Inequality Matters

Dear readers,

The most exciting news first! After an extensive period of evaluating our current data structure, creating and testing new variable lists for both LIS and LWS, and migrating our current data to this new structure, the LIS data team is excited to announce that the outcome of this work will be released on May 1, 2019. In short, the restructuring has aimed at raising the quality and ease-of-use of our harmonised microdata. So, mark your calendars to explore the new shape of our microdata!
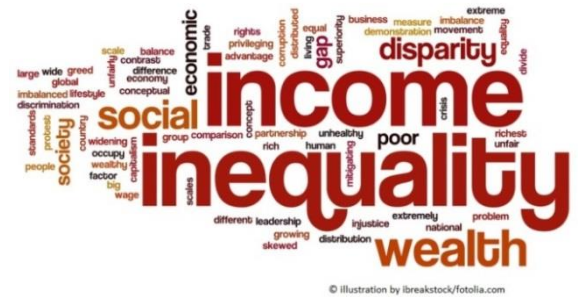
The *Inequality Matters* column includes this time two articles analysing social protection in the U.S.. Sarah K. Bruch (University of Iowa), Marcia K. Meyers (University of Washington), and Janet C. Gornick (Graduate Center, CUNY) examine cross-state inequality in social safety net provision from 1994 to 2014. The authors embed their analysis in a broader argument about the consequences of decentralisation in safety net provision in the U.S.. In the second *Inequality Matters* article, Zach Parolin (University of Antwerp) provides valuable insights in the magnitude of underreporting of social benefits in the CPS ASEC data from the U.S. (the data also included in the LIS Database) and possible ways to adjust for measurement errors.

This issue's *Highlights* section is devoted to the upcoming extensions of the newly shaped LIS & LWS Databases. Andrej Cupak (LIS) and Piotr Paradowski (LIS and Gdańsk University of Technology) exemplify how the LWS Database will be extended in the set of behavioural variables, in order to line up with current research trends in the field of household and personal finance. Eyal Bar-Haim (University of Luxembourg), Anne Hartung (University of Luxembourg), and Jörg Neugschwender (LIS) give an overview on how the forthcoming more detailed standardised variables on educational attainment and years of education could enrich the study of returns to education using the LIS & LWS databases.

Please note that due to this extraordinary period of migration of current datasets to the new structure, LIS has not added any new datasets in this quarter.

Enjoy reading!   *Jörg Neugschwender, editor*

Contents

Inequality Matters

The Consequences of Decentralization: Inequality in Safety Net Provision in the Post–Welfare Reform Era

Sarah K. Bruch ✉ (University of Iowa),
Marcia K. Meyers ✉ (University of Washington),
Janet C. Gornick ✉ (Graduate Center, CUNY)

In recent years, inequality has received increasing attention in political, policy, and academic circles. In the United States, the conversation has been overwhelmingly national in scope. This national focus misses another enormously consequential axis of American inequality — that is, how decentralized provision of social and health assistance has shaped geographic inequalities across the 50 US states.

The decentralized US safety net & cross-state inequality in safety net provision

Social provision in the US is unequal by design, providing tiered and categorically-based assistance that varies — across jurisdictions and citizens — in both quantity and quality. Programs in the top tier are standardized or uniform in terms of their benefits and broad in terms of their coverage; programs in the bottom tier — the focus of our analysis — are narrowly targeted, means-tested, and more variable in terms of the benefits they provide and which potentially eligible populations receive their benefits. While programs in the top tier are financed and administered at the federal level, the majority of the programs in the bottom tier have some degree of devolved authority or discretion to lower levels of government.

This decentralized structure has produced substantial inequalities in provisions across states and across populations within states (Meyers, Gornick, and Peck 2001; Allard 2008; Lobao and Kraybill 2009; Soss, Fording, and Schram 2011). The extent and implications of the decentralized structure are among the most underappreciated features of the US welfare state (Pierson 1995; Howard 1999). Thus, we leverage the decentralization of US safety net provision to assess the degree of cross-state inequality in provision. We begin by examining the magnitude of cross-state variation in the generosity

and inclusiveness of assistance provided through safety net programs that differ in the extent of state discretion for *financing*, *rule-making*, or *administration*.

To examine this, we identify 10 primary federal-state safety net programs and categorize the extent of state discretion created through policy design in three domains: (1) *financial*, joint federal-state funding arrangements, partial state funding for programs, or state discretion in spending federal funds; (2) *rule-making authority*, authority to determine rules regarding eligibility, benefits, and other aspects of the program; and (3) *administration*, flexibility and discretion in the implementation, management, and frontline delivery of assistance.

We formulate two expectations. First, we expect less inequality in the generosity of benefits in programs that are primarily federally funded and correspondingly greater inequality in those programs in which states have more responsibility for financing and exercise more discretion in setting benefit levels. Second, we expect that state inequality in inclusiveness will be highest in programs for which states claim high levels of both rule-making authority and administrative flexibility.

Data and measures

We use the State Safety Net Policy (SSNP) data set, a unique data set that the authors have assembled from publicly-accessible state and federal administrative records, secondary sources of these records, and original population estimates calculated using the Annual Social and Economic Supplement (ASEC) of the Current Population Survey (CPS). These data include 10 federal-state programs for low-income or unemployed working-age adults and their families: cash assistance (AFDC/TANF), food assistance (Food Stamps/SNAP), child health insurance (Medicaid and CHIP), child support enforcement, child care subsidies (CCBG/CCDF and TANF), early childhood education (Head Start and state pre-K programs), Unemployment Insurance (UI), targeted work assistance through AFDC/TANF, child disability assistance (SSI), and state income taxes for families at the poverty line.

For each type of assistance, *generosity* is calculated by dividing total benefit spending (federal, state, or both, as appropriate) by a state's caseload or number of recipients. For a detailed overview of measure

Table 1. Categorization of Safety Net Programs by Level of State Discretion

	Financing	Rule-Making	Administration
Cash assistance	High	High	High
State income tax	High	High	High
Targeted work assistance	High	High	High
Child care	Medium	Medium/high	High
Preschool/early education	Medium/high	Medium/high	Medium/high
Child support	Medium	Medium	High
Unemployment insurance	Medium	Medium	Medium
Child health insurance	Medium	Medium	Medium
Supplemental Security Income	Low	Low	Low
Food assistance	Low	Low	Medium

Note. Low = limited state discretion; high = a great deal of state discretion. Authors' coding based on program design features distributing federal and state responsibilities and authority. Preschool/ early education combines programs operating with different forms and degrees of state discretion: state funded pre-K programs, over which states have full control, plus the federal Head Start program that is funded and managed directly by federal agencies.

construction, see Bruch et al. 2018. The generosity measures are adjusted to constant (2012) dollars using the Bureau of Labor Statistics Consumer Price Index Research Series (CPI-U-RS). *Inclusion* is calculated by dividing the number of program recipients in a state by the number of potentially needy individuals or families in the state. For means-tested programs, the estimate of the potentially needy is the number of individuals or families who (a) fall into categorically-eligible groups, and (b) have market (or pre-tax, pre-transfer) incomes below the federal poverty threshold or below some percentage of the threshold depending on the income eligibility criteria of the program (estimated using 3-year moving averages from the ASEC of the CPS).

