The Journal of Economic Inequality (2022) 20:265–280
https://doi.org/10.1007/s10888-022-09538-6

Book reviews

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Received: 2 February 2022 / Accepted: 9 March 2022 / Published online: 2 April 2022

1 Introduction

The format of our book reviews has changed. From this issue on we are collecting multiple book reviews into one article for convenience.

The present article consists of five pieces. In the first, **Reto Foellmi** reviews *Confronting Inequality: How Societies Can Choose Inclusive Growth* (Jonathan D. Ostry, Prakash Loungani, and Andrew Berg), on the shift in the economic paradigm from average incomes to the understanding of the driving forces of inequality. The ideas of the *Financial Times* columnist Martin Sandbu on economic policies addressing the "left behind" in Western society are collected in *The Economics of Belonging*, and are reviewed here by **Paul Segal**. Later, **Andrew Lister** critically analyses the contributions of equal-pay experts in "*Debating Equal Pay for All: Economy, Practicability and Ethics* (Anders Örtenblad, editor). The contribution of leading economists and policymakers on the most effective economic tools to reduce inequality are collected in "*Combating Inequality Rethinking Government's Role*" (edited by Olivier Blanchard and Dani Rodrik). **Danny Dorling** evaluates the volume for us**.** Finally, **Ronnie Schöb** reviews the ideas of Paul Frijters and Christian Krekel of using wellbeing for policy-making in *A Handbook for Wellbeing Policy-Making*.

2 *Confronting Inequality: How Societies Can Choose Inclusive Growth.* Jonathan D. Ostry, Prakash Loungani, and Andrew Berg, Columbia University Press, 2019. pp. 173. ISBN 978-0-231-17469-5

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If we go back only 30 years in time, the macroeconomic analysis focused on growth and efficiency, what mattered was the average of incomes and the study of inequality was at the periphery. The rise of inequality within countries since the 1980's called for an explanation and the availability of large data sets was instrumental to understand the evolution and the

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driving forces of inequality. Consequently, there has been a surge of scientific interest in the topic since then, not only in academic circles but in policy institutions like the IMF as well.

The present book does a great job of documenting this important shift in the economic paradigm and presents important stylized facts on inequality, growth, and redistribution in a very accessible and easy-to-read manner. Building on sustained research by the different authors, the book provides very instructive material and insights to teach the different causes of inequality.

Among the many relevant messages of the book, I would like to highlight two of them. First, the authors argue convincingly in Chapters 4 to 7 that economic policies to raise average incomes have an impact on inequality as well. Hence, there is a tradeoff between efficiency and equity. However, this tradeoff does not arise primarily from the reduced incentives caused by redistribution – in contrast, the book argues in Chapter 9 that the costs of moderate redistribution might be lower than usually thought. Instead, the efficiency-equity tradeoff comes with structural policies themselves. For instance, trade openings lead to economic development but increase inequality, at least in the shorter run. The authors advocate that the distributional consequences of policy reforms should be taken into consideration as well as the potential efficiency gains. Second, the book gives an insightful review of the relationship between inequality and growth. The authors state in Chapter 3 that inequality may be bad for steady growth and that it has a particularly negative impact on growth spells. The latter is defined as a sustained period of solid, healthy growth, only interrupted by recessions of limited extent and duration. Using a cross-country analysis, the authors document that more inequality is associated with shorter growth spells, i.e., fewer years of solid growth. In my view, this is a most interesting fact that did not receive sufficient attention so far.

The growth performance of many Latin American, African, or Arab countries is very volatile indeed. Brazil experienced solid growth until 1980 only to be followed by decades of stagnation. Countries in Africa or the Arab world enjoyed strong growth phases followed by a severe reduction of income per capita. Hence, growth spells do not only differ in their duration but also how they end. In Africa, they are followed several times by an economic collapse whereas Asian and OECD countries experience a soft landing in many times. This is not explored further in the book but it seems interesting to investigate this in subsequent analysis. More basically, I missed a welfare concept behind the idea of growth spells. The idea is intuitively appealing that growth spells imply less uncertainty and therefore higher welfare since risk aversion is relevant. However, I saw no clear distinction between growth spells and business cycles. Maybe the two are related and the welfare considerations resemble the relationship between business cycles and growth initiated by Robert Lucas's discussion. It is not clear furthermore, whether there is a tradeoff between the length of growth spells and the speed of structural change – the latter needing some adjustment and therefore creative destruction on a sectoral level.

