Inequality and Industrial Change: A Global View. Edited by James K. Galbraith and Maureen Berner. Boston: Cambridge University Press, 2001. Pp. ix + 322. $70.00, 0-521-66274-5 (hardback); $25.00, 0-521-00993-6 (paperback).

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This collection of essays supports a Keynesian theory of personal income distribution. It builds on Galbraith's [1998] thesis that macroeconomic trends and policies cause, and are caused, by income inequality. The book includes an array of empirical, theoretical, and methodological approaches. Adapting the generalized entropy approach developed by Theil [1972], the empirical essays exploit global data to measure the changing dispersion of hourly wage rates in the manufacturing sector.

The volume's sixteen articles cover topics such as changes in the US wage structure from 1920 to 1998, changing inequality and unemployment in Western Europe since 1970, the evolution of inequality and industrial growth, the effects of financial crises and political coups, and industrial policy in developing countries. While the essays point toward a powerful macrodynamics of inequality, and collectively suggest that rapid growth is positively correlated with equality, they also recognize the importance of institutions and external conditions.

Chapter 1 introduces the volume. James K. Galbraith reviews the current state of empirical research on inequality. Most economists rely on supply and demand analysis [Juhn, Murphy, and Pierce, 1993; Krueger,1993; Carnoy, 1994; Thurow, 1998; Danziger and Gottschalk, 1995; Lawrence, 1996]. Increased inequality is seen as the result of increased demand for high-skilled workers or a greater supply of low-skilled workers. Galbraith claims that this analysis is "pre-Sraffian" or "anti-Keynesian" and fails to question the calculus of marginal productivity. Instead, he calls attention to the link between income distribution, the flow of profits as a share of national income, and macroeconomic consequences. Without oversimplifying, one main conclusion of this body of work is that rapid growth is equalizing.

Chapters 3 and 4 ("American Wage Structure: 1920-1947" by Thomas Ferguson and Galbraith and "Inequality in American Manufacturing Wages, 1920-1998: A Revised Estimate" by Galbraith and Vidal Garza Cantu) examine inter-industry wage movements in the US manufacturing sector. Both articles provide evidence of a relationship between wage inequality and unemployment. Chapter 3 establishes that inequality declined as a result of deliberate policies designed to promote full employment, collective bargaining, and increased wage standards. These chapters are followed by analyses that compare OECD countries (Chapter 5) and the countries of Western Europe (Chapter 6).

Chapter 6 ("Inequality and Unemployment in Europe: The American Cure" by Pedro Conceiça˜co, Pedro Ferreira and Galbraith) questions neoclassical views that high unemployment in Western Europe is due to rigid wage structures, high minimum wages, and generous social welfare systems. It argues that this view is not consistent with empirical evidence. Using cross-sectional and panel data, the authors measure industrial wage inequality in all of Europe. In addition to comparing unemployment rates and per capita national income within, between and over time in Western European countries, they also compare the data to the US manufacturing sector. The authors find that a strong and negative relationship emerged in the 1970s and has been sustained since that time. Furthermore, they conclude that the causality runs from inequality to unemployment. The key to decreasing unemployment in Europe, then, lies in decreasing pay inequality. With these over-arching goals in mind, Western Europe should lower interest rates, expand middle class consumption goods such as health care and education, extend the richer country's systems of social insurance, and increase the poorer country's minimum wages.

Chapter 14 ("Inequality and Economic Development: Concluding Reflections" by Galbraith) summarizes Part III of the volume. Galbraith agrees with Robert Barro [1997] that economic growth depends on institutional conditions in any given country, but questions which specific institutions and initial conditions are necessary for economic growth. In other words, it is not enough to acknowledge the importance of institutions and treat them as exogenous factors. From the empirical evidence generated, he concludes that a “fair and reasonably stable” distribution of income is the minimum basic condition for sustained economic growth. Galbraith argues that stability in the pay structure is necessary if people are to save and invest. It is a public good that needs to be generated and defended by the state.

One possible shortcoming of the economic analyses in this book is that the results are based on data from the manufacturing sector. Given constraints on detailed global industrial data, however, this limitation can be overlooked. Furthermore, the manufacturing sector produces most traded goods, is the seat of technological change, and reflects economic conditions; so it is a good industry on which to base one’s analysis.

This volume provides an excellent source of empirical evidence on global wage inequality, a good theoretical discussion of the economic literature on inequality, and an invaluable tutorial on measuring inequality. The overwhelming evidence presented here(which is being produced at the University of Texas Inequality Project [http://utip.gov.utexas.edu/]), demands a reconsideration of the neoclassical theory of distribution. It should also focus attention on Keynesian macrodynamics. Policies that ignore this work will not solve the so-called efficiency-equity tradeoff puzzle. Until theoreticians recognize a positive relationship between inequality and unemployment, and the macroeconomic foundations of this relationship, we will continue to accept the popular myth that we cannot have our high-equality/low-unemployment cake and consume it too!

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