Analytical method

To answer our first research question concerning the extent of variation in social safety net provision across the US states, we estimate several measures of variation and dispersion. To describe the magnitude of differences across states in a readily interpretable metric, we provide the absolute values observed at different points in the distribution of states (90th and 10th percentiles). To estimate the level of cross-state variation or inequality, we estimate the range, variance, and coefficient of variation (COV). In order to assess the correspondence between the extent of state discretion and the magnitude of cross-state variation, we categorize each program as providing high, medium, or low levels of discretion (see Table 1).

To answer our second research question, we use 20 years of data to compare the trajectories of change in cross-state variation across programs. The analysis of change over time examines two aspects of convergence: the degree or magnitude of change, observed as change in variation, and the location of change, observed by examining change at different points in the distribution. The degree of convergence is assessed by comparing changes in the COV from 1994 to 2014. Examining all three together (COV, variance, and mean) provides insight into why the COV is increasing, decreasing, or remaining stable over time. Finally, the location of convergence is assessed by comparing the values at the 10th and 90th percentiles, which allows us to identify whether there is evidence of states at low levels of provision catching up with others, or if states at high levels of provision are reducing their levels of provision more than other states.
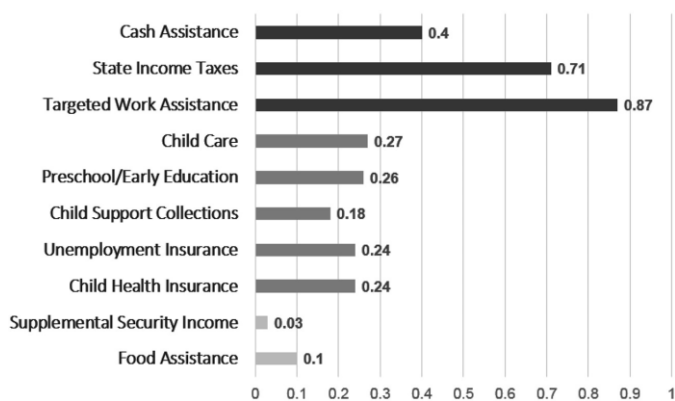
Results – similar risks, but unequal risk protection

As we expected, in 2014 we observe greater variation in the generosity of benefits in those programs over which states have greater financing responsibility and control (see Fig. 1). The COV measures are largest in the three programs that have high levels of state discretion over funding (cash assistance, state income taxes, and targeted work assistance). In contrast, the two programs with the least cross-state variation are largely or entirely federally funded, leaving states with limited discretion for determining total spending or individual benefit levels: food assistance and SSI. In principle, states may supplement the SSI child benefits, but currently 18 states do not supplement the federal benefit for children, and four states only supplement benefits for specific types of disabilities.

The extent of cross-state variation by program also conforms to our second expectation, that variation in inclusiveness would be greatest in programs over which states exercise greater discretion in rule-making and administration (see Fig. 2). Five of the 10 programs are characterized by high levels of both rule-making authority and administrative flexibility; these programs are also among the most variable across states: cash assistance, preschool/early education, child care, and targeted work assistance. High levels of state variation in the TANF-related programs is not surprising given the explicit devolution of authority to set eligibility criteria and rules in the TANF block grant (Schott et al. 2015). The variation in inclusiveness of preschool/early education programs reflects the combination of Head Start, a federally-administered program, and state-initiated and managed pre-K programs, which vary dramatically across states (Barnett et al. 2015). In contrast, the programs with the least variation in the inclusiveness of receipt — food assistance and health insurance — are both subject to standard federal eligibility criteria and require states to seek waivers for significant deviations from these criteria, and they are also subject to direct federal oversight and monitoring.

Inequalities across states are even more pronounced in the inclusiveness of social safety net programs. Although targeted on the neediest, most programs serve only a fraction of those at risk. In seven of the 10 programs, the average rate of inclusion is less than half in 2014, and even states at the 90th percentile of inclusiveness served fewer than two-thirds of those in need. Only two programs —

Fig.1. Generosity indicators in 2014, coefficient of variation

Fig.2. Inclusion indicators in 2014, coefficient of variation
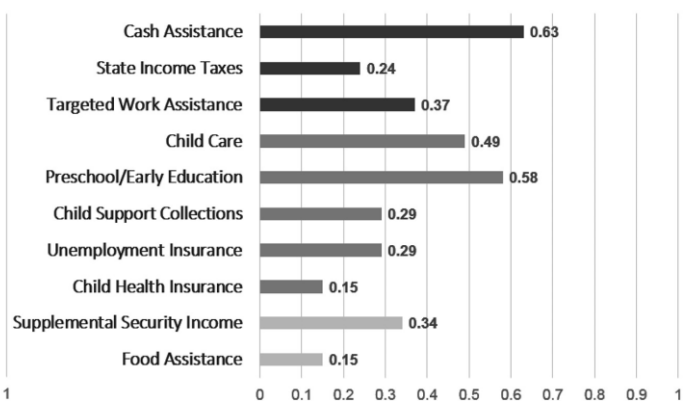
Note: All measures use 2014 data except for targeted work assistance (2013) and health insurance (2012).

food assistance and children's health insurance — effectively reached not only those in poverty but a share of those over the federal poverty line. With the exception of these two relatively expansive programs, levels of inclusion are generally low and vary by 50 percent or more between the more and less inclusive states. It is crucial to note that these differences create geographic inequalities in the treatment of similar claimants and, by allowing some states to provide very low benefits to a small fraction of the needy, exacerbate the weakness of the safety net as a whole.

Taken together, these findings reveal substantial cross-state variation in safety net provision, resulting in highly unequal access and benefits provided through the same programs in different states. Direct federal funding and nationally uniform eligibility criteria appear to result in lower levels of geographic inequality in state provision. Even in programs with consistent federal rules, however, state administrative actions appear to introduce variation in treatment, particularly in access to benefits. The weaker the federal role, the further apart are the states with respect to both the share of the needy they help and the level of assistance they provide.

Convergence, divergence, or stasis in state provisions

Expectation of both divergence and convergence can be derived from theories of federalism that point to the ongoing, strategic competition for policy control within multilevel governance systems. Despite significant changes in levels of provision between 1994 and 2014, as measured by the generosity of benefits and inclusion of the needy, the extent of state variation did not change significantly on most measures (results not shown). This consistency in the magnitude of state variation supports the expectation from institutional theory of path dependence and feed-forward effects, resulting in stability over time in state approaches.

However, the majority of the exceptions to this pattern of stability were in programs directly affected by federal legislation in the mid- to late 1990s (Personal Responsibility and Work Opportunity Reconciliation Act of 1996 (PRWORA)) which increased state control over policy in some programs while also imposing more centralized control in others. We find divergence or increased state variation in the inclusiveness of two programs (cash assistance and child care) in which the conversion from individual entitlements to block grants in PRWORA increased state discretion. We also find convergence or a narrowing of state variation in programs for which federal actions mandated (child support collections) or incentivized (child health insurance) greater inclusion of the needy.