The book is structured as follows. Chapter 1 gives a superb introduction that highlights and summarizes the key messages in the book partly outlined above. Chapter 2 presents measures of inequality, the difference between net and gross income and applies the concepts to the U.S. and France. The central Chapter 3, mentioned above, looks at inequality and growth and introduces the interesting concept of growth spells. From Chapter 4 onwards, the focus is on policies affecting growth and inequality. Chapters 4 and 5 look at structural reforms like trade and capital account liberalization. Trade liberalization and in particular capital account liberalization may raise growth, however, these policies increase the gap between rich and poor. The policy recommendations of Chapter 4 are sensible in recommending a non-dogmatic approach when advising a single country. Already there, I would have put somewhat more focus on the literature on financial market imperfections and trade openings. When access to capital is limited, middle-size entrepreneurs may even lose from trade liberalization, as we argue in Foellmi and Oechslin (2020). Hence, it is important to combine market openings with domestic reforms to ease the access to the capital market, for instance, mirroring the authors' argumentation at the end of Chapter 5 when they discuss capital account liberalizations. The following Chapter 6 argues that austerity, measured as a positive primary balance and adjusted for the business cycles, has detrimental effects on growth and rises the gap between rich and the poor, at least in the short and medium run. While I think the correlation is true, I found the identification less convincing. The authors try to measure fiscal consolidation by policy actions, but the latter are themselves endogenous. Furthermore, I lacked the differentiation between spending cuts and tax increases. The reason why I struggle with a suitable policy recommendation comes from the observation that, in many cases, fiscal consolidations follow a deep crisis and the debt level had not been reduced in the boom before. On a constructive side, I agree that the timing of fiscal consolidations is central. Chapter 7 then turns the focus on monetary policy. Interestingly, monetary expansions that come as a surprise (and not as a reaction to changing economic conditions) decrease inequality. This reduction occurs although lower interest rates lead to price increases in asset markets, such as housing, as well. Chapter 8 looks at the impact of technology on inequality. Increased automation, e.g. with robots, raises the skill premium. While this question is not set in the literature, the book argues no without reason that capital may complement high-skilled and substitute low-skilled workers. Finally, there are many ways to address inequality. Chapter 9 discusses redistribution and the authors take a strong stance that the overall effect of (modest) redistribution is pro-growth. While this statement might be controversial, many developed countries indeed faced high growth and employment although there are large differences in the welfare state. So there is no simple equity-efficiency tradeoff here. Other measures to address inequality, in my view, is the design of the education and the social security system. The former is crucial for an equal income distribution, even before redistributing, and the latter could broaden the ownership of capital goods.

On a more critical note, some minor issues could be corrected to improve the key arguments in the book. I understand that the book is not written for an economics audience primarily. At times, however, the authors should be careful not to misinterpret correlations as causations. At the end of chapter 2, for instance, the drivers of inequality are discussed. While forces like technology, trade, or openness to foreign flows of capital may impact inequality as measured by the Gini index, there are good reasons that inequality affects these forces as well. Inequality might affect economic growth and the adoption rate of technology, for example.

When it comes to the inequality-growth relationship, the general assessment of the literature is much more mixed than the claim by Boushey and Price (2014) that the authors cite. Neves and Silva (2014) document that the general finding is inconclusive. Estimations relying on cross-country variations are likely to find a negative relationship but estimations based on time series tend to get a positive relationship between inequality and growth.

The authors did a great job outlining how important it is to understand inequality and ignoring the issue would result in an incomplete economic analysis. While a reader does not have to agree to every policy recommendation, their arguments are economically precise throughout. Given their clear and interesting writing style, I enjoyed reading the book very much. The raised questions are hopefully a starting point for subsequent research.

2.1 References

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3 *The Economics of Belonging: A Radical Plan to Win Back the Left Behind and Achieve Prosperity for All*, Martin Sandbu. Princeton: Princeton University Press, 2020. pp. 296. ISBN 9780691204529.

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Martin Sandbu has built up an impressive range of expertise on economic policy as a commentator for the *Financial Times*, much of it developed in his informative and thought-provoking *Free Lunch* series. *The Economics of Belonging* presents his analysis of the current malaise that many have observed in the liberal democracies of Europe and the US—what Sandbu sometimes refers to as "the West"—and a set of proposals aimed at solving the underlying problems that cause it. While much of his platform is shared with today's self-described socialists, he places his project explicitly in the tradition of the New Deal, presenting a set of egalitarian policies aimed at rescuing liberal democracy: what he calls "a new economics of belonging".

Sandbu's main concern is that liberalism, and globalization specifically, is under threat while nationalism is on the rise. This can be observed in the rise of extreme right-wing parties in mainland Europe, Brexit in the UK, and the election of Donald Trump in the US. He blames these developments on what he calls "the end of belonging": the drying-up of economic opportunities for the majority of people, who have good reason to feel "betrayed by the elites who constructed the system" (p. 8). While this dynamic has been harmful for most people, he identifies men with low levels education who live outside major cities as having particularly lost out, and as a driving force behind the rise in nationalism.

The book argues that it is the economic changes affecting people's opportunities, and not culture per se, that explains the undermining of liberalism. Analyses based purely on inter-personal inequality have a hard time accounting for the political patterns, but Sandbu shows that a spatially-sensitive approach has more explanatory power: it is not so much left-behind *people* who are turning to nationalism, as people in left-behind *places*. Shifts in attitudes, including in prejudice against immigrants, follow these regional patterns.

What has driven the rise in inequality and the decline in economic security for so many? Part of the explanation is technological change that has reduced demand for low-skill labour, and concentrated job opportunities in major urban centres. But he notes that policy is also to blame. In agreement with most analysts of these trends, he highlights declining union membership, driven in part by the political assault on workers' rights over the last four decades; the reduction in progressivity of taxation; and the shift of risk from collective arrangements to the individual, via declining social insurance and defined-benefit pensions.

