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## [Review of the book *Growth With Equity*]

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## [Review of the book *Growth With Equity*]

### **Abstract**

[Excerpt] This book, by three nationally respected researchers in the Brookings Institution's Center on Economic Progress and Employment, addresses two problems facing the American economy: anemic productivity improvement and consequent slow economic growth, and growing income inequality. Contrary to their distinguished predecessor at Brookings, the late Arthur Okun, who maintained in a widely cited 1975 book that the twin goals of growth and more equal distribution of income conflict with each other (Arthur M. Okun, *Equality and Efficiency: the Big Tradeoff* [Washington, D.C.: Brookings Institution, 1975]), Baily, Burtless, and Litan argue—correctly, I believe—that growth and equality are compatible goals. "Unless the nation finds better ways to ease the disruptions caused by economic change," they write, "those most at risk from change will seek to block it. The policies that offer the best opportunity to improve the nation's long-term economic performance may never be adopted" (p. 6). However, the right policy package, detailed in the rest of the book, could help the nation achieve both growth and equity objectives.

### **Keywords**

economic growth, development, employment, income

### **Disciplines**

Economics

### **Comments**

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*Growth with Equity.* By Martin Neil Baily, Gary Burtless, and Robert E. Litan. Washington, D.C.: The Brookings Institution, 1993. 239 pp. ISBN 0-8157-0766-5, \$31.95 (cloth); 0-8157-0765-7, \$12.95 (paper).

This book, by three nationally respected researchers in the Brookings Institution's Center on Economic Progress and Employment, addresses two problems facing the American economy: anemic productivity improvement and consequent slow economic growth, and growing income inequality. Contrary to their distinguished predecessor at Brookings, the late Arthur Okun, who maintained in a widely cited 1975 book that the twin goals of growth and more equal distribution of income conflict with each other (Arthur M. Okun, *Equality and Efficiency: the Big Tradeoff* [Washington, D.C.: Brookings Institution, 1975]), Baily, Burtless, and Litan argue—correctly, I believe—that

growth and equality are compatible goals. "Unless the nation finds better ways to ease the disruptions caused by economic change," they write, "those most at risk from change will seek to block it. The policies that offer the best opportunity to improve the nation's long-term economic performance may never be adopted" (p. 6). However, the right policy package, detailed in the rest of the book, could help the nation achieve both growth and equity objectives.

The book is divided into two major parts. Chapters 2 and 3 lay out the facts of slow growth and rising inequality, and Chapters 4 through 8 present a wide range of recommendations for dealing with these problems. This book should be read not as a research study bringing new knowledge to the fore, but as a carefully documented and reasoned program for achieving more rapid economic development in the United States.

The authors see the slow growth of the economy as primarily due to slow productivity growth. Many of their recommendations therefore focus on how to speed up productivity growth. As for rising income inequality, they see it as stemming from many causes; first and foremost among them is rising inequality of labor earnings, due in part to a twist of the structure of labor demand in favor of the relatively skilled. This analysis leads the authors to present proposals for increasing the skills of those at the bottom end of the distribution so that they too can participate in the growth process.

The authors' program for growth with equity has five major components: increasing the share of national output devoted to investment, paying for additional investment with the savings of domestic residents rather than by borrowing from abroad, boosting investment in training of workers who are most deficient in labor market skills, opening borders to foreign goods and foreign investment, and broadening and improving the safety net to assure job losers that their economic losses will be manageable. Baily, Burtless, and Litan expect government to play a major role in this program: "American government can and should help frame solutions to the nation's economic problems. It can do so not by subverting the market but by reinforcing and supplementing it" (p. 205).

Readers of this *Review* will probably be most interested in the authors' recommendations for improving the labor market. They highlight two reasons that American workers are poorly prepared for the job market: those young people

who are not bound for college receive substandard formal schooling, and the American system of postschool training is inhibited by the relatively high rate of employee turnover in the United States compared with other countries such as Germany and Japan. To improve the schools' preparation of workers, they call for three reforms: creating a common core curriculum in high schools throughout the country, requiring students to demonstrate mastery of the core subjects on nationally recognized tests, and holding school officials and teachers accountable for their students' performance. To raise the level and quality of workplace training, they urge the establishment of nationally recognized credentials to certify occupational skills, a mandatory employer contribution toward training non-college-bound youths in the workplace, and the creation of a national apprenticeship system. Finally, they suggest a number of reforms in the labor market itself: research and development in federal training programs, improvements in the United States Employment Service, and basing a fraction of pay on performance. This is a sensible program, the enactment of which would add greatly to the productivity of our nation's work force, especially for those now at the bottom end—hence, more growth with equity.

My one significant criticism is that it is difficult to discern exactly what the authors have in mind by the objective of "equity." For instance, they say (p. 12) that "it is not enough to enlarge the size of the economic pie if we do not simultaneously help less successful Americans obtain larger slices." Does that mean larger slices absolutely or relative to what others are getting? The same ambiguity arises in their policy recommendations. At one point, they call for a "more equal distribution of education" (p. 111) but then go on to recommend developing general and job-specific skills for those at the lower end. Would they cut back on higher education to achieve this? At another point (p. 158), they propose to pay for their program by raising the top rates on income taxes and corporate profits taxes. Why? —To reduce inequality, to help the poor, to finance investment, to stimulate productivity and growth, or all of these? The concern for equity can be defined as "helping the poor" rather than "reducing income inequality." I believe that Baily, Burtless, and Litan would probably choose to follow John Rawls (*A Theory of Justice* [Cambridge, Mass.: Harvard University Press, 1971]) and help the poor even if the rich get so much richer that inequality rises, but I wish they had said so in the book.

On balance, however, this book is a clear success. It is lively and hard-hitting, as well as easy and enjoyable to read. The authors let us know in no uncertain terms what they think and why, never shrinking from controversy. In contrast to the banalities and professional jargon found in so much purported "policy analysis," this book's directness-is most refreshing.

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