Conclusion

The decentralized structure of the safety net is one of the most crucial yet least carefully studied structural design features of the US welfare state, and it has dramatic consequences in terms of inequalities in social provision across the states. Using state-level measures to examine geographic inequality in safety net programs, we shed new light on the potential consequences of the decentralized structure of assistance for working-age adults and families.

The most striking finding of our analysis is the extent and persistence of state inequality. Scholars have long observed that inequality is an inevitable outcome of a federalist system, especially in the absence of fiscal redistribution. Nevertheless, the extent of inequality in the US safety net has rarely been assessed across the weakly coordinated system of numerous separate programs that make up the American welfare state. When we undertake such an assessment using comparable state-level measures of generosity and inclusion, we find unequal treatment of individuals and households with similar needs who live in different jurisdictions. We also find that the magnitude of cross-state inequality in provision corresponds to the level of state discretion in financing, rule-making, and administration. The highest levels of inequality are observed in those programs for which states have the highest level of financial responsibility and greater rule-making and administrative autonomy, especially with regard to the inclusiveness of program receipt. At the same time, the vast majority of programs can be characterized as having relatively stable levels of cross-state inequality in provision during recent decades. This is likely a result of the substantial path dependence or feed-forward effects of the initial policy designs that established particular federal-state arrangements in terms of responsibility for financing, rule-making, and administration.

The implication of these findings is that designing policies with state discretion in financing, rule-making, or administration is likely to lead to greater levels of cross-state inequality in provision than a design in which state discretion is limited. While political ideology or economic conditions may influence the policy diffusion and adoption process, attention must also be paid to how the policy itself is structured. Given the magnitude and general stability of state inequalities in provision, our findings suggest that any change in the policy environment that is intended to reduce such inequality would need to include reducing the level of state discretion in these programs.

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How does benefit underreporting affect our understanding of poverty and inequality in the United States?

Zachary Parolin ✉ (University of Antwerp)

Estimates of poverty and income inequality are only as reliable as the data from which they are derived. Nearly all estimations of household income that include the U.S., however, are based on a source of data that suffers from the underreporting of means-tested transfers. Put differently, the social transfers that many low-income households in the U.S. receive often do not show up in U.S. household survey data. As quantitative researchers, how concerned should we be about this source of measurement error in the U.S. data? And in what ways might benefit underreporting affect our understanding of the determinants and composition of poverty? These are among the questions I have worked to address throughout the past two years.

Before diving into the answers, it is useful to cover a few basics. First, the data in question is the U.S. Current Population Survey (the CPS ASEC). The CPS ASEC includes the most detailed set of income information for households in the U.S. and is the data most often used to produce American poverty estimates. In addition to being used for the majority of intra-U.S. poverty research, the CPS ASEC is used as the input data for LIS.

A second point: though I focus mostly on the CPS ASEC, it is certainly not the only set of survey data that suffers from measurement concerns. Any survey that requires respondents to recall information from their past, or to share potentially sensitive information, is susceptible to measurement error (Jäntti et al. 2013). Fortunately, we can often benchmark survey responses against register or administrative data to check for consistency. More often than not, the survey data pass the test. Sometimes, though, imperfections appear. As some examples, mismatches between survey data and administrative records have been identified among earnings data in Denmark (Kristensen and Westergard-Nielsen 2006), earnings and pensions in Sweden (Kapteyn et al. 2007), total household income in France, and transfer income in Italy (Jäntti et al. 2013), all to varying extents.

But, back to the U.S.: when should we be concerned about benefit underreporting? Below, I highlight three key lessons from recent research.

1. **U.S. survey data suffers greatly from the underreporting of social transfers.**

Benefit underreporting is particularly concentrated in three social programs: the Supplemental Nutrition Assistance Program (SNAP, often referred to as food stamps), Temporary Assistance for Needy Families (TANF, a state-run social assistance program), and Supplemental Security Income (SSI, a means-tested income supplement targeted at blind, disabled, and/or older-age adults). Combined, these three programs accounted for more than $130 billion in cash or near-cash transfers in 2015. More than a third of this sum (around $45.6 billion), however, is unmeasured in the CPS ASEC in 2015, leading to an underestimation of household incomes toward the bottom of the income distribution. Evidence suggests that benefit underreporting has worsened in U.S. survey data over time.

In a recent paper at Social Indicators Research, I utilize a microsimulation tool from the Urban Institute, a think tank in Washington, D.C., to adjust for the benefit underreporting and re-evaluate poverty outcomes in the U.S. The Urban Institute's "Transfer Income Model 3", or TRIM3, is a sophisticated simulation tool that utilizes information about each individual and household in the CPS ASEC to predict their likelihood of benefit receipt, as well as the value of benefits that a recipient is likely to receive. The TRIM3 simulations take into account data from federal and state administrative records, as well as individual/household data on race, ethnicity, immigrant status, marital status, household structure, state of residence, income, state-level policy rules, and more to estimate program participation and benefit levels. The simulated SNAP, SSI, and TANF benefit levels can be used in place of reported values to adjust for under-reporting within the CPS ASEC.

As discussed in more detail in the paper, TRIM3 is not perfect. But, given the absence of available administrative records, it offers a promising step forward toward producing more accurate estimates of poverty in the U.S. In all, **TRIM3 brings in more than $30 billion worth of social transfers back into the dataset in 2015**, and comes much closer to matching administrative records on the total levels of SNAP, TANF, and SSI benefits allocated to the public (Parolin 2019).

2. **Benefit underreporting affects estimates of the incidence and composition of poverty in the U.S., and 'extreme' poverty in particular.**

As expected, bringing the missing benefits back into the household data has an effect on estimates of poverty in the United States. This is particularly true for households with children, the primary beneficiaries of SNAP and TANF benefits. Figure 1 below shows the changes in poverty rates in 2015 before and after applying the TRIM3 benefit adjustments. The left half of the figure shows changes in rates according to the Supplemental Poverty Measure (SPM), a quasi-relative poverty measure used within the U.S.. The right half of the figure applies the 50 percent of median income benchmark commonly used in comparative research.