He is keen not to lay the blame on globalization, and argues convincingly that globalization of people and goods have had little impact on inequality.

Coming after three decades of de-industrialization and worsening conditions for most workers, the global financial crisis then gave the knock-out blow to people's livelihoods and sense of economic security. The financial crisis was itself the result of bad policy in the form of financial deregulation, while the subsequent policy response was inadequate. Governments failed to provide the spending required to restore demand, drawing back fiscal stimulus far too soon. The result for many people has been incomes both stagnant and volatile, implying an enormous cost to economic welfare.

How can liberal democracies do better? First, most of them have a lot to learn from Scandinavia. Following the work of the economist Karl Moene, Sandbu believes that part of the success of the Scandinavian model is due to high wages that incentivize investment in capital and technology, raising labour productivity and pushing out low-productivity firms. He proposes that what Scandinavia achieved through collective wage bargaining, other countries can do with a combination of high minimum wages, increased investment in education to raise skill levels, and active labour market policies to facilitate mobility between jobs. This allows economies to adopt new technologies, and adapt flexibly to changing circumstances, while maintaining stable incomes for workers. As the Scandinavian countries have shown, this can be an effective way to combine growth with low inequality.

This Scandinavian proposal is complemented by additional and more radical proposals. Following the work of Philipe van Parijs and others, Sandbu demonstrates the link between egalitarian policies and the republican political goals of individual freedom and independence. Sandbu rightly stresses that the welfare systems of the late twentieth century were as much about "freedom and self-empowerment" as about income security per se. And he argues that for the twenty-first century, the policy that will help achieve these goals is a universal basic income (UBI). The advantages of this policy have been widely discussed: it does not have the adverse incentive effects of means-tested benefits; it has the political benefit of inviting support from all parts of society because all parts of society receive it; and it empowers workers relative to employers by improving their outside option. Freedom and independence for workers should be further strengthened through unions that protect wages and working conditions without opposing technological change or job mobility, and by worker representation on firm boards.

If UBI is the preferred policy on the expenditure side, on the taxation side Sandbu supports the recent drive to implement net wealth taxes, in agreement with analysis by Thomas Piketty, Gabriel Zucman and others. He proposes to combine this with measures to reduce tax evasion and avoidance by internationally mobile capital, and increased taxation on environmental bads. While the latter risk being regressive, they could be part of a progressive package whereby the revenues raised help to fund the UBI.

One of Sandbu's great strengths is his ability to combine analysis of microeconomic welfare policy with macroeconomic and financial policy. Complementing his proposals on UBI, tax, and labour markets, he argues that an inclusive economy needs to be a "high pressure economy": as Keynes argued long ago, policy makers should try to consistently keep the economy at the limits of its productive capacity, instead of trying to reign in growth around some assumed average. The evidence suggests that this not only leads to higher growth over time, but also to higher incomes and lower unemployment for workers at the lower end of the wage distribution. This would have been particularly important in the aftermath of the global financial crisis, he notes, when a combination of ideology and a “learned helplessness” among macroeconomic policymakers led to misguided austerity policies with tragic results.

Sandbu places a considerable share of the blame for our current problems on a deregulated and greatly expanded financial sector. Finance has been destabilizing, as the global financial crisis demonstrated beyond reasonable doubt. It has also been disequalizing, as it has facilitated the extraction of value by top executives and financial managers at everyone else’s expense, and may in addition have exacerbated regional inequalities by concentrating investment in financial centres. And it has been bad for productivity growth by tending to fund sectors like real estate and construction rather than more risky and ultimately more productive knowledge-intensive sectors. To overcome these problems, Sandbu proposes incentivizing equity rather than debt financing, and the conversion of much debt into more equity-like instruments. The latter could apply to mortgages where debt values could depend on house prices; on educational loans where repayments are tied to earnings; and, as has been widely discussed in emerging economies, sovereign debt where payments depend on growth rates. The implied “bailing-in” of creditors, Sandbu argues, would both reduce the risk of debt crises and reduce the burden of “zombie” debts that hold back recovery from crises. This would, of course, require a substantial re-regulation of finance.

Here he again wants to downplay the risks of globalization, by emphasizing that domestic regulation is capable of forging a better finance sector without directly restricting cross-border flows. While this is plausible for the large high-income economies that are his focus, it is perhaps worth noting that this policy would not necessarily travel well to other countries. For low- and middle-income economies with large foreign currency-denominated debts, and whose citizens have a more fragile confidence in their own currency, it is much less plausible that domestic regulation would be sufficient to control the risk from destabilizing capital flows, and capital flight in particular.

Sandbu places more emphasis on spatial or regional inequality than most analysts. Following his argument that right-wing nationalism has been driven less by left behind people than by people in left behind places, he argues that much of his policy package could be used to reduce these regional inequalities. A high-pressure macroeconomy would help maintain demand in all regions, not putting the breaks on when full employment is reached just in the major cities; UBI would help to equalize that demand and hence the availability of jobs. He also advocates regionally focused active labour market policies, and increased government spending on infrastructure in left-behind regions.

An important achievement of this book is to show that many measures both reduce inequality and improve productivity and growth. These include higher minimum wages that incentivize firms to invest in capital and technology, a high-pressure macroeconomy where strong demand drives both productivity improvements and ensures inclusion, and wealth taxes that incentivize wealth owners to invest in high-return capital. This shows how out of date is the putative “equity versus efficiency” tradeoff: in many cases, existing arrangements are neither equitable nor efficient, and it’s quite possible to improve in both dimensions.

Somewhat less convincing is Sandbu’s insistence that his proposals are “beyond left and right”, and that his policy package amounts to a “centrist economics of belonging”. His goal is to appeal to a wide audience and to have an impact on policy makers, which is surely to be encouraged. But there can be little doubt that the rise of inequality and of economic insecurity were driven by right wing policies, from financial deregulation, through attacks on labour rights, to regressive fiscal policies. When they were implemented by self-described centre-left parties, they were acknowledged at the time as moves to the right and were vocally opposed by the more left wing elements of those parties. Equally, many of his policy proposals are advocated by avowedly socialist politicians. The claim that the political right is interested in reducing inequality is a well-established form of political gaslighting—witness the right's use of egalitarian language to oppose policies that support disadvantaged racial minorities, with the claim that they are discriminatory against white people; or the rhetoric of support for working families used frequently by the US Republican Party and the British Conservative Party as they cut taxes on the rich and benefits for the low-paid and unemployed. Similarly, referring to regressive policies as "policy mistakes" ignores the political economy underlying these decisions. In many countries, the reduction in economic security for the majority was the corollary of rapidly rising incomes at the very top of the distribution: for the elites who pushed through these policies, this was a feature, not a bug.

Sandbu's energetic defence of globalization is more recognizably centrist, as politicians on both the left and right have a tendency to be more inward-looking and protectionist. But even here his proposals to make globalisation work better are recognizably driven by a left egalitarianism. Globalizers on the political right, for instance, have no problem with internationally-mobile capital gaining bargaining power over both workers and national governments.

Still, if Sandbu's appeal to the political centre increases his impact on policy, then that will certainly be something to celebrate. This book proposes a radical set of egalitarian policies backed by cutting-edge research, as well as an engaging and informative analysis of what brought us here. It provides a powerful demonstration that we have the tools to overcome stagnation and high levels of inequality, if only policy makers would use them.

4 *Debating Equal Pay for All: Economy, Practicability and Ethics.* Anders Örtenblad. Palgrave Macmillan, 2021. Pp. 320. ISBN: 978-3-030-53574-2

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"Debating Equal Pay for All" is an multidiciplinary collection of short essays for and against equalizing wages. It is divided into four parts: against equal pay, against equal pay but for a basic income, for more equal but not fully equal pay, and for equal pay.

There is some disagreement about exactly what policy is in question. Some (e.g. Mulligan, Zwolinski) focus on paying everyone the same whether they work or not. Others (e.g. Bohn) focus on equalizing hourly pay across different types of work. One contributor defends equalizing pay across countries but not individuals (Schurmann). In principle we can distinguish equalizing regardless of quantity of work from equalizing regardless of type of work (or quality). The issues are connected, however, since equalizing pay across types might price some workers out of a job, forcing us consider the problems of unemployment and underemployment (Grey).

Most people agree that CEOs should be paid more than the average worker (Mohan). But should the ratio of average-CEO pay to average-employee pay be 60, as it was for major companies on the Financial Times Stock Exchange in 2000, or 150 times, as it was in 2017 (Dorey)? Would CEOs be unfairly treated if they only earned 30 times as much? The average American CEO made $1.5 million a year in 1978, but $17.2 million a year in 2018, inflation adjusted, an increase of over 1000%, whereas average wages increased by only 11.9% over the same period (Mohan). Did CEOs really become that much cleverer and hard-working, in the US, over this period?

The main challenge for those who would like to defend equal pay is set out in the essays by Mulligan and Zwolinski. The first issue is that of the incentives. If I would be paid the same regardless of how much I worked, how much would I work? Not nothing, because my job is interesting, and I like to think I have a sense of duty. But time is short; hours spent with my students are hours not spent with my children, aged mother, or partner, or simply out in the countryside on my bicycle. In a small community, I would presumably serve others on the expectation that others will serve me in turn. Yet in a large society of strangers, decentralized definition, monitoring, and enforcement of norms about social contribution may not be effective. Under equal pay, the product of labour is divided amongst all, but the costs of labour are still individual, creating an assurance problem. My first choice is to serve and serve in turn, but unilateral sacrifice is my last.

The second issue is that of information. Someone fully committed to wanting to serve others would still need some indication about how they can most effectively direct their efforts. Normally the price system fulfills this function, aggregating dispersed information about the scarcity of resources (including different talents) in relation to individual preferences. Of course the system is far from perfect, as it only registers the preferences of those with money and doesn't account for externalities. Yet allowing wages to vary provides a way of directing people's efforts where they are most needed without having to order people about. The information challenge could be solved à la Joseph Carens by asking people to maximize their pre-tax income, then taxing and redistributing back to equality, but this solution would require a high degree of unconditional altruism. The main challenge to equal pay is thus to reconcile general prosperity with individual choice of type of work without use of price signals. We might call this the efficiency / liberty challenge.

One might think that there is a more basic liberty challenge. Under equal pay, while one is permitted to work as much as one pleases, it is effectively forbidden to work more and earn more (Zwolinski). Those who would be willing to trade off having less time for the sake of having more of the things money can buy are out of luck, while those who prefer leisure to (the products of) labour win big, being able to meet their limited material needs without having to work at all. This challenge is avoided by the equal-pay-per-hour policy, which allows people to work longer hours for more take-home pay (Bohn).

Mulligan and Brouwer and van de Deijl argue that there is also a desert challenge to equal pay. Most people believe that people ought to be rewarded more if they contribute more. Nursing (for example) is defined by goals that involve standards of excellence. Is it not obvious that a nurse who is exceedingly conscientious, caring, and competent should be paid more than one who is only minimally so? Most people also believe that people ought to be paid more in compensation for the performance of difficult, unpleasant tasks. Thus contribution and compensation seem to be two powerful desert-based grounds for unequal pay.

It's unclear to me, however, whether pay that compensates for unequal burdens should really be counted as an objection to the proposal for equal pay. The question of fairness in the distribution of anything must be based on a comprehensive assessment of costs and benefits, not benefits alone. If we are dividing up cakes based on an incomplete list of ingredients, there is no way to know what the fair distribution is. All of the cakes contain sugar, butter, and flour, say, but if some of them contain lethal doses of arsenic, "1 cake per person" won't be a fair division. Similarly, knowing only that task A pays more than task B isn't enough to determine whether a division of labour is fair. Suppose A is dangerous, 70 h per week, and boring, while

B is safe, 30 h per week, and interesting. The proposal to equalize monetary benefits of labour without regard to costs or burdens makes no sense. I'm not sure we need the idea of desert to accommodate compensatory pay, so long as we consider the burdens along with the benefits of social cooperation.

Suppose then that the proposal to equalize pay is understood as the policy of equalizing benefits of work net of burdens – a tall order, to be sure, but set that aside. We could still have variable reward by contribution within each task. In other words, if two people work the same number of hours at the same task, but one succeeds in producing more / better, it might seem fairness or desert dictates they should be paid more. If both exerted themselves conscientiously, however, I don't see why the one with superior talent should deserve superior reward, except to the extent that greater talent is the result of past efforts at socially useful self-development. Superior achievement can certainly be the basis for recognition of excellence from one's peers; the question is why this recognition must be accompanied by a superior share of the products of our collective labour (Deranty), apart from the need to motivate and direct efforts. This question is especially pressing given our unfortunate tendency to assume the world we live in is just, and hence to invent spurious rationales for inequalities that are in fact arbitrary (Pointon and Sinnicks).

Still, the efficiency / liberty challenge would remain. How can we motivate and direct people's choices about labour and education, if not by use of the price signals provided by pay differentials?

One response to this challenge is to concede that completely equal pay would not be desirable all things considered, but to argue that pay should be more equal than it currently is. There is little reason to believe that the ratio of CEO pay to average pay has to be so high high (Dorey, Mohan). Pay differentiation can also have costs, e.g. reduced flexibility in reassigning staff to new tasks, less innovation due to internal competition that restricts the sharing of ideas, and perverse incentives for short-term risk-taking (Reily and Brown). We might leave pay differentials untouched, but institute an unconditional basic income while taxing top incomes and wealth at a much higher rate (Knudsen), thus compressing the distribution of individual income (though the effect on household income distribution would be attenuated by the fact that many high-earners share a household with a low-earner; Salverda).

A second response is to argue that what's crucial is not making pay more equal, not for its own sake, but to ensure that everyone has at least decent pay (Schaff, defending a minimum wage standard), or a minimum income (Zwolinski, defending unconditional but only basic income). In the background of all wage offers lies the enforcement of the unequal distribution of property; guaranteeing decent pay for all would reduce the coercive aspects of labour markets for those without property (Schaff), though such a policy would presumably have to be accompanied by a commitment to full employment or a jobs guarantee (Grey), otherwise low pay might just be replaced by no pay.

A third response is to question some of the more fundamental empirical and normative assumptions that support the efficiency / liberty challenge. One assumption is that despite the progress of AI and automation, much more or less unpleasant work still needs to be done. Those who think we are closer to a post-scarcity society (à la Iain M. Banks's Culture novels) may look forward to a time when pay is based on membership rather than performance (Knudsen). A number of contributors also question the importance of economic growth, when it comes at the expense of political equality and social solidarity (Frederking, Pointon and Sinnicks), or environmental degradation (Knudsen, Frederking, Bohn). To the extent inequality corrupts civic character and relations, that has to be taken into account, though the empirical claim is hard to assess. I'm not sure the efficiency challenge can be met by questioning the value of growth, however. Clearly, a fair assessment of growth needs to take into account environmental costs, otherwise we might simply be trading off gains of one kind for losses of another. Even when environmental costs are fully factored in, however, we face questions of resource allocation that can only be solved with the help of price signals.

5 *Combating Inequality Rethinking Government's Role*. Olivier Blanchard and Dani Rodrik. MIT Press, 2021, pp. 287. ISBN 9780262045612

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This edited collection begins with the words '*Inequality is widening*', but does not immediately say inequality where, inequality when, or inequality of what. Combating Inequality is a collection of written papers from a conference held in late 2019 in Washington DC. The 'where' is the USA. The 'Government' in the subtitle of the book is clearly the government of the United States of America, and the 'what' is income and wealth inequality. The overall message of the book is summarised on the first page of its introduction: The USA should try harder to be a little more like Western Europe, and not to diverge further from it:

> '..after declining for many decades, the income shares of the richest 1% in Western Europe and the United States increased from around 8% in the 1970s and 1980s to 11% and 20%, respectively, today. In 1980, the income share of the bottom 50% stood at 20% in both regions. Over the subsequent three and a half decades, this figure dropped to 12.5% in the United States and 18% in Europe.' (p.i)

Why start a review of a book about inequality by pointing out the geographical ambiguities? One reason is that it is a key feature of the unequal world we live in that it is often assumed that the reader of a book lives in the USA; or that what might be appropriate for government in the USA might be appropriate elsewhere. However, as Figure 1.1 in this book shows, Western Europe is more like China in its inequality profile and trend since the 1970s; and, conversely, the USA has much more in common with post-1989 Russia and very inequitable India (than with Western Europe). But other than appearing in Figure 1.1, Russia and India are not mentioned again in this book. China does merit a mention in two chapters (Chapters 11 and 12) but both only on the "China shock" – which is the shock experienced in the USA from the economic success of China. Neither of these is a chapter about the role of the Government of China in possibly combating, or at least constraining a little, the rise in inequality in China.

So, having accepted that this is a book about the USA aimed at a readership in the USA what does it tell us?

Firstly, it tells us that a group of researchers, mostly based in the USA, have been looking back at the 1930s, 1940s and 1950s when income inequality was last addressed and then began to fall. This group notes, for instance, that Franklin Roosevelt's New Deal polices, which worked to help begin to bring down USA income inequality before, would mostly not have passed any evidence-based test at the time they were implemented as the evidence that they might work then did not then exist (p.xvii). The implication is that something bold and not fully tested might have to be tried again today in the USA.

Secondly, some of the chapter authors see the restoration of higher taxes for the wealthy as being key. They find that, increasingly, inequality is about differences within countries rather than between them (Figure 1.5). However, there are also many doubters in this volume who will grudgingly admit that '*Progressive taxation should be part of the conversation*' (p. 46), but do so with such hesitancy that parts of this book become less a toolkit for what might help and more an object lesson in why both income inequality and wealth inequality has grown so stubbornly high in the USA and are both kept so high there. If several critics of inequality in the USA can only now, in 2021, grudgingly admit that higher taxes on the incredibly rich in the USA might be something that *could be talked about* –that is a very large part of the problem. In fact, Chapter 14 is actually titled "How to Increase Taxes on the Rich (If You Must)", with obvious doubting implications in that caveat so prominently put within the parentheses. This chapter proposes a form of taxation advocated by Milton Friedman in 1962. Friedman, of course, famously helped advocate for the polices that made the USA so very unequal in subsequent decades, especially those implemented during the 1980s.

Thirdly, chapter authors occasionally use their chapters to critique some of the best known authorities who have best documented the awful rise of inequality in the USA since the 1980s and these authors then try to downplay how bad the situation is. A case in point is Chapter 15 penned by Lawrence Summers who provocatively claims that: *'...Saez and Zucman substantially overstate the erosion of progressivity of the US tax system and the increase in wealth inequality. While there is much room for methodological debate on these matters, it is noteworthy that every choice Saez and Zucman make goes in the direction of their ideological preconceptions*.' (p. 141) with Lawrence then claiming - counter intuitively - that the introduction of a wealth tax would *'...likely increase the influence of the wealthy on American society'*. If some apparently friendly economists concerned with inequality have views like this, then who needs enemies? Overall this book, and especially this chapter (as well as Chapters 27 and 29), is useful here in illustrating just how much at odds with each other economists in the USA are. In the very next chapter (16) Saez calls for a wealth tax and explains why it could work, amongst other measures – directly contradicting Summers (who happens to also be the 'Former Under Secretary of the U.S. Treasury for International Affairs'.

Fourthly, lessons learnt from other countries are occasionally raised such as Germany (in chapter 12) and Japan (in Figure 13.5). But only very rarely are the most equitable countries of the more affluent world included in the discussion – such as Finland, France, Sweden and Denmark (in Figure 13.6; with Norway and the Netherlands added in Figure 25.3). Occasionally, a statement is included of the form: '*In Europe, several countries have created new intermediate categories of employment that extend some social protection rights to gig workers'* (p.183). But then little else is said, such as how much better-off those workers might be as compared to their equivalents in the USA, how much less likely they might be to find themselves living homeless on the streets, in a prison, for their children to die young, or for them to die early. It is very possible that several of the authors of this book are not aware of these huge differences between living standards for those who are worst-off in the USA as compared to the worst-off of Europe and in other affluent countries so often made in international comparisons.

Occasionally one of the very few countries in the more affluent world which have recorded higher income inequality than the USA is mentioned favourably such as with educational outcomes in Singapore (in Chapter 10). For many years I have written books on inequality which have included a rank table of the most unequal affluent countries in the world. The rank order would occasionally move around mid-table; but only Singapore would be consistently more unequal than the USA; although that might now be changing. In 'Combating Inequality' more is said favourably about tiny and very income-unequal Singapore, than about far larger

Denmark, Finland, France, Norway, Sweden and the Netherlands; let alone Japan (which illustrates how a very populous country can also have very low income inequality).

There are exceptions. One key exception is Gabriel Zucman's chapter on 'Can a Wealth Tax Work?" which does use examples from other countries well and which comes to the opposite conclusion to Lawrence Summers (an author who fails to mention other countries). It is interesting to ask why Gabriel's chapter appears so late in the book. Do progressive politics come last in the USA? I could not help thinking that it might have been more interesting had some of the later chapters appeared earlier (and vice versa). In fact Gabriel's chapter is the last one in the book – if you do read this book I would suggest you start with it!

It is not just the more progressive suggestions that come late in this collection. Gender inequality is mentioned in chapter 1 but mostly relegated to chapter 20 (and some graphs of how badly men are doing are included in Chapter 23). All this is a neat illustration of gender's ranking in general importance in the book as a whole. Also mention of the social safety net is relegated to section ten, from chapter 25, onwards. You have to read through 20 chapters of this book before the option of work councils – that are common in so many European countries – is mentioned (in chapter 21). Even then, the author of that chapter writes, perhaps realistically: '*I doubt that Congress will seek to reform the labor system even along the more consensual lines that I favor until an economic crisis brings workers "into the streets" demanding change*.' But the question of how politicians, economists and policy makers in some European countries have managed to achieve such better outcomes without a crisis let alone revolution in the streets is not raised. Stefanie Stantcheva in a chapter towards the end of the book explains why the USA may be in such a bad place. She says:

> 'When faced with negative information about inequality (i.e., that it is high and has increased), respondents tend to say that they trust the government less. This may stem from the belief that if it is politicians who let inequality become this bad, they should not be trusted to remedy it. In all surveys described in this chapter, trust in government in the United States in general is abysmally low. Over 89% of respondents agree that "politicians in Washington work to enrich themselves and their largest campaign contributors, instead of working for the benefit of the majority of citizens."' (p.265-266)

The by-line on the blurb advertising this book is '*Leading economists and policymakers consider what economic tools are most effective in reversing the rise in inequality*.' At no point are any of the actual reversals that have occurred in the last two decades in income inequality in various affluent countries worldwide actually considered (there are recent examples of inequality being reduced that the USA could learn from). Instead, most of these leading economist and policymakers illustrate how they disagree with each other so much; how so many of them dislike the idea of progressive taxation; and in doing all this they help provide an explanation of why the USA finds itself where it is – with economic inequalities as bad as those in Russia and India today (as illustrated by the very first Figure in the book). Had more of them asked "*what do Russia, India and the USA have in common and why?*" they might have provided some more useful answers. The long quotation from Stefanie Stantcheva above is the only example I could find of this in the book – with its implication of corruption.

To conclude – this book is well put together. Given my personal political preferences I would have reordered the chapters as early chapters are much more often read in edited collections than later chapters - but I suspect this book as a whole is a very fair summary of the state of the debate in the USA today, with a few overseas interjections. Read this book – but don't read it for solutions, read it to understand just how bad the problem is – including how the views of so many very senior older male US economists are probably not helpful (if reducing inequality is your wish). This is perhaps not surprising. The USA would not head the ranking of the most economically unequally of all the large affluent countries of the world if so many of its economists and policy-makers were not so complacent. Some are complacent to the point of some being very averse to using the measures which both reduced inequalities in the past in the USA. These are the policies which currently help keep economic inequalities so low, or even occasionally falling in those countries elsewhere in the world. Countries that perform so much better than the USA as regards combatting inequality.

6 *A Handbook for Wellbeing Policy-Making*. Frijters, Paul and Christian Krekel. Oxford University Press, 2021. Pp. 464. ISBN: 9780192896803

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The book elaborates on the idea to include insights from wellbeing research in policy-making. The authors promote this idea very forcefully and provide a convincing approach how to measure societal progress in terms of wellbeing-adjusted life-years (WELLBY) and how to apply this WELLBY-measure to evaluate and direct policy. In this book, they develop the idea in two steps. In the first two chapters, they set out a roadmap for how wellbeing analysis and the insights gained from the wellbeing literature so far can be incorporated in policy-making and discuss how such a "wellbeing policy-making" framework fits "in with democracy and the reality of bureaucracies" (Preface). In a second step, the authors then develop the basic methodology in more detail and demonstrate how such a methodology can be used as a meaningful tool to evaluate policy making. Using several illuminating examples, they show how their approach can work. In this respect, the book is of great interest for both a general readership interested in wellbeing research and practitioners.

Chapter 1 presents the basic idea of the book – establishing wellbeing as the primary objective of policy-making. Governments should measure societal progress in terms of additional wellbeing of the population. Thereby, wellbeing is measured using wellbeing-adjusted life-years: One unit WELLBY equals one unit of life satisfaction on a 0 to 10 scale for one person in one year. E.g., if a policy measure increases life satisfaction for 1000 persons by one unit for 10 years, the total of WELLBYs increases by 10,000. Such a policy has the same impact on societies' overall wellbeing – or shall we say welfare? – as a policy measure that increases life satisfaction of 10,000 persons on average by 0.2 for a time span of 5 years. Using such a one-dimensional measure makes it possible to compare different policy options and makes it possible to evaluate them in cost-effectiveness terms.

Economists consider improving welfare as a functional construct of aggregate individuals' utility as the main objective of a state but for a long time have had little hope to find an adequate direct measure. For policy evaluation, one therefore referred to indirect measures for welfare such as GDP or proxies such as physical health – knowing very well about the limitations and weaknesses of these measures. But with the rise of happiness research, the idea of measuring wellbeing by directly asking people about their subjective wellbeing and relating changes of their reported wellbeing to policy measures made a comeback. The book is a committed plea for using such a direct measure and, in particular, using life satisfaction as the best suited measure for policy-making and policy evaluation. Due to the ability to collect large data sets about life satisfaction, there is a huge potential of wellbeing measurement to i) inform policy making about what are likely projects to improve society's welfare, to ii) discover those policy measures where large gains in terms of wellbeing might be expected and to iii) compare competing public projects when budget constraints require selection. For the authors, scientific analysis of wellbeing effects may thus be seen as a complement to elections, "with elections [being] a quicker and more responsive way of learning about the interests of a population, and scientific inquiry and long-run policy making belonging to the more sober and reflective institutions of the state" (p. 22). Pointing out this complementarity is important as wellbeing, like voting, is inherently subjective and remains volatile and relatively easy to manipulate at the individual level.

The second chapter evaluates in more detail the direct measures of wellbeing. The authors promote life satisfaction as the most appropriate measure by comparing it with other measures of wellbeing, whereby they also discuss in length potential objections. The chapter offers both an excellent description of what matters for wellbeing and starting points for policy-making to improve welfare. The wellbeing literature is first of all very much in line with standard policy evaluations by showing the importance of providing basic comforts such as food, water, basic healthcare, security etc. by the government. More additional insights, however, might be gained with respect to experience goods and skills. Life satisfaction research may prove that something is truly beneficial although individuals may neither anticipate this nor believe this to be the case. The authors argue that in this case the state can "either try to convince people that it is truly beneficial, or else take up its provision and teaching itself" (p. 86). As an example, they discuss certain forms of selflessness as an experience skill. From the viewpoint of a positive statement, this is fine with me: cost might be highly visible while benefits may be hardly visible at the same time. However, the statement is critical from a normative point of view. Here, as well as in some other parts of the book, I am missing a thorough discussion of the normative implications as they are also highly relevant for policy making. How do we rank individual autonomy? Do we accept non-optimal decisions by individuals or shall the government paternalize individuals by making the right decisions based on scientific knowledge?

A great advantage of using life satisfaction measures for policy evaluation is that it takes account of the externalities due to status seeking. The idea of implementing an Easterlin discount for private status-relevant goods thus seems to be a straightforward idea. Here again, some open questions remain. What are the status-relevant goods and how should we deal with the Easterlin discount when status seeking shifts to some other goods over time?

The authors also refer to belonging as an important aspect of wellbeing. I fully agree, but it may be the most critical one in policy assessment. Social relationships are very important and the stronger the social ties, the higher the wellbeing. But is this an argument to make it a matter of public policy making? This question arises in particular concerning the section about identity narratives. Here, the book focuses much on belonging as the positive part of identity but widely neglects the downside. When forming an identity narrative, one accentuates not only the similarities within a particular social group but at the same time also the differences with out-groups. The differences may create tensions between groups and at the same time create stronger social ties within groups. This opens opportunities for policy makers to misuse the identity narrative to follow their own (often populist) agenda. The authors are the first to admit that belonging-oriented intervention is tremendously difficult and "a rational national approach to identity formation is at the moment still futuristic" (p.112), but nevertheless they open the door wide for the possibility of such policies if they can only be grounded on solid scientific ground. For instance, they promote the idea of 'identity capital' in their integrated economic model of wellbeing. Its prime function is to define an 'us' using national pride and a shared notion of national community. Such an identity capital ensures that what is eventually produced is shared as 'ours'. The positive framing hides that the narrative also defines an 'others' and a 'not yours'. Belonging is important for wellbeing. This is an important positive statement. But this does not necessarily justify identity-creating policy-making. Again, a discussion of the normative implications of such an apparently purely welfarist (and highly risky) approach is deeply missed here.

The following chapters are more interesting for practitioners but nevertheless provide sophisticated insights for those being interested in wellbeing research in general. The third chapter describes the basic methodology of cost-effectiveness analysis. Although the authors consider the basic methodology as a work in progress, the chapter proves that the process is already pretty advanced. In particular, the chapter is very convincing in proving the advantage of using wellbeing in project evaluations as it offers a much more comprehensive account of prospective costs and benefits. Very illustrative in this respect is the discussion about discounting, in particular the use of additional Easterlin discounting for private consumption to take account of negative consumption externalities.

The fourth chapter contrasts the wