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# The Economics of Rising Inequalities

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# The Economics of Rising Inequalities

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and management in the airline industry. Trust—rooted in a genuine commitment to job security and respectful dealings with employees—seems to be an essential element of the Southwest story, but the history of labor relations in the industry instills little confidence that the requisite levels of trust can be engendered at other carriers.

It is also questionable whether the author gives sufficient weight to the significance of strong craft identities in the airline industry as an impediment to relational coordination. To be sure, there is much discussion in the book of breaking down barriers between "functional" areas, and the author acknowledges the importance of status differences between job groups. However, the primary source of data for the book is a survey of employees in five job groups closely involved with flight departures (ticketing, gate, baggage transfer, ramp, and operations agents), whose jobs are similar enough that they might well be included in the same bargaining units. The surveyed employees were asked to comment on their relationships with pilots, flight attendants, and other crafts, but the author did not directly survey representatives of these groups. Had she done so, craft identities—sometimes linked to race, sex, and large pay and status differentials—might have seemed like more imposing obstacles to relational coordination.

Readers looking for insights into the character of labor-management relations at Southwest might be disappointed. The author correctly points out that the airline is highly unionized, and she includes partnership with its unions as one of the essential elements of the Southwest way, but there is little specific information about how Southwest and its unions interact, why strikes have been so infrequent, why the unions have been willing to negotiate work rules that appear to allow supervisors and others to do bargaining unit work, or how pay levels at Southwest actually compare to those at other carriers. The extent to which unions have been instrumental in defining the "Southwest way" is unclear from the book, but the author leaves the impression that Southwest's unions are to be commended mainly for not being too militant and messing up a good thing.

*The Southwest Airlines Way* provides important insights into what makes this airline distinctive. The author has immersed herself in the subject and has made a strong case for an internally coherent set of practices that promote positive working relationships and performance at Southwest. The extent to which high relational coordination accounts for the superior financial results obtained by Southwest is less clear. The book does not delve deeply into the carrier's finances, and there are certainly other factors (for example, low turnover, relatively high load factors on Southwest flights, substantial savings on training costs and maintenance derived from using a single type of plane) contributing to the carrier's financial performance. The claim that other carriers can adopt Southwest's practices is the least convincing part of the book. The history of the industry and the very different operations of short-haul, point-to-point, domestic Southwest and long-haul carriers with hubs and global networks weigh heavily against successful emulation of the Southwest model. For now at least, the issue is academic, because the major carriers have taken the distinctly different flight path of bankruptcy filings, mass layoffs, and wage cuts.

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## International and Comparative Industrial Relations

*The Economics of Rising Inequalities.* Edited by Daniel Cohen, Thomas Piketty, and Gilles Saint-Paul. Oxford: Oxford University Press, 2002. xiii, 358 pp. ISBN: 0-19-925402-8, $70.00 (cloth).

This volume's twelve papers (and Introduction) resulted from a research project at the London-based Centre for Economic Policy Research (CEPR), conducted jointly with the Instituto de Estudios Economicos de Galicios. The objective of the papers is to examine the factors and mechanisms that underlie the patterns of rising income inequality since the 1970s in modern developed countries, and especially the differences in patterns of inequality between continental European countries and Anglo-Saxon countries. Of particular interest is the interplay between (i) changes in economic fundamentals such as technological, trade, or demographic factors—the matters on which the so-called "fundamentalist" view generally focuses—and (ii) differences across countries and changes over time in institutions such as minimum wages, collective bargaining, tax and trans-

fer policies—matters of central interest to those taking the "institutionalist" view. "From Sweden to Spain and Portugal, from Italy to Japan and across the Atlantic," the editors write, "the volume will explore the diversity of the interplay between market forces and institutions" (p. vii). The intended audience is researchers in the field.

Following a brief summary-of-the-papers type Introduction are twelve papers, with six in each of two sections. Part I, "Markets and Institutions," contains two empirical studies on earnings distribution changes in Spain and Portugal; two theoretical studies, one on an alternative theory of wage inequality growth and the other on alternative views of competition at schools; and two chapters on specific factors possibly contributing to earnings inequality—labor supply factors and immigration flows. Papers in Part II, "Lifetime Inequalities and the Scope for Redistribution," examine consumption versus income inequality; life-cycle versus between-worker inequality; earnings inequality and household poverty in Italy; how the inclusion of home production in labor statistics affects measures of economic inequality in the United States; income inequality and the social contract across countries (a theoretical piece); and the relation between UI generosity and workers' specialization of skills (another theoretical study). The studies thus cover quite a broad set of issues affecting inequality and use a wide range of theoretical and empirical methodologies; most of them also incorporate a comparative (inter-country) dimension. The research agenda of these studies is rich and ambitious.

The volume has many merits. All of the papers are well written, substantial, methodologically solid, and quite readable at the Masters level. What most of them share is not a common theme, but a common perspective on what structural approach is called for to examine rising inequalities. Specifically, the authors all advance economic theories or arguments that contribute to explaining (1) *how* changing inequality patterns have come about and (2) the economic (or political) *mechanisms* behind these evolving patterns.