Fig.1. Estimates of Poverty Before & After TRIM3 Adjustments for Benefit Underreporting (2015)
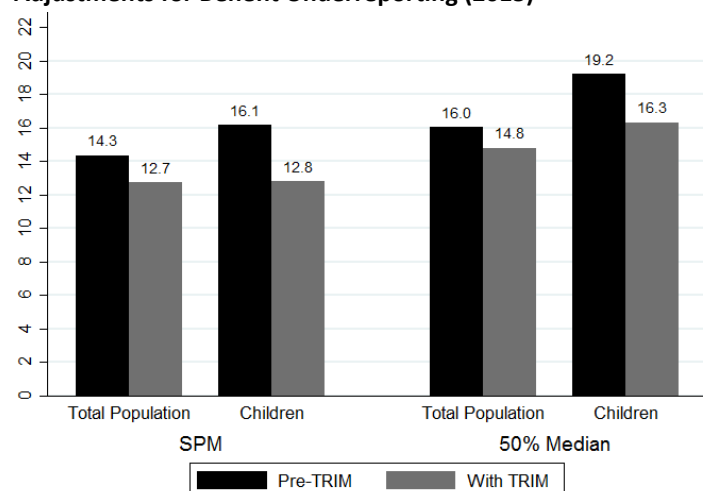
Note: All differences in pre/post-TRIM3 poverty estimates are statistically significant. 95% confidence intervals for child poverty estimates are about 0.3 percent; intervals for total population estimates are about 0.2 percent. SPM = Supplemental Poverty Measure. 50% Median = poverty threshold set at 50 percent of national equivalized household median income. Data: CPS ASEC. TRIM imputations adjust for underreporting of TANF, SNAP, and SSI.

For the 50 percent of median measure, we see a 1.2 percentage point (8 percent) reduction in overall poverty after applying the benefit adjustments. For children, however, the poverty rate falls by nearly 3 percentage points (15 percent). For the SPM, the declines are even steeper: a 1.6 percentage point (11 percent) drop for the entire population, and a 3.3 percentage point (20 percent) decline among children. These findings show not only that we are slightly overestimating the incidence of poverty in the U.S., but that social transfers in the U.S. are probably a little more effective than we often give them credit for.

Benefit underreporting particularly affects our understanding of the incidence and composition of households living in deep or extreme poverty. At the Journal of Poverty & Social Justice, David Brady and I took a revised look at the sources and composition of 'extreme' child poverty in the U.S. We find that estimates of the share of children living in $2 per day poverty, or below 10 percent of median income in the U.S., are very sensitive to benefit underreporting and choices regarding income measurement. When we adjust for underreporting of SNAP and include it in our income definition, for example, we find that levels of extreme child poverty decline from 1.84 percent to 0.11 percent, a relative decline of 94 percent. Moreover, we find that our understanding of *who* lives in extreme poverty changes drastically. Prior literature has pointed to the incidence of extreme poverty among single parents. In contrast, we find that 73 percent of children in extreme poverty live in households headed by a non-citizen. A straightforward policy response to reduce extreme poverty in the U.S. should thus ensure that non-citizens also have access to some form of social assistance (see Parolin and Brady 2019 for more details).

However, our findings also come with an important caveat: survey data of household incomes do not generally capture homeless families or individuals in transient housing situations. As such, any attempts to measure extreme poverty using survey data can only provide a lower-bound estimate of the true prevalence. In 2014-2015, the U.S. Department of Education identified 1.3 million children in public schools as homeless or living in precarious housing situations. Including these children in our counts of extreme poverty would substantially increase our estimates.

3. Benefit underreporting has little effect on estimates of income inequality

Benefit underreporting clearly has an effect on estimates of poverty in the U.S. But, to what extent does it affect our understanding of income inequality?

At the Journal of European Social Policy, Stefano Filauro and I set out to compare income inequality in the U.S. (after adjusting for benefit underreporting) to income inequality in the EU-28. LIS users know well that income inequality in the U.S. is higher than in most other advanced democracies. In Filauro and Parolin (2018), we find that even after adjusting for benefit underreporting, post-tax/transfer income inequality in the U.S. is higher than pan-European income inequality, as shown in Figure 2. In other words, when we aggregate all residents of EU Member States together and adjust for cross-national price differences, we find a Gini coefficient that is consistently smaller than that of the United States from 2006 onward.

Fig.2. Inequality (Gini) among United States and EU-28 Member States Before/After Taxes & Transfers
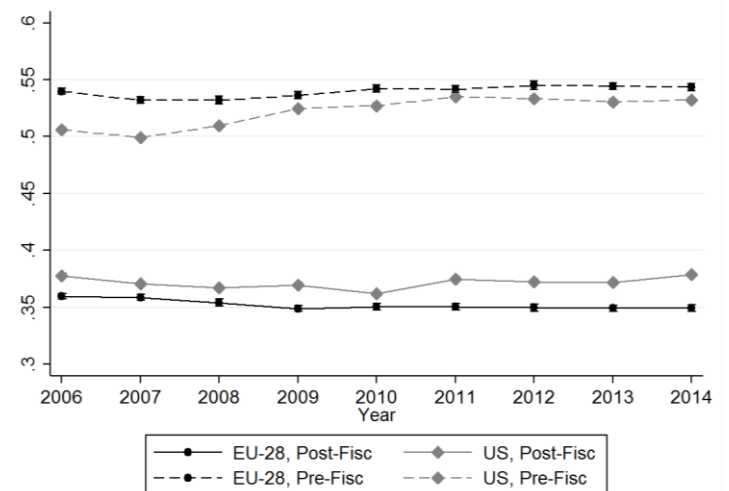
Note: Y-axis begins at 0.3. Lower- and upper-bounds represent 95 percent confidence intervals.

Clearly, benefit underreporting does not change the U.S.'s status as an outlier with respect to income inequality. Even after bringing the missing transfers back into the dataset, income inequality and poverty in the U.S. remain higher than in most peer nations.

So, to what extent should LIS users be concerned about benefit underreporting in the U.S.? At the least, LIS users should acknowledge the issue of benefit underreporting when interpreting estimates of poverty or income inequality from the CPS ASEC (or LIS micro-data). As exemplified above, adjustments for benefit underreporting could bring roughly half of TANF and SNAP transfers back into the survey data in recent years. In 2015, that amounted to more than $30 billion in transfers, primarily concentrated among low-income households with children.

Re-estimating poverty rates with the improved data shows that households with children are particularly affected. In 2015, relative child poverty rates declined from 19.2 to 16.3 percent after adjusting for benefit underreporting, or a 15 percent relative decline. For the population as a whole, poverty rates fell from 16 percent to 14.8 percent after applying the benefit adjustments. The farther down one goes in the income distribution, the more benefit underreporting matters. In assessing levels and trends of 'extreme' poverty in the U.S., for example, we saw that applying the TRIM3-adjusted income massively affects our understanding of *who* and *how many* Americans live with household income below 10 percent of the national median.

That said, the benefit adjustments do not change the position of the U.S. relative to other peer nations when it comes to indicators of economic wellbeing and social inclusion. Even after applying the TRIM3 adjustments, the U.S. features higher levels of income inequality (when measured with the Gini coefficient) compared to the combined EU-28. Moreover, the U.S. still features exceptionally high levels of poverty and income inequality compared to peer nations.

Ongoing efforts to link administrative records with CPS ASEC data should hopefully reduce concerns of measurement error in the future. For the time being, poverty and inequality scholars using U.S. survey data should press on with their work, but should acknowledge the possibility that benefit underreporting, if not addressed, may bias their results.

Zach Parolin completed his Ph.D. in Socio-Economics at the University of Antwerp. In April, he will start as a Post-Doctoral Research Associate at Columbia University's Center on Poverty & Social Policy. You can follow Zach on Twitter at @zparolin.

