Daniel Cohen, Thomas Piketty And Gilles Saint-Paul (Eds.), *The Economics Of Rising Inequalities*, Oxford: Oxford University Press, 2002.

Since the 1970s, skill-biased technological change and increased international trade have hit all developed countries and increased the earning inequalities. However, the inequalities in disposable income show a pattern that differs among countries. A very common story among economists tells that in the Anglo-Saxon countries, the rise in inequalities of gross earnings is mirrored in the rise in inequalities of net earnings. In the Continental European countries, the welfare system let the net earnings unaffected by the changes in the economic fundamentals, at the price of high unemployment that these countries experience. The editors of this book have collected articles that investigate the sources of rising inequalities and the role that various institutions play in shaping these inequalities.

As a first point, one may ask whether the available data on individual's incomes are a good measure for inequalities among persons. Since incomes are in general shared among the members of a same household, the household might be a better unit for analysis and show a different pattern of inequalities than an analysis that is only based on individuals' incomes. Two of the book's articles take this point up.

Andrea Brandolini, Piero Cipollone and Paolo Sestito base their analysis on Italian data. Italy shares with many other countries the pattern of rising inequalities in individuals' labour income during the 1990s. The authors argue that this can be attributed to the increase in low-paid jobs. However, as they show, the main persons that were affected by these low-paid jobs were not heads of a household. Women and young people are much more often found in these jobs. Consequently, an analysis based on the income of households might show a smaller increase in earning inequalities than an analysis based on individuals' incomes. Based on their data, they finally show that the probability of being in poverty is more correlated to the amount of employed individuals in a household than to the amount of individuals in low-paid jobs. The increase in earning inequalities through the increase in low-paid jobs seems therefore less dramatic to poverty than an analysis on individuals would suggest.

Peter Gottschalk and Susan Mayer follow another path to check whether the increase in inequality is overstated by looking only at individuals rather than at households. In fact, if the inequalities in labour earnings increase, high-skilled women have better job opportunities and enter therefore the labour market. The housework they have done before is then shifted to a third person. This implies however that the net production of this household decreases by less than the increase in labour income, because part of this increase is used to pay the housework. Low-skilled women however have not more incentives to substitute their home production by labour market work, because their job opportunities did not become better. But since their home production is not recorded in traditional labour income measures, this data on money income underestimates the real income of a household. As a result, the rise in the inequality of money income overstates the real income inequalities among households. In their data, the authors find in fact that this is the case. But this effect cannot explain the entire

rise in money income.

Another point is the distribution of income during one's life. Individuals earn less when they are young, but their income rises, as they become older. More generally, the increase in inequalities shown in incomes at one point of time might be due to increased variation of an individual's income over time or to increased inequalities in lifetime income of different individuals. If borrowing and saving is allowed, then the individual can smooth his consumption over his lifetime. Therefore, consumption inequalities might be a better measure for inequalities among individuals than income inequalities. Richard Blundell and Ian Preston check the evolution of both these inequalities on British data. They show that income inequalities has risen faster than consumption inequalities during the last decades, indicating thereby, that part of the increase in income inequality is due to the higher variation of income over a lifecycle.

Even though these articles tell that the importance of income inequalities might be overestimated by data that focuses exclusively on individuals at one point in time, they all suggest that nevertheless, income inequalities have increased significantly. What are the reasons for this increase? Traditionally, increased international trade and skill-biased technological change have been put forward to explain this rise.

However, the story is probably much more complex. Etienne Wasmer shows in his article that these theories can for example not explain the increase in youth unemployment. The young should not suffer much from skill biased technological change, since they have a longer time horizon and therefore more incentives to invest in new skills. Moreover, the young are not over-represented in industries that are heavily affected by international trade. Etienne Wasmer suggests another cause of youth unemployment, putting the emphasis on labour supply. During the last decades, the participation rate of women has increased. And these women shared a feature with the young: Both of these groups have little experience. Women and young individuals therefore compete with each other for the available jobs. This increase in the supply of inexperienced labour has then two effects. High experience has become a relatively rare production factor. And this scarcity increased the returns to experience. On the other hand, excess supply of inexperienced labour force led the unemployment of young people increase. Both of these facts help to explain the increase in income inequalities in the population.

Daron Acemoglu takes another story to explain the rise in inequalities. During the last decades, supply of skilled labour has increased significantly, as the individuals became more and more educated. Therefore, it became easier for firms to find skilled workers for specialised high-skill jobs. The firm has then more incentives to offer these specialised jobs. The firm might then replace "middling" jobs that could be filled by both skilled and unskilled individuals by high-skilled jobs. As a consequence, the "middling" jobs disappear and the low-skilled workers can only find low-skilled jobs or become unemployed. Therefore, inequality increases. This theory can also help to explain why Germany has experienced a lower increase in inequalities. Their training system increases the human capital of low-skilled persons, and makes thereby the supply of "middling" jobs still profitable.

In the same line, Giorgio Brunello and Tsuneo Ishikawa compare the impact of the schooling system on the job structure. If the schooling system is very competitive and selective, one expects a higher stock of basic academic skills, but also a higher variation of these skills across the population. As a consequence, the firms rely on these skills for their wage policy. The selection process leads therefore to higher inequalities. On the other hand, if the country has a less competitive schooling system, the firms have to rely on internal training. Labour market experience then becomes more important for explaining earning inequalities than the education level.

There might thus be many reasons that increased labour income inequalities. However, the increase in labour income inequality experienced by the developed countries has different effects on disposable incomes in these countries. And the different institutions probably play an important role in shaping the inequality of disposable income. Labour market institutions as well as tax and transfer schemes and many others affect the distribution of incomes.

