[Review of the book Income Distribution in Less Developed Countries]

Gary S. Fields
Cornell University, gsf2@cornell.edu

Follow this and additional works at: https://digitalcommons.ilr.cornell.edu/articles

Part of the Economics Commons

Thank you for downloading an article from DigitalCommons@ILR.
Support this valuable resource today!

This Article is brought to you for free and open access by the ILR Collection at DigitalCommons@ILR. It has been accepted for inclusion in Articles and Chapters by an authorized administrator of DigitalCommons@ILR. For more information, please contact catherwood-dig@cornell.edu.

If you have a disability and are having trouble accessing information on this website or need materials in an alternate format, contact web-accessibility@cornell.edu for assistance.
Abstract
Excerpt] This book by R. M. Sundrum, a professor at the Australian National University and former director of the World Bank, is a compilation of issues, ideas, and data on income distribution in less developed countries (LDCs). Each chapter or section has something meaningful to say, and for this reason the book bears careful study. However, no overarching theme or approach is apparent, so the reader is likely to come away with numerous small lessons about distribution and development but few larger conclusions.

Keywords
development, economic growth, income distribution, poverty, less developed countries, LDCs

Disciplines
Economics

Comments
Suggested Citation

Required Publisher Statement
© American Economic Association. Reprinted with permission. All rights reserved.

This article is available at DigitalCommons@ILR: https://digitalcommons.ilr.cornell.edu/articles/491
useful and powerful and, more importantly, that there is scope for significant enrichment of economic modeling. In Restoring Economic Equilibrium Schultz attempts to clarify some of the pertinent conceptual ideas to offer suggestions for a richer role for entrepreneurial theory in economics. Evidence from a large number of micro studies, most of them undertaken by his own colleagues and former students at the University of Chicago, is brought to support the general thesis that entrepreneurial activities restore economic equilibria. (Most of these studies addressed specific topics and did not seek to develop the broader interpretations that Schultz suggests for them here.)

Schultz recognizes the difficulties inherent in entrepreneurial theory. He discusses the contribution of Schumpeter, Knight, and Hayek and the distinction between risk and uncertainty in management. He does not find this distinction particularly useful and appeals to the human capital concept of allocative ability or skill as the more germane dimension of entrepreneurship. He notes that producers (including household producers) and consumers will come to learn about and develop responses to routine and regularly occurring events in a stationary economy through repetitive experience. Thus allocative skills will have little value in such an economy. When new nonroutine events and options occur, entrepreneurs must assess, experiment, and evaluate, and these activities require allocation skills. Thus in a modernizing economy entrepreneurial skills will have high value, and more importantly, they will be equilibrium restoring.

The book does offer a chapter on income increasing events (Ch. 8) but throughout most of the book the emphasis is on responses to change, not to its generation. The failure to deal more explicitly and more fully with disequilibrium generating activities inherently limits the critique of growth modeling because the growth or modernization process entails both generating and restoring activities. Chapters 9 and 10 offer suggestions for defining and measuring entrepreneurship. The chief suggestion is that most returns to entrepreneurship are reflected in transitory income and associated with high levels of nonroutine technological and related events. This interpretation of the content of transitory income is not the usual one, but is not inconsistent with it. The argument that equilibrium restoring earnings are transitory rather than permanent requires relatively irregular flows of disequilibrium generating agents.

Much of the remainder of the book is devoted to a review of micro-studies of equilibrium restoring activities. These studies are, in the main, studies originating at the University of Chicago and many are dissertations by Schultz's students. Many deal with the agricultural sector. Some readers will find these chapters a little too "Chicago-based" for their tastes. Some will find these lessons from agricultural studies to be of limited relevance for other sectors of the economy. Nonetheless the studies are relevant to the theme of the book and in varying degree support the thesis that equilibrium restoring activities deserve more currency in economic modeling.

In the end the book makes a substantial contribution to entrepreneurial theory but does not rewrite or recast it in a markedly new way. Similarly it has many insights to offer to economic growth modelers, but does not, itself, develop a new growth theory. General equilibrium modelers will likewise find insights in the book.

The fundamental contribution of the book is in calling attention to the evidence that restoring equilibria is not simply a matter of market clearing pressures. It requires work and skills and abilities. It also is contingent on economic institutions. And these activities, skills, and institutions are of great importance in the modernizing economy because they are central to the process of economic growth. This book draws our attention to this in a useful fashion. It is a testament to a long and influential career by an extraordinary economist.

ROBERT E. EVENSON

Yale University

Income distribution in less developed countries.

This book by R. M. Sundrum, a professor at the Australian National University and former director of the World Bank, is a compilation of issues, ideas, and data on income distribution in less developed countries (LDCs).
Each chapter or section has something meaningful to say, and for this reason the book bears careful study. However, no overarching theme or approach is apparent, so the reader is likely to come away with numerous small lessons about distribution and development but few larger conclusions.

Sundrum seeks to give a "comprehensive review" of the burgeoning recent literature on income distribution in developing countries. (By "income distribution," he means to take account of the entire shape and position of the distribution, although at times he slips into treating "distribution" as synonymous with "inequality.")) Unfortunately, the literature survey is neither comprehensive nor particularly recent. For instance, a review of studies on the historical evolution of inequality in the developed world should include the books by Williamson and Lindert on long-term changes in the U.S. and the U.K. However, these do not appear in Sundrum's bibliography. As for recency, most of the data presented and most of the studies reviewed by Sundrum come from the 1970s. The lessons of the 1980s are all but ignored—a problem for a book being marketed in the 1990s.

What, then, has Sundrum covered? Part I presents "The Statistical Approach." In it, he reviews what is and is not included in data on income distribution, how inequality and poverty indices are constructed, what we have learned about cross-sectional patterns and historical changes in inequality and poverty, and what we would need to do to measure the dynamics of income distribution. Many important points are touched on here.

Part II reviews theories of income distribution, among them, theories of income distributions as random variables, the classical theory of functional income distribution, and Lewis' dualistic theory. Recognizing that the classical theories deal with factor prices and factor shares but not with the fraction of people deriving incomes from each factor of production, in subsequent chapters Sundrum delves into incomes from land, from labor, and from capital. Unfortunately, a reader of these chapters comes away without knowing an important finding which has emerged from numerous decomposition studies; this is that most overall income inequality is accounted for by inequality in the distribution of labor incomes, and it is therefore incumbent upon us to analyze the demand for and supply of different types of labor in different countries. Instead, Sundrum concludes the analytic part by presenting an accounting framework which relates the structure of production to income distribution.

Part III turns to the policy objectives and implications. Chapter 14, which is concerned with policy objectives, is best read before reading the rest of the book. After all, how can one evaluate the data without knowing what objective one is interested in attaining? The remainder of Part III deals with two kinds of policies—regulatory and redistributive. The problem is that Sundrum does not cast the policy analysis in the context of an overall objective. Although he claims (p. 305) that "the most serious problem facing LDCs from the distribution point of view is the widespread extent of absolute poverty" (a view which I share), most of his policy attention is devoted to the reduction of inequality.

There are many nuggets of valuable information to be uncovered in this book, both by specialists in the income distribution field and by novices. And there is another reason for having a look at this book: the photograph on the dust jacket of a developing country man with developed country accoutrements is a marvelous piece of work.

GARY S. FIELDS
Cornell University

REFERENCES

P Economic Systems


In their 1983 book Beyond the Waste Land, Samuel Bowles, David Gordon, and Thomas Weisskopf traced the course of the U.S. econ-