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by Kaitlin Alper, Evelyne Huber, and John D Stephens
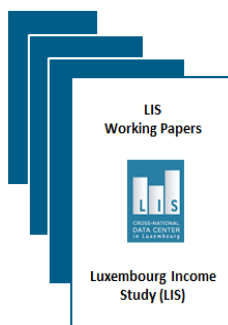
Focus on 'Can the structure of inequality explain fiscal redistribution? Revisiting the social affinity hypothesis'
 LIS WP No.762 by *Malte Luebker* ✉ **(Institute of Economic and Social Research (WSI))**

Why do some countries intervene heavily into the distribution of incomes, while others do little to reduce inequality? That is a difficult question, as the answer proved to be more complex than what has been predicted by rational choice models in the 1970s, positing that the fiscal redistribution would simply trail rising inequality (Meltzer and Richard, 1981). Hence, fresh ideas were needed. Lupu and Pontusson (2011) developed one particularly innovative and persuasive approach. They argue that the structure of income inequality, rather than its level, holds the key to understand differences in fiscal redistribution across modern welfare states. By shaping social affinities between social groups, relative income differentials (or skew) can explain whether or not distributional allegiances emerge between the middle-class and the poor. However, while the original authors assert that there is robust empirical evidence for their proposition, this paper comes to a different conclusion. It makes three central claims: (a) skew in the earnings distribution, the key explanatory variable in the empirical tests of the original paper, is at least in part a result of labor market institutions. These themselves are shaped by political processes, and hence earnings skew is endogenous to the welfare state. (b) Moreover, since the theory refers to the structure of income inequality, it should be tested against data on relative income differentials rather than a proxy measure based on earnings (i.e. labor income of wage earners). (c) When a theoretically more appropriate measure for skew in the distribution of incomes is derived from the LIS data, no evidence emerges that it is positively associated with fiscal redistribution. In sum, revisiting an influential contribution to the literature offers no support for the proposition that the structure of inequality has consequences for fiscal redistribution.

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Highlights

Extending behavioral variables in the Luxembourg Wealth Study (LWS) Database: what kind of research can be done?

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Disclaimer: The views and results presented in this paper are solely those of the authors and do not necessarily represent the official opinion of the affiliated institutions. Any remaining errors and omissions in the text are the authors' own.

Besides standard socio-economic determinants (e.g. economic resources, age profile, education, gender, etc.) that have been highlighted in the literature as important factors impacting household financial decision-making, research has now turned to an analysis of the importance of behavioral aspects that could affect household financial outcomes. To keep up with the current research trends in the field of household and personal finance, the Luxembourg Income Study (LIS) Data Center will extend the standard set of behavioral variables already present in the Luxembourg Wealth Study (LWS) Database. These behavioral variables cover information on risk aversion, savings behavior, financial literacy, financial planning, as well as several behavioral variables related to debt.

Some of these variables – predominantly focused on risk aversion – have been recently utilized in several LWS research papers (see, Kaliciak *et al.*, 2016; Schneider *et al.*, 2017; Barasinska and Schäfer, 2018). For example, Kaliciak *et al.* (2016) analyze the relationship between behavioral variables and voluntary retirement savings in Greece, Italy, the UK, and the US, highlighting the importance of financial risk aversion. Barasinska and Schäfer (2018) explored the impact of varying risk preferences across gender on stock market participation.

Financial literacy questions asked in the wealth surveys – and also covered in the LWS Database (e.g. Italy, the UK, and the US) – typically follow the standard questions on interest rates, inflation, and risk diversification proposed by Lusardi and Mitchell (2014). For example, the Survey of Consumer Finances (SCF) 2016 asks U.S. households three questions about financial matters (see Figure 1 for the exact wording). The answers to those questions reveal that respondents are more familiar with the concepts of inflation and interest rates than the concept of risk. Following the recent literature, researchers might be interested in linking financial literacy to financial behaviors and economic decisions such as asset holdings, retirement savings, portfolio diversification, as well as over-indebtedness (see Lusardi and Mitchell, 2014), or studying differences in financial literacy across population groups (e.g. Cupak *et al.*, 2018).

New behavioral variables in the LWS Database on expectations will be based on a set of questions recently asked in several wealth surveys. Typically, there are two different sets of questions asked with respect to expectations, the overall performance of the economy (e.g. economic growth and prices) and expectations regarding the future financial situation of the household. Let us take a look at some examples from the original questions that will appear as new LWS variables. For example, in the SCF 2016, the following questions are asked:

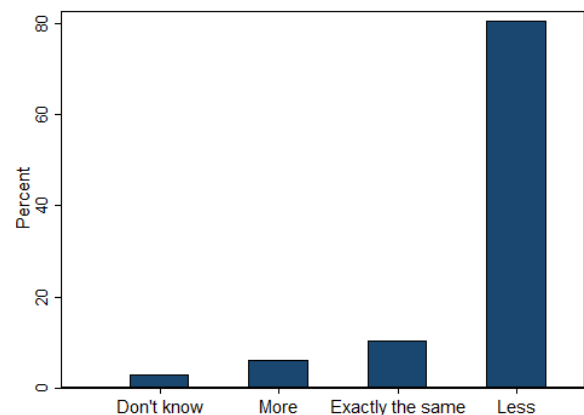### Figure 1: Answers to financial literacy questions in the US

a) "Buying a single company's stock usually provides a safer return than a stock mutual fund." [correct answer: "false"]
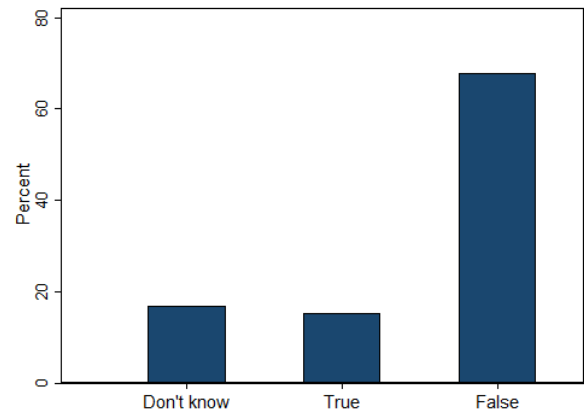
b) "Suppose you had $100 in a savings account and the interest rate was 2% per year. After 5 years, how much do you think you would have in the account if you left the money to grow?" [correct answer: "more than $102"]
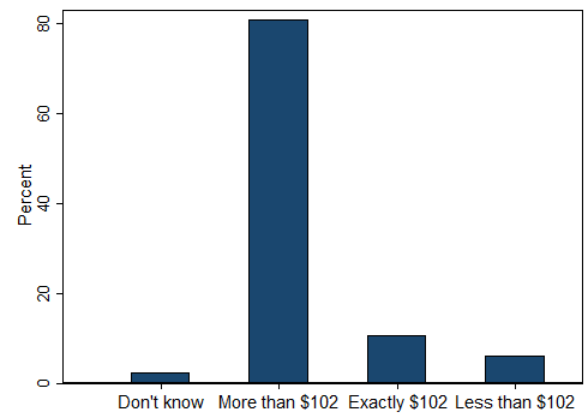
c) "Imagine that the interest rate on your savings account was 1% per year and inflation was 2% per year. After 1 year, how much would you be able to buy with the money in this account?" [correct answer: "less"]
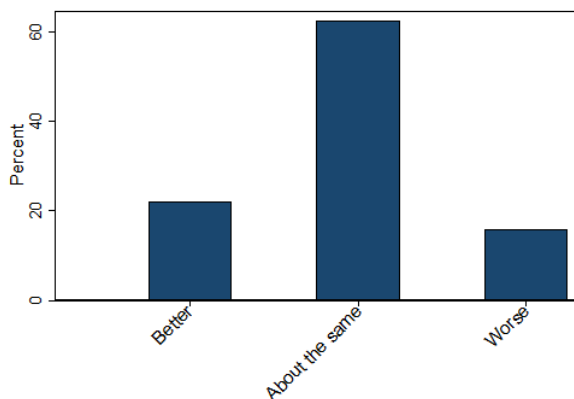