Olympia Bover, Samuel Bentolila and Manuel Arellano look at the distribution of earnings in Spain during the 1980s. They show that returns both to skills and to experience increased during this time. Technological change and increased labour supply of young and female individuals can partly explain this evolution. But the authors also look at the influence of unions on the income distribution. They find that the higher the coverage of a union in a sector is, the lower is the wage inequality in this sector. Unions therefore seem to decrease wage inequalities through sectoral agreements. The decrease in union power during the last decades can therefore partly explain the rise in inequalities. However, not all sectors are covered by such agreements and these agreements only set a lower floor for the wages paid by firms. The unions and the firms can then bargain again on the firm-level for higher wages. These agreements on the firm- level then partly offset the decrease in inequalities due to sectoral agreements by increasing the returns for skills. The total effect of unions on inequalities is therefore ambiguous.

The articly by Olga Cantó, Ana Cardoso and Juan Jimeno then compares the experience of Spain and Portugal. Both these two countries have similar histories, and have many features of their economies in common. They are both affected in similar ways by technological change and globalisation. However, they have very different economic outcomes. Spain has one of the highest unemployment rates of Europe, whereas this rate is rather low in Portugal. An explanation can be found in the labour market institutions: The Portuguese labour market is regarded as very flexible, whereas the Spanish labour market seems to be very rigid. The flexibility of the Portuguese labour market gives also rise to higher earning inequalities, but as the authors point out, much less than one could expect. One reason for this fact might be the higher minimum wage in Portugal that compresses the wage structure at the bottom of the income distribution. However, following this logic, the unemployment rate should also be high in Portugal, which is not the case. This can be explained by the structure of the industry: Spain has largely shifted to an industry based on high-skilled labour, therefore decreasing the demand for low-skilled labour. On the contrary, Portugal has still a big part of low-skilled employment. This shows that the impact of institutions like minimum wages depends also on fundamental factors like the industry structure of the country.

Another question is how the tax and transfer schemes translate labour income inequalities in inequalities of disposable income. Anders Björklund and Marten Palme examine this question on Swedish Data. They find that the tax system mainly distributes average lifetime incomes, whereas the transfer system is often intended to decrease the variability of lifetime income. However, their analysis shows that the transfer system also redistributes lifetime income from the rich to the poor. There appears thus no evidence of a trade-off between reducing the variability of lifetime income and equalising long-run incomes.

It seems thus to be true that institutions have an important influence on the income inequalities. However, the causality might also go the other way round. Inequalities may influence the political outcome and therefore the shape of institutions. The final two articles in this book take this view.

Roland Bénabou starts his article with the observation that those countries that show less labour income inequalities, like the Scandinavian ones, have the highest levels of redistribution, whereas countries that show a high degree of pre-tax income inequalities, like the US distribute less. The reason for this might lie in the fact that the higher the initial inequalities are, the more the rich would loose by higher redistribution. Therefore, they oppose strongly to it in countries that have high initial inequalities, like the US. In countries where the initial inequalities are small however, the opposition of the rich is much weaker since they do not loose much through redistribution. But the story goes also the other way round, leading to a viscous circle. If redistribution is low, the poor might not have enough resources to invest in their human capital. Therefore, the pre- tax inequalities rise, which in turn make redistribution less likely.

Finally, John Hassler, José Rodriguez, Kjetil Storesletten and Fabrizio Zilibotti focus on unemployment insurance. If unemployment benefits are high, individuals will specialise more in very specific jobs, since their income loss in case of unemployment is rather low. In contrast, when unemployment benefits are low, individuals decide to acquire rather general skills such that they can rapidly find a new job once they lost their current job. However, if the individuals specialise, they will tend to vote in favour of high unemployment benefit to protect their income levels. This can explain why unemployment benefits are lower in the US compared to Europe.

The book shows many different stories about how inequalities emerge. On the one hand, market forces like increased international trade or skill-biased technological change contributed to the rise in inequalities. But on the other hand, the experiences of the developed countries show that institutions also affect inequalities. And there is also an interplay between institutions and market forces that goes in both directions: Market forces shape institutions and institutions shape market outcomes. The book might be disappointing for all those who expect clear conclusions for policy. There aren't any. The book shows that inequalities are affected through numerous channels and that one must take the interplay between these channels into account. Research on this subject seems still to be at its infancy age. If there is a message that should be reminded, then it is the one that the editors mention in the introduction. Both market forces and institutions give explanations for rising inequalities, "but it would be foolish to bet that one is more important than the other."

Mathias Hungerbuehler
Université catholique de Louvain
Hungerbuehler@ires.ucl.ac.be

BIBLIOGRAPHIE / BIBLIOGRAPHY

ALBERT M. (2000), *Moving Forward. Program for a Participatory Economy*, AK Press, Edinburgh/London/San Francisco.

ALBERT M. et HAHNEL R. (1991a), *Looking forward : Participatory Economics for the Twenty First Century*, South End Press, Boston.

ALBERT M. et HAHNEL R. (1991b), *The Political Economy of Participatory Economics*, Princeton University Press, Princeton.

BAILLARGEON N. (1999), *L'Economie Participative: une proposition libertaire*, in Agone, vol. 2, n°1, pp.159-176.

DASSY B. (2003), *L'économie participative face aux principes de justice de John Rawls*, mémoire de DEA (promoteur : Ph. Van Parijs), Université catholique de Louvain, non publié.

HAHNEL R. et ALBERT M. (1990), *Quiet Revolution in Welfare Economics*, Princeton University Press, Princeton.

NOZICK R. (1974), *Anarchy, State and Utopia*, Basic Books, NewYork. SCHWEICKART D. (1996), Against Capitalism, Westview Press, Boudler/Oxford.