Book review

*The Economics of Poverty and Inequality* ed. Frank Cowell

*The Economics of Poverty and Inequality* is volume number 158 in the series *The International Library of Critical Writings in Economics* published by Edward Elgar. This series has expanded enormously in recent years and at last count, the most recent volume was number 183. The series inevitably provokes comparison with the well-known “Handbook” series published by North-Holland. The Elgar approach is to collect classic articles in the area and provide a brief introduction/review by a relevant expert (who presumably also chooses the papers for inclusion). The North-Holland approach is to have survey articles by distinguished authors in “sub-themes” of the main theme. At the end of this review I will attempt to directly compare and contrast the relevant volumes from both series in the area of inequality and poverty. Such a comparison is warranted because while well-resourced libraries would presumably desire to stock copies of both, their relatively prohibitive cost would suggest that individual readers will choose one or the other.

First of all, let us look at the individual merits of the Edward Elgar book. It actually comes in two volumes and consists of over seventy key articles in the area. They include the original articles by Lorenz and Gini (how many poverty/inequality analysts could honestly state they had read these articles?) plus some articles that can be rather tricky to track down in libraries (I am thinking in particular here of the excellent article by Atkinson and Bourguignon on “Income Distribution and the Distribution of Needs”). Volume one concentrates on inequality while volume two examines poverty. The division of papers is not quite so equal however, since the last two sections of volume two look at functional forms for income and wealth distributions and some more technical statistical issues which crop up in applied work. It also has a most helpful introduction/review by the editor Frank Cowell, a distinguished author in the area and a number of whose papers appear. Each volume is divided up into various parts such as “Welfare and Inequality Rankings”, “Inequality Measurement”, “Poverty Axioms and Rankings”, etc. This division into parts is illuminating however, since it clearly reflects the way in which the editor thinks about these issues and it is useful in clarifying the reader’s mind as well.

By and large, it is difficult to argue with the typology adopted. However, one minor quibble I would have is in the area of poverty measurement. The editor lists three principal logical steps to poverty measurement: the partition of the population into poor and non-poor, the way in which individuals are to be identified indi-
vidually as poor or non-poor, and finally the way in which the information about the income distribution of the poor is to be used, perhaps via the calculation of some form of one-dimensional aggregate index. The partitioning of the population into poor and non-poor via a poverty line is seen as a special case of the type of partitioning discussed in a previous section on inequality decomposition by subgroup. Poverty and inequality analysis then diverge since in the case of inequality each sub-group is effectively treated symmetrically whereas in the case of poverty there is an asymmetry of treatment. In fact, in the case of poverty, this asymmetry of treatment is central. The editor then describes the identification issue as that of deciding upon how to characterise an individual’s poverty status via either a simple yes/no indicator, via the shortfall of income relative to the poverty line (the gap) or else via an individual’s income relative to others in the distribution. The aggregation issue is then how to aggregate whichever poverty status indicator is adopted.

To me, this seems as though the editor is introducing an extra “layer” which arguably is not helpful in terms of thinking about poverty. Sen’s classic dichotomy into identification and aggregation seems simpler and more intuitive. In particular, it is not clear what advantage is gained by the distinction between partitioning and identification. It may be that the editor is too keen to extend the parallel between poverty and inequality analysis. A preferable approach might be simply to identify poor households via the poverty line (this identification effectively partitions the population anyway) and then separately address the issue of how to aggregate this information into a meaningful poverty index. The popularity of the Foster–Greer–Thorbecke $P_\alpha$ measure may arise from the fact that this measure effectively captures this idea with the choice of the parameter $\alpha$ determining the nature of the aggregation. $\alpha = 0$ corresponds to a simple count of the number of poor, $\alpha = 1$ corresponds to aggregating the gaps while $\alpha > 1$ is the case where the gaps are weighted, with higher weights on poorer individuals, thus introducing a distributional dimension.

The book is very strong on inequality with a strong emphasis on the distinction between the welfare approach and the structural approach. Given this distinction the editor quite rightly includes the important article by Blackorby and Donaldson which points out that many routinely used measures of inequality such as the Gini coefficient have underlying social welfare dimensions. In some cases, the social welfare function underlying the particular inequality measure may have some unattractive properties and those of us who routinely calculate such measures using various canned statistical routines might do well to bear this in mind.

Apart from standard material on inequality measurement and the link between inequality and welfare, volume one also has short sections on multidimensional approaches, polarisation and horizontal equity. Space constraints are always a major problem in volumes such as these but it is a pity more room was not found for concentration curves since such curves are of crucial importance in applying inequality analysis to areas such as taxation or health to name but two. In particular