Note: financial literacy questions reflect the content of LWS variables bafl(1/3)_c.
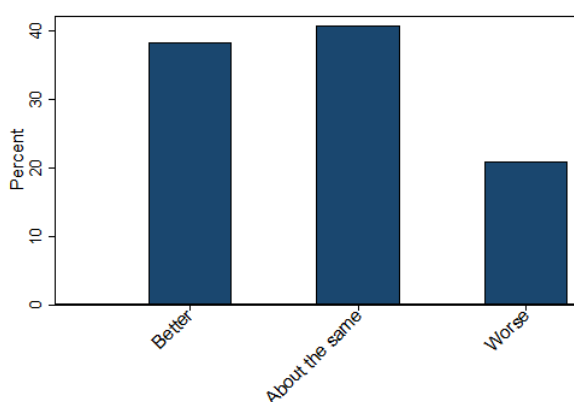
Source: LWS Database.

Figure 2: Distribution of the short- and long-term economic expectation in the US

a) expectations in 1-year horizon
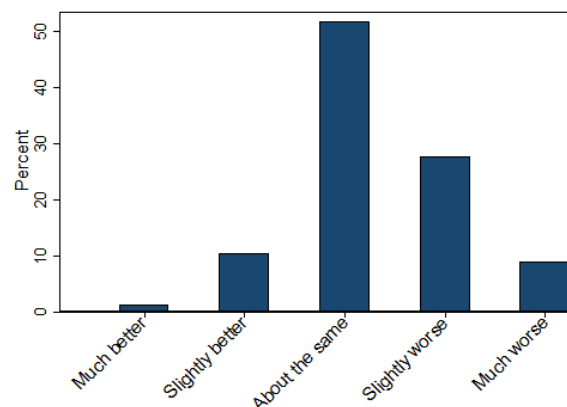

b) expectations in 5-years horizon

Note: these figures are obtained from the original SCF 2016 microdata. The variables are not yet part of the LWS Database, but they will be included in the forthcoming data template.

Source: SCF 2016, Federal Reserve System.

"*Over the next five years, do you expect the U.S. economy as a whole to perform better, worse, or about the same as it has over the past five years?*" and "*Over the next year, do you expect the economy to perform better, worse, or about the same as now?*". As shown in Figure 2, households in the US have different expectations regarding future macroeconomic trends.

Another wealth survey (the Household Finance and Consumption Survey) asks a question about households' expectations concerning their future financial situation: "*Thinking about a year from now, do you expect your personal financial situation in general to be a lot better, somewhat better, about the same, somewhat worse, or a lot worse?*". The answer to this question is presented in Figure 3. In a sample of Slovak households, respondents showed mostly neutral, but also rather pessimistic expectations as regards the evolution of their future financial situation.

Figure 3: Expectation regarding the future financial situation of households in Slovakia

Note: these figures are obtained from the original Slovak HFCS 2014 microdata. The variable is not yet part of the LWS Database, but it will be included in the forthcoming data template.

Source: HFCS 2014, National Bank of Slovakia.

From a research perspective, household expectations play an important role in determining economic behaviors such as life-cycle consumption (e.g. Jappelli and Pistaferri, 2000) or choosing an optimal level of debt (e.g. Brown *et al*., 2005). The forthcoming LWS expectation variables could be utilized by researchers in a similar manner.

It is important to stress that currently the cross-country availability of the above-discussed behavioral variables is limited in the LWS Database, since the wealth surveys have only recently begun to collect such data. In line with the current developments in empirical research on household and personal finance, we hope that more wealth surveys will continue to collect behavioral variables and that they will therefore appear more frequently in the LWS for researchers to conduct cross-country analyses.

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Extending educational attainment variables at LIS: On the importance of analyzing returns to education based on detailed education categories and years of education

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Anne Hartung ✉ (University of Luxembourg)
Jörg Neugschwender ✉ (LIS)

Comparative studies of educational inequalities usually face a unique dilemma regarding the measurement of educational levels: whether to use a more precise, but less comparable, measure of educational levels or a rather crude, but more cross-nationally comparable measure. Other factors shaping inequality, such as income, wealth and even occupations are relatively comparable across periods and over countries using conventional standardization techniques (PPP, ISCO, ISEI, etc.). However, concerning education, especially outside the scope of the Bologna process, standardization may also represent a problem: the same nominal educational level might mean different things over time and between countries – in terms of duration required to earn this particular level of education, its prestige and its relevance for the labor market.

In comparative research, mostly three strategies are used for measuring and comparing the highest level of education: 1) years of schooling (in full-time equivalents), 2) consensual measurements of levels of education and 3) highly standardized measures such as the *International Standard Classification of Education* (ISCED) (UNESCO 2012, Schneider 2013). *Years of schooling* is easily measureable, but suffers from considerable measurement error. Problematic is, for instance, the reporting of years spent in full-time education, where the repetition of classes is included (e.g., ESS), or exclusion of vocational training in the count (e.g., ISSP). Moreover, especially in tracked educational systems, the duration and the level of education is not necessarily associated – or in other words, does not tell much about the stratification of a society. The forthcoming release of the updated LIS Database will introduce a standardized measure of years of education. This measure avoids some of these imprecisions by converting the country-specific measure of the highest educational achievement into years normally required to obtain these educational levels.

Despite several sophisticated solutions which try to harmonize educational levels, scholars often opt for a crude but consensual measurement of education, based on an ad-hoc harmonization of country-specific measures or a reduction of an international standardized scheme such as CASMIN or ISCED. Likewise, a three-category measurement was introduced in the LIS Database[1] allowing comparisons of *low/medium/high* education over the LIS countries, often over several decades (England, Gornick & Shafer 2012, Bar-Haim et al. 2018, Bar-Haim, Chauvel & Hartung 2019).

