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## Presentation: Special Issue of **ECONOMÍA** “Economic Inequality and Redistribution Policies”

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The analysis of income inequality has attracted increasing interest over the last decade among economists and policymakers alike. Income inequality may be socially tolerable, if not even desirable, when is the consequence of choices that people make, such as their labour supply decisions, and those choices are rewarded equitably by the market. Inequality could be a concern when it arises from factors beyond individual control: the country and political situation one experiences, the social context, the neighbourhood and the family of origin. While advanced welfare and education systems in developed economies may compensate for these differences, high-income inequality and high inequality of opportunity remain defining traits of low- or middle-income economies. Perceptions about inequality play an important role in determining the political support towards redistribution of production factors and income. Understanding individual motives in support or against redistribution is crucial for understanding the political support to policies addressing unequal opportunities.

We are glad to introduce the Special Issue “Economic Inequality and Redistribution Policies” (Volume 45, Issue 90) of the Journal **ECONOMÍA**, which is dedicated precisely to address these questions. The issue contains innovative research that are organized into four research papers. These contributions adopt different methodologies—reduced form estimations, structural models as well as questionnaire experiments—to investigate the role of social, fiscal and monetary policies on poverty and inequality in low and middle income countries, and the way such policies can be supported by political consensus. All papers make important contributions to the understanding of different aspects of perceptions of inequality in different areas of the world—Latin America, in Nairobi (Kenia), in Burkina Faso and in Indonesia—and the way such perceptions can be fostered by experienced levels of poverty and inequality and, in turn, affect mitigation strategies undertaken by local governments. Let us present the contribution of each paper in turn.

The first paper by Evelin Lasarga and Martín Leites, “Mobility Prospects and Preferences for Redistribution in Latin America” explores the way experienced inequality is related to individual perceptions about fairness in the income distribution and support for policies that redistribute income and reduce inequality. The paper develops an empirical strategy that exploits variation in inequality across 18 Latin American countries and over the period 2009–2018 to identify exogenous variations in inequality and mobility prospects. The authors explore such variability to provide novel evidence in support of the POUM (Prospects Of Upward Mobility) hypothesis, which postulates that demand for redistribution may decrease with the prospects of upward mobility of individuals. The POUM hypothesis is important for understanding support for redistribution in the sense that individuals that expect to benefit from income improvements in the future would prefer to pay lower taxes in the future and anticipating this, will therefore demand less redistribution today. In a high-inequality context such as Latin America, the POUM hypothesis cannot be rejected. The results allow to speculate that inequality originating from disproportionate growth in top incomes positions (which, in presence of mobility, become increasingly accessible to the median person) would trigger larger tolerance to income inequality, thereby reducing political support for strongly progressive redistribution schemes.

The second paper is authored by Erik Schokkaert, Kurt Devooght, Bart Capeau, and Sara Lelli. As the title suggests, “Allocating an Indivisible Good. A Questionnaire-Experimental Study of Intercultural Differences”, the article analyses the cross-cultural differences in attitudes for redistribution vis-à-vis a simple problem, that of identifying the just allocation of an indivisible good. Inspired by social choice literature, the paper is capable of reconciling inter-individual differences in allocation choices in terms of basic intuitions about desert (or merit), efficiency and compensation. The article follows the “axiom acceptance approach”, which consists in testing the degree of acceptance of specific axioms that characterize allocation rules characterized in social choice theory, making use of questionnaires presenting to the respondent hypothetical allocations that reflect the consequences of the use of alternative criteria. The authors focus on the so-called no envy criterion, an egalitarian principle stating that no agent should prefer the bundle of any other agent to his own bundle, and contrast it with intuitions about desert and merit. As simple as is, the problem of allocating an indivisible good unveils support for redistributive criteria and allows to study the way such support may vary across individuals and/or across cultures. The authors use comparable data generated in three different economic contexts, that of Belgium, Burkina Faso and Indonesia, in order to test the support for the egalitarian principle. They find substantial cross-cultural differences. While Belgian students are most resource-egalitarian, Burkinese students attach a large weight to innate capacities, Indonesian students focus on actual production. This evidence sheds new important light on potential for context-dependency of theoretical framework justifying redistribution rules.

The third paper, “Poverty Dynamics in Nairobi’s Slums. Testing for State Dependence and Heterogeneity Effects”, is co-authored by Nizamul Islam and Ousmane Faye. They investigate the determinants of persistence of poverty in low-income urban areas. The data come from the Nairobi Urban Health and Demographic Surveillance System, which is the first urban-based Health and Demographic Surveillance Systems in Africa. The paper uses an endogenous switching model,

which accounts for initial conditions, non-random attribution and unobserved heterogeneity. The authors are capable of identifying a significant correlation between unobserved factors affecting both the initial condition and the attrition equations, which suggest that those initially poor have a lower attrition propensity. Results support the view that “true state dependence effects” (i.e., the separate effect of experiencing the event of poverty in one period on the probability of being poor in the future) rather than unobserved heterogeneity effects (i.e., the effect of unobservable and pre-determined drivers of poverty on the probability of poverty persistence) are the lead explanatory factors of persistency of poverty in urban context in Africa. Experiencing poverty once may reduce access to basic opportunities for success, thereby triggering a state of poverty persistence. The experience of the first event of poverty may be explained by factors that fall beyond the responsibility of individuals, such as accidents or negative health shocks. As the authors suggest, policies promoting equal opportunities and improving means of insurance against adverse events may have substantial effects on the probably of falling back in into poverty.

In the fourth paper, “Monetary Policy and Inequality under Household Heterogeneity and Incomplete Markets”, Francisco Villareal analyses the consequences of unanticipated monetary policy shocks on household income inequality in Mexico. This paper is a timely contribution. In periods of increasing inflation, it shows that an unanticipated increase in nominal interest rates set by the Central Bank yields consequences on family’s wealth and on the means that families have to self-insure against idiosyncratic income risk. Using a Heterogeneous Agent New-Keynesian (HANK) structural model calibrated with Mexican data, in which households are heterogeneous both in income and in wealth, the paper is capable of identifying and document the distributional impacts of the monetary policy shock along the household income and wealth distribution. It is found that an increase of 80 basis points in the nominal interest rate, cause an increase of 0.12 in the Gini coefficient of households’ labour income inequality. The main channel through which monetary policies affect income is through the differentiated effect of the policy on the different streams that constitute households’ disposable income. We speculate that monetary policies also affect support for redistribution. Families that are net losers out of the fiscal policy may be induced to increase their support for redistribution, which they see as a substitute for self-insurance instruments that have lost value by effect of the policies.

Overall, all these four articles are a timely contribution helping us to improve our understanding about the drivers of economic inequality, including the effects of fiscal and monetary policies, the transmission of poverty and the formation of redistributive beliefs and preferences. We would like to thank the authors and the anonymous referees for their valuable work to make this special issue possible.

For further information, please visit <http://revistas.pucp.edu.pe/index.php/economia>.

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