

INTER-COUNTRY AND INTERREGIONAL COMPARISONS OF INEQUALITY AND POVERTY

Review of Smeeding, T., O'Higgins, M., and Rainwater, L. (Ed.), *Poverty, Inequality and Income Distribution in Comparative Perspective*, Urban Institute Press, Washington DC, 1990.

Borooah, V. K., McGregor, P. P. L., and McKee, P. M., *Regional Income Inequality and Poverty in the United Kingdom*, Aldershot, Brookfield, U.S.A., Hong Kong, Singapore, Sydney, Dartmouth, 1991.

Comparisons of inequality and poverty across countries used to be an area of applied research where laborious efforts often ended in questionable findings. For many years researchers had no access to microdata but had to rely on published material. In "the old days," inputs in the research-process had to be country tables presented in different layouts with variables building on different definitions and obtained by different data-gathering processes. There was the ever present risk that when an analyst reported differences or similarities between two countries the statements did not necessarily reflect the real situation.

An important step in reducing such obstacles was the launching of the Luxembourg Income Study (LIS) during the 1980s. The central idea of this project was to bring together microdata-sets at one location (in Luxembourg) where definitions could be harmonized. However, because the original data was collected in the different countries by dissimilar processes some problems still remain.

How should one today look upon the LIS-project? One must honour the ambition of bringing data together and the fact that a new level of analyses is now possible. Much energy and "academic entrepreneurship" went into producing a public good for the international academic community. For example, before obtaining the data-sets for use in Luxembourg, long and tedious negotiations with each authority (most often a national statistical bureau) originally responsible for the data collection must have been concluded successfully.

The datasets have been utilized to an extent which was probably not anticipated when the project was originally set up. Just based on the number of publications, it seems safe to judge that by scientific standards LIS has been a success. More than one hundred working papers have been prepared, and a considerable fraction has already found its way into journals or books. This wide impact has been made possible because the data-sets in LIS are made freely available to various users. In the beginning, an analyst had to travel to Luxembourg to work with the data-bank, but today he or she can send programs via electronic mail. As well, research results are quickly communicated in a working paper series and a newsletter provides information on recent and planned additions to the data-bank.

The book edited by Smeeding, O'Higgins and Rainwater represent the initial results of the LIS project. At the time these analyses were made LIS contained data which applied to the end of the 1970s or the beginning of the 1980s for the U.S., Israel, Norway, Canada, U.K., West Germany and Sweden. Much has happened with LIS since then. The data-bank now has sets from even more countries, and for the countries covered in this volume, data-sets for 1986-87 are also available.

The volume has seven chapters and an appendix. After an introduction by Atkinson, the reader is given a description of the database by Smeeding and Schmaus in Chapter 1. In my opinion, the book would have benefited if greater space had been reserved for a more general discussion of the issues for comparative studies, as well as limitations of the approach taken. For realizing the project-idea of LIS the quality of the data sets are central. I think the authors could have used more space in discussing pros and cons of the various data-sets. For example, the 1981 data for West Germany is a small set collected by the Transfer-Enquête-Kommission. After consulting the original forms I have become sceptical about the usefulness of this data-set. The data-set for Israel is also relatively small. Common to these two data-sets is that coverage of the entire population is considerably smaller than for the other sets. Small size and low coverage must not disqualify all types of analysis, but for looking at poverty the two data-sets are far from ideal.

Chapter 2 "Income Distribution and Redistribution" by O'Higgins, Schmaus and Stephansson, (also published as an article in *Review of Income and Wealth*) discusses methodological issues and compares inequality using the seven data sets. The authors make a case for adjusting household income by an equivalence scale and for producing results using individuals as the unit of analysis (a standard still not accepted by all analysts, and hardly used at all by statistical authorities). The results show Sweden as having the smallest inequality in disposable equivalent income per person, followed (in turn) by Norway, the U.K. and Canada. Highest inequality is found in the U.S., Israel and West Germany, where the ranking depends on the inequality measure used.

Income poverty is analysed in Chapter 3 by Smeeding, Rainwater, Rein, Hauser and Schaber, using alternative poverty-lines, in which households and persons are considered poor depending on how income in their household relates to median income in their specific country. According to the estimates, poverty is largest in the U.S. and smallest in Sweden and Norway. Looking at the structure of poverty one finds few of the elderly being classified as poor in Sweden, but the opposite is the case in the U.K. Single parent families are found to be poverty-prone in most countries.