Unfortunately, basic measurements do not allow to differentiate between crucially different educational certificates as well as tracks within educational levels, a fact that harms the ability to produce insightful research on education and inequality. A third measure, especially more recent studies have therefore used, is the ISCED, which was explicitly created by the UNESCO for the provision of harmonized international statistics on educational levels, i.e. school leaving certificates. The ISCED takes into consideration comparability issues in both highest (graduate) and lowest (preschool) levels of education. ISCED accounts not only for educational systems in high-income countries but also for middle and low-income countries. Several studies suggest that it performs better than other common educational categorization systems, at least in the European context. Most importantly, even in its reduced (1-digit) form, it distinguishes between nine levels and allows thus a much more refined investigation of educational inequalities.

The differentiation of educational degrees *within* crude educational levels, particularly within the tertiary level, has become much more important in times of the global educational expansion (Schofer & Meyer 2005, Bar-Haim & Shavit 2013). Since secondary education became almost universal in many countries, we are facing saturation of education or "educational inflation". As a result, the differentiation between undergraduate vs. graduate degrees and even within the undergraduate degrees, e.g. BA (or equivalent), MA and PhD degrees, has stronger sociological and economic implications. For example, Posselt and Grodsky (2017) presented data for the U.S. that suggest that the wage gap between persons with a BA degree and persons with a high school diploma increased by 6% between 2000 and 2013, while the wage gap between persons with a graduate degree and those with a high school diploma increased by more than 17%. They also found that the importance of parental education in the U.S. remained stable for achieving undergraduate degrees between the 1970s and the 1990s, but increased significantly for obtaining PhD degrees.

Also for the U.S., Torche (2011) shows that the association between parental background and individual socio-economic outcomes (income and occupational standing) is strongly significant only among graduate degree owners, contrary to other educational levels, where this association does not exist. Despite the vast evidence of the importance of more detailed categories of educational levels, the difficulties to compare these levels prevented full-scale comparative studies to incorporate such a detailed scheme. The lack of a detailed comparative classification of education in many of the cross national and time-series data sets is a major setback. Therefore, the incorporation of the more detailed 1-digit ISCED 11 (UNESCO 2012) to most of the LIS datasets (variable *educlev*) is a major contribution for the comparative study of education-driven inequality.[2]

The potential contribution of incorporating a more detailed educational measure based on the ISCED in the LIS Database can be demonstrated by the example of trends in returns to education. In the past, studies of economic returns to education who employed LIS data had to focus on income differences between less than secondary, non-tertiary and tertiary education. However, as noted above, much of the change over time in returns to education can be found in the differences between Bachelor and Master degrees. In order to demonstrate this, we analyzed the income (unadjusted) returns to educational levels for the U.S. in 1991 and 2016. First, we used the less detailed educational variable (*educ*) and then we compared the results to those obtained using the forthcoming, more detailed ISCED variable (*educlev*). The results are shown in Fig. 1., where the grey (blue) bars represent the returns to education in 1991 (2016). The most important difference are the returns to higher levels of education. The dramatically increasing returns to BA and higher degrees based on the ISCED categories (right side of the figure), is masked to large extent when using the less detailed, three-

Fig. 1. Wage income by highest education level completed
(US 1991 & US 2016)
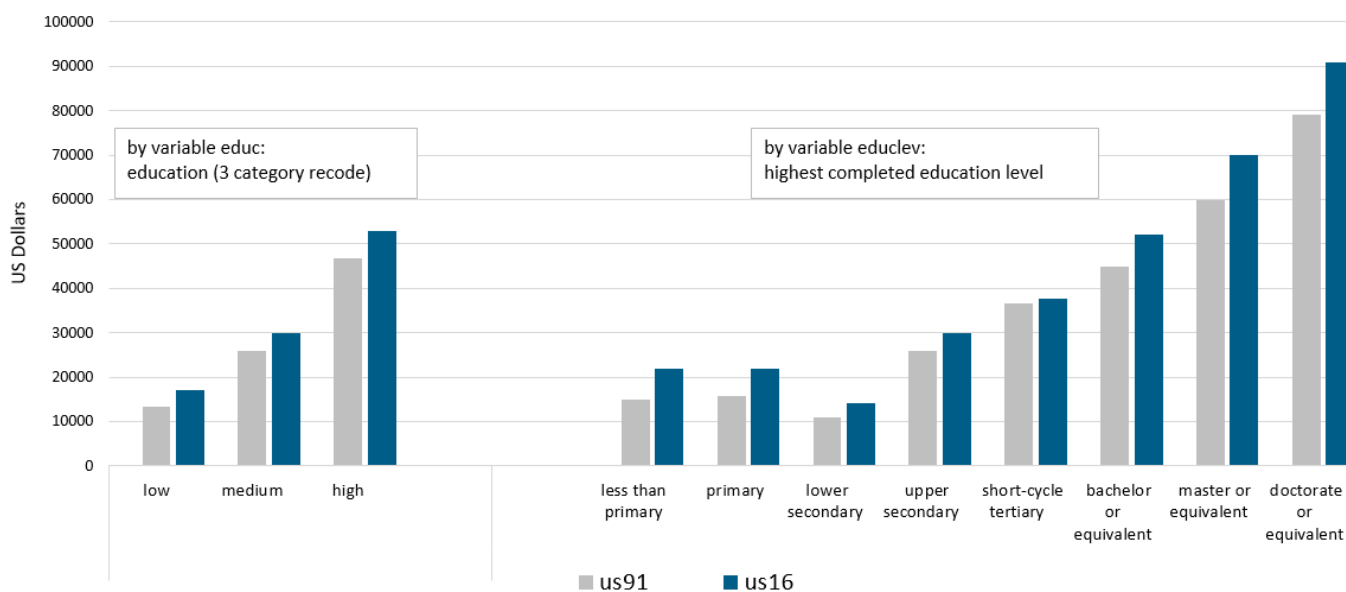
Note: Data for US 2016 are reported in nominal values, data for US 1991 are reported in real values (consumer-price adjusted to US 2016).
Source: Luxembourg Income Study (LIS) Database.

category variable (left side of the table). This is due to the very small contribution of short-cycle tertiary education, which in the U.S. mostly refer to community colleges, to the increase in the returns to education in this broad category. These findings are in line with the literature that found substantial differences between short- and full-cycle tertiary education in the U.S..

The descriptive results presented here, albeit preliminary, demonstrate the possible contribution of the new variable to the LIS data. Using a more refined, yet comparable measurement of educational levels, the LIS Database will allow to increase our knowledge on the role of education in inequality and stratification systems.

1 In addition to the more detailed country-specific measurements (LIS variable educ_c).

2 The forthcoming LIS variable educlev also incorporates the category 'no education' within the less than primary education category.

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News, Events and Updates

May 1: Launch of the new structure of LIS & LWS Databases!

The LIS data team is excited to announce that – on May 1, 2019 – we will launch extensively-revised versions of the LIS and LWS Databases. After thoroughly evaluating our current data structure and querying many of our data users, we spent several months creating and testing new variable lists for both LIS and LWS. That process is completed and we are now migrating existing datasets into the new structure.