A few papers explicitly look at theory. The piece by Daron Acemoglu, "Changes in Unemployment and Wage Inequality: An Alternative Theory and Some Evidence" (Chapter 3), presents a theoretical model for changing patterns of wage inequality and unemployment—alternative to the conventional explanations based on increased globalization and the advent of skill-biased technical progress—based on the hypothesis that employers respond to changing skill levels in the work force by changing the composition of jobs in the workplace. Similarly, Roland Bénabou, in "Unequal Societies: Income Distribution and the Social Contract" (Chapter 11), provides a model to address the apparent puzzle that redistribution programs in modern democracies tend to be weaker in the more unequal societies (the archetypal case being the United States versus western Europe). In Chapter 1, structural modeling is used to help interpret empirical results.

Four papers in Part II (Chapters 7–10) make use of recent data or analytical developments to provide deeper insight into how inequality changes can be interpreted and evaluated. For example, "Consumption Inequality and Income Uncertainty" (Chapter 7), by Richard Blundell and Ian Preston, examines the limitations of using consumption data alone to assess changes in the distribution of economic well-being and permanent income, and shows how information on the joint distribution of consumption and income can lead to better understanding of observed inequality changes.

The volume also includes three empirical papers that are essentially country-specific examinations, two of them looking at changes in earnings inequality in, respectively, Spain and Portugal (Chapters 1 and 2), and one examining earnings dispersion and poverty in Italy (Chapter 9). These and the other empirical studies in the volume show good respect for the data and provide credible results using up-to-date techniques. Several of the studies have implications or use well beyond individual countries. For example, the theoretical paper by Javier Ortega, "Pareto-Improving Immigration in an Economy with Equilibrium Unemployment," has great relevance for the United States' neighbor to the north. A second example is the paper by Andrea Brandolini, Piero Cipollone, and Paolo Sestito on distribution and poverty in Italy, which describes the microdata in the Historical Archive of the Bank of Italy's panel Survey of Household Income and Wealth—a unique data set that is becoming, for researchers in many countries besides Italy, a basic source for testing macro theories of consumption, financial investment, and even exchange rate determination.

The volume contains some very good and original papers. Four have previously been published in leading journals—the pieces by Daron Acemoglu and Roland Bénabou both in the *American Economic Review* (1999 and 2000,

respectively), the paper by Javier Ortega in the *Economic Journal* (2000), and the article by Richard Blundell and Ian Preston in the *Quarterly Journal of Economics* (1998). Inasmuch as these papers have had their titles, headings, tables, and figures sequentially numbered by chapter throughout, however, and are covered by one index in common with the other papers, they are not simply reprints. In these regards, the book is well edited. It is also handsomely formatted. On the other hand, I caught some surprising typos, and the List of Contributors information is incomplete and uninformative.

A more serious problem is that expectations raised by the editors are disappointed. The Introduction's promise of an examination of the interplay between "economic fundamentals" and "institutional" factors goes unfulfilled. I expected a closely linked set of papers on how differing sets of institutions and policies across countries have led to different experiences in the pattern of inequality changes—a comparative exploration underscoring the force of Richard Freeman and David Card's observation that "small differences can matter." Instead, the volume is largely a set of stand-alone studies (some of them excellent, as noted) linked by a structuralist perspective on the economics of rising inequalities.

Even if other readers, like me, scale back their expectations and accept as the volume's unifying principle a structuralist perspective on the economics of rising inequalities, they will find gaps in coverage—a problem that reliably besets, to some degree, any collection of studies on such a broad theme. There is not much direct comparison of Anglo-Saxon versus European countries in the degree to which wage-setting environments are centralized or decentralized. Beyond Acemoglu's alternative theory, there is little consideration of the major debate over whether globalization or information technology can best explain widening earnings inequality; nor is there much discussion of the various forms of endogenous growth suggested, for example, by Paul Beaudry and David Green. Some discussion of the role of apprenticeship training, the transition from school to work, and increasing use of non-standard employment patterns would have been useful. Only one paper—Etienne Wasmer's "The Causes of the 'Youth Employment Problem': A (Labour) Supply Side View" (Chapter 5)—considers the slippage in real wages and earnings of young workers, a major concern on this side of the Atlantic and apparently in evidence on the other side as well. And while the empirical work is capably done in the various studies, there is no discussion of mobility or worker dynamics, and no actual panel analysis of patterns of inequality.

All in all, however, this book is a valuable addition to the literature. I view it like a good NBER volume—a collection on a mix of topics, with some papers you will want to refer back to and several that will likely give rise to extensive further studies. Provided the book can be found at a reasonable price, it is well worth adding to one's personal library.

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*Losing Work, Moving On: International Perspectives on Worker Displacement.* Edited by Peter J. Kuhn. Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 2002. 560 pp. ISBN 0-88099-234-4, $45 (cloth); 0-88099-233-6, $28 (paper).

The view that we can learn much from cross-country studies is so often affirmed by labor economists that it has attained mantra-like status. Repetition of anything can eventually numb us to its meaning or wisdom, and scholars who pay only lip service to the value of cross-country research do so at their peril. Particularly for fields that are U.S.-centric (with labor economics a strong candidate for a top ranking in that competition), cross-country comparative studies are essential. Finding and explaining both universals and exceptions truly deepens our understanding of both theory and empirical reality.

This book, a collection of chapters written for and presented at a conference held in Burlington, Ontario, Canada in 1998, delivers on the promise of cross-country comparative studies. The five comparative chapters, written by an international group of 22 distinguished authors, together with Peter Kuhn's introductory essay in Chapter 1, offer the reader a rich, provocative, and thoughtful examination of the incidence and consequences of worker displacement across ten industrialized countries.

In the early 1990s, much was known about displaced workers in the United States, but little was known about them in other countries. By the mid-1990s, however, historically high un-