inequality is highly regarded. He has also studied the theoretical and empirical foundations of the claim that inequality contributes to economic and financial instability.

"We are excited that Salvatore has arrived at the Graduate Center and that he will contribute his expertise to shaping our wealth project," said Gornick.

Visiting scholars at LIS

This November, LIS welcomed one visiting scholar through the InGRID-2 project; Ana Suárez Álvarez who worked onsite with the LIS Database. Ana is a PhD student at the University of Oviedo in Asturias, Spain, her PhD project is funded by the Spanish Ministry of Education through the University Academic Staff Training Programme (FPU). During her visit at LIS, Ana used the LIS Database to undertake the project “Inequality of Opportunity in developing economies: a cross-country analysis with LIS harmonised data”. The aim of the project is to shed some light on the behaviour of income inequality

and inequality of opportunity (IOp) for developing countries using LIS harmonised data, which incorporates a wide variety of personal characteristics variables. Moreover, the data availability of repeated cross-sections in Brazil, Guatemala, and South Africa was particularly relevant to assess changes over time in IOp and inequality indices. For the latter purpose, Ana implemented a stratified bootstrap methodology with the aim of testing the significance of the changes observed over time.