These revisions are aimed at raising the quality and ease-of-use of our harmonised microdata, by providing more standardised content across countries and over time. Both the LIS and LWS variable lists have been revised and the documentation has been improved. After the launch date, all new LIS and LWS datasets will be introduced in the new data structure. Pre-revised versions of LIS and LWS datasets will continue to be accessible through LISSY, for a period of time, to enable users to complete ongoing projects.

We are confident that our data users — both new and experienced — will benefit substantially from this restructuring. In addition to increasing the quality of the harmonised data, the simplified structure will allow our data team, ultimately, to increase the pace at which we add new datasets. Our expansion plans include two priorities: adding more middle- and possibly low-income countries, and providing annual data series when possible.

LIS Introductory Summer Workshop, 8-12 July 2019

In 2019, for the first time, LIS, the University of Luxembourg and LISER will jointly organise and teach the workshop, which has been newly named the **Summer Workshop on Inequality and Poverty Measurement**. This workshop, taught in English, is a one-week intensive course designed to introduce researchers in the social sciences to comparative research on income and wealth distribution, employment and social policy, using the harmonised Luxembourg Income Study (LIS) and the Luxembourg Wealth Study (LWS) Databases.

Attendees will be trained to use both databases independently and will have the opportunity to:

- Acquire advanced knowledge about methods used in inequality research

- Gain skills related to the study of comparative inequality

- Learn in detail about the LIS and LWS data and develop ties with LIS' large international network.

Researchers and doctoral students from various social science disciplines are invited to apply.

For more information, please visit our webpage.

Applications should be submitted online by April 15, 2019.

Call for proposals: First ERF-LIS conference: Inequality trends around the Mediterranean

To exploit the richness of harmonised data offered by the Economic Research Forum covering the MENA region countries and LIS covering most of the developed countries in addition to parts of the developing world, the two institutions have joined forces to offer access to the largest database available, containing harmonised microdata, mainly on income and expenditure/consumption, to enable researchers to easily conduct socio-economic analysis of various dimensions of inequality (income, consumption, education, employment, possession of durables, etc.) using all datasets available from both of the institutions.

The selected authors of the best proposals will get access to all datasets of the ERF and LIS countries, which are harmonised according to a common template (where variables are closely following the same definitions and categories). The papers will be presented in a conference to be held in Cairo.

Stay tuned for more information on the guidelines for the proposal, selection criteria, submission procedures, and the timeline.

Inequality by the Numbers

The Stone Center has announced its annual "Inequality by the Numbers" workshops, to be held June 10-14, 2019, at the CUNY Graduate Center in New York City.

Overview: The "Inequality by the Numbers" workshop will take a broad approach to the study of socio-economic inequalities – spanning inequalities in income, wealth, employment, education, social mobility, politics, health, and happiness. Instructors will focus on inequalities through multiple lenses, including gender, sexuality, class, race, age, and immigration status, as well as through multiple disciplinary perspectives. Disparities will be considered in several geographic contexts: within New York City, across the U.S. states, across countries, and globally.

Speakers: Confirmed speakers include Richard Alba, Louis Chauvel, Andrew Clark, Jordan Conwell, Miles Corak, Conchita D'Ambrosio, Michael Forster, Janet Gornick, Darrick Hamilton, Alexander Hertel-Fernandez, Nancy Krieger, Paul Krugman, Leslie McCall, Branko Milanovic, Ruth Milkman, Salvatore Morelli, James Parrott, Ryan Smith, and Dara Strolovitch. Speaker bios will be added to the workshop website soon.

Structure: This workshop is targeted to PhD students and early-career scholars, working in a range of social science disciplines — especially economics, sociology, political science, and psychology — and with a keen interest in socio-economic inequalities. We also welcome applications from interested persons from other settings, including journalism, foundations, and nonprofit organizations.

Logistics:

Workshop website is here.

Application portal (deadline is April 1, 2019) is here.

Visiting scholars at LIS

In the first quarter of 2019, LIS welcomed two visiting scholars who came to work onsite with the LIS Databases, in the framework of the InGRID-2 project, namely Hugo del Valle-Inclán Cruc and Vladimir Hlasny.

Hugo is a PhD candidate at the University of Vigo (Spain) under the supervision of Carlos Hervés-Beloso, and from April to June 2019 he will be visiting Johns Hopkins University under the supervision of M. Ali Khan. His research interests fall in the theories of distributive justice, data analysis and coding. During his stay at LIS, Hugo worked on a project to measure inequality of opportunity in more periods than what is currently possible, which involves a strategy to avoid depending on the scarce availability of parental background data.

Vladimir is an associate professor of Economics at Ewha Womans University in Seoul. While visiting the LIS data center, he worked on analysing income gaps across demographic groups in East Asian countries, decomposing them by their source, and finding evidence of market integration and convergence over time. Vladimir also worked with both the LIS and LWS databases to explain the prevalence of non-positive incomes in surveys, and applied corrections to them in order to align measured incomes, as a welfare aggregate, with households' observed consumption and wealth.

The InGRID-2 project *Integrating Research Infrastructure for European expertise on Inclusive Growth from data to policy* has just opened another call for visiting grants, where applicants can also select LIS for their visit.

Application deadline is 17 April, 2019. Find more information here.

Public events co-hosted by the Stone Center

On March 6, the Stone Center and the CUNY Graduate Center co-hosted a panel of experts to discuss workers and wages in the United States today. The panel looked at factors such as features of U.S. markets, technology, globalization, gendered wage patterns, and the decline of unions. The event featured **Paul Krugman**, Nobel Prize–winning economist, *New York Times* columnist, and Stone Center core faculty member; **Heidi Shierholz**, senior economist and director of policy at The Economic Policy Institute; **Arindrajit Dube**, professor of economics at UMass Amherst; and **Eduardo Porter**, economics reporter for the business section of *The New York Times,* who moderated.

On March 13th, the Stone Center and the Graduate Center also co-hosted a panel entitled, "**What Can Be Done About Inequality**?" The panel tackled a range of underlying questions such as: What can be done to reverse extreme inequality in the United States? What is possible in this age of tax cuts for the wealthy? Would putting a cap on earnings be an effective and practical solution? The event featured **Janet Gornick**, director of the Stone Center and the U.S. Office of LIS, **Chuck Collins**, author of *Is Inequality in America Irreversible*? and **Sam Pizzigati**, author of *The Case for a Maximum Wage.*

Videos of both events will be added to the GC/Stone Center websites soon.

Launch of the new report "A Roadmap to Reducing Child Poverty"

On February 28, the Board on Children, Youth, and Families has publically released the new report "A Roadmap to Reducing Child Poverty" from the National Academies of Sciences, Engineering, and Medicine.

This report examines the evidence-based programs and policies that reduce the number of children living in poverty and identifies packages of policies and programs that could reduce child poverty in the U.S. by half within ten years, at a cost far lower than the costs the country bears from child poverty.

The LIS Database was heavily used in two chapters of the report: "A Demographic Portrait of Child Poverty in the United States", and "How the Labor Market, Family Structure, and Government Programs Affect Child Poverty ". The report can be accessed through this link.