

Book Reviews

Growing Income Inequalities: Economic Analyses, Joël Hellier and Nathalie Chuss-eau (eds.), Houndsmills: Palgrave MacMillan, 2013, 325 pages, ISBN 978-0-230-30342-3 (hardcover) \$120.00.

At first, I was reluctant to review this book because I do not like the title *Growing Income Inequalities: Economic Analyses*. The title is misleading, not only because global income inequality has been declining rather than rising since about 1978 (see Sala-i-Martin, 2006), but also because it suggests unidirectional change in inequality. It is simply not true that income inequality rises or falls monotonically. Rather, what are needed are per period empirical calculations and tests of potential theoretical models to explain the observations. In this respect, as discussed below, the book delivers.

My reluctance changed somewhat when it became clear that the book focuses attention on changes of within-country income inequality. A better title might thus have been *Growing Within-Country Income Inequality*. If a decomposable measure of income inequality is used, this title would be justified for the world as a whole, since the above mentioned decline in global inequality is the result of a decline in between-country inequality, despite a rise in within-country inequality. Also, however, in the past three decades, many countries have experienced a decline in income inequality for at least some period (see Chapters 2 and 3 of the book), so my preferred title would be the yet more accurate *Within-Country Income Inequality: Theory and Empirics*.

With these preliminaries out of the way, we note that changes in income inequality however measured have attracted a lot of attention in the past three decades. This attention arose, to a large extent, from the popularity of blaming any observed rise in inequality on either ‘globalization’ or ‘skill-biased technical change’. In contrast, any decline in inequality is usually not attributed to these two forces. This edited volume analyzes various models from various perspectives underlying the impacts of globalization (trade, foreign direct investment, and outsourcing) and technical change on income inequality in order to confront results with facts. In addition, the book focuses on a third main driving force, namely institutional changes (minimum wages and labor union membership). Together we could label this the GIT framework (Globalization, Institutions, and Technical change).

The book is well-written and well-organized into four parts and nine chapters:

Part I first gives an overview of recent income-inequality developments in advanced countries in Chapter 1 (rising for most countries, but not for all and not monotonically) before carefully evaluating various theoretical explanations from the GIT framework. Chapter 2 does the same for developing countries, finding much more mixed results regarding changes in within-country income inequality.

Chapter 3 is somewhat of an outlier, focusing on descriptive statistics of the ‘working poor’.

Part II focuses on Globalization and Technical change. Chapter 4 provides adequate and clear theoretical extensions of a basic north-south factor-abundance model, incorporating changes in size, minimum wage, technological transfers, outsourcing, *etc.* Chapter 5 then asks if there is indeed an inequality-unemployment trade-off, if circumstances force advanced countries to choose between high unemployment (*e.g.*, Europe, with its rigid labor markets) and high inequality (*e.g.*, United States of America, with its flexible labor markets). Both from a theoretical and an empirical perspective, little support for such a trade-off is found.

Part III focuses on Institutions. Chapter 6 analyzes the interaction between globalization and union bargaining. The main conclusion is that globalization reduces either quasi-rents or union bargaining power, thus affecting income inequality. Chapter 7 provides a solid analysis of the impact of efficiency wages on inequality, which permits an explanation of unemployment.* Since various effects run in opposite directions, the chapter ends with “in short, solid conclusions are very hard to make” (p. 221).

Finally, Part IV focuses on education, schooling, and human capital. Chapter 8 analyzes education and intergenerational inequality persistence. It discusses theoretical models that lead either to human-capital convergence in the long run or to social stratification (with under-education traps). The empirics shows that there are large and lasting differences in intergenerational mobility, between countries. Chapter 9 discusses the link between growth, inequality, and welfare. With such a big question to answer, it is not surprising to conclude that there is no unidirectional link. In some cases, in both theory and empirics, higher inequality is found to be damaging for growth. In other circumstances, inequality may foster growth. The different components analyzed in this book already make it clear that we should not expect an answer in either one direction or the other.

Overall, the book does a good job of providing an up-to-date analysis, both theoretical and empirical, regarding the main forces playing roles in within-country income inequality. The writing style is clear and consistent throughout, and the organizational structure makes sense (with the exception of Chapter 3, which could have been deleted without much loss). For an easily accessible, quick, and solid overview of the literature on within-country income inequality, the reader is advised to pick up this book. For a fresh and new perspective on income inequality, look elsewhere.

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*An unfortunate error on page 203 refers to Akerlof’s paper (1982) as appearing in the *Quarterly Review of Economics* rather than in the *Quarterly Journal of Economics*.

References

Sala-i-Martin, X. (2006), "The world distribution of income: falling poverty and convergence, period," *The Quarterly Journal of Economics*, 121(2): 351-397.