Chapter 4 on "Age and Income in Contemporary Society" by Hedström and Ringen (also published in *Journal of Social Policy*) is a systematic study of the relation between age of the household head on one hand and on the other hand the composition of household income and average disposable equivalent income as well as its distribution. The results stress differences between countries for households with an aged head.

Two groups particularly depending on transfer payments are given special attention in one chapter each. Achdut and Tamir look at the income situation of

the elderly, who are defined as persons at least 55 years old. Hauser and Fisher analyse one-parent families in six countries excluding Norway for data reasons. The volume ends with a chapter by the editors on the future of LIS.

What are the general impressions of *Poverty, Inequality and Income Distribution in Comparative Perspective*? Perhaps first of all, that it has the character of a data-driven report of findings. The reader meets not less than 14 authors in this book. One thing they have in common is enthusiasm over the possibilities provided by the data-bank in producing tables with results from harmonized data sets. Reading the chapters, one learns much about how to analyse household income surveys, and about differences in inequality and poverty at the beginning of the 1980s between the seven countries. However, as the data-base at the time of writing was just a cross-section of countries, it follows that one was not then able to judge how stable the differences and similarities are. The emphasis in the contributions is therefore on description, not explanation. Most contributions do not have high ambitions of including institutional discussions of country-specific material or of relating methods and findings to the literature.

Seen with the perspective of a few years, however, one should also emphasize the project's social impact. Results showing that inequality is larger and poverty more prevalent in a specific country is "bad press." Illustrating the distributional experience of various countries leads to questions of causes. Policy-makers are faced with questions on possible cures. In this way, the LIS project has internationalized the social policy debate, opening up the perspective that better policies *can* be made.

Comparing inequality and poverty across regions in one country is in many aspects similar to performing comparisons across countries. However, some circumstances put the cross-country analyst in a luckier situation than the analyst of regional differences—for example, the former most often does not have to define what is considered a country while there is often more ambiguity concerning the lines of regional units.

Differences in mean values for income might not be a major focus of discussion in cross-country comparisons of inequality, but this can hardly be justified when studying differences within a country—which also means that the analyst of regional inequality has to consider possible regional differences in prices. However, the analysis of regional inequality and poverty is made easier because some of the problems that made the LIS project necessary can be avoided. While cross-country comparisons have to rely on different data sources, regional comparisons can build on one data source only, with a common methodology and common definitions of variables.

Regional Income Inequality and Poverty in the U.K. is the first regional study of those aspects for the U.K. using micro-data. The basis is the Family Expenditure Survey for 1985. Methodologically it is similar to the other book reviewed here—and since data for U.K. in LIS is also the Family Expenditure Survey, the two books share some limitations (for example there is no time dimension in the comparisons).

The size of a national sample survey sets limits for how many regions can be defined for purposes of analysis. This study of the U.K. uses two alternative regional divisions: The North–South Divide differentiates between the wealthier

South-East part of England and the rest of the U.K.; the Regional Divide distinguishes between the four parts—Greater London, The Centre, The South and The Periphery (i.e. Northern Ireland, Scotland, Wales and the North of England). As in the other book reviewed here, the analysis is centred around household income adjusted for family size. However, this book contains a lengthy discussion of measures of inequality and poverty. Chapter 4 is an excellent summary of how to study inequality and poverty using microdata.

The results indicate that mean income in the North is about 20 percent lower than in the South. However, inequality was not found to be markedly different in those two regions. The larger extent of poverty reported for the North is thus driven by differences in mean income, not by differences in inequality. The four-region division gives further insights. According to the results, inequality in Greater London is larger than in the other three regions.

Compared to regional differences found in the developing countries, those reported for the U.K. appear small. But are they small compared to other possible ways of decomposing the same population? One is inclined to answer “yes” after reading results which are obtained when the population is decomposed by type of family and economic status using additively decomposable measures.

Much of the empirical material in the book is about poverty in the U.K. Using a family of indices proposed by Foster *et al.*, poverty is decomposed according to a number of variables. Using a Probit model, poverty status among the categories of active individuals, children and retired are related to various background-variables. The authors are not entirely satisfied with the outcome of their efforts as they note that despite the inclusion of a large number of interaction variables, the performance of the models is not encouraging.

While the book on countries shows large differences in inequality and relative poverty, differences between regions of the U.K. are considerably less. The title of the Borooah book signals a circle of potential readers consisting of policy-makers and persons interested in regional differences in the U.K. However, there is also another and possibly larger audience—Chapter 4 is highly recommended reading for all those interested in knowing how to analyse inequality and poverty using microdata by up-to-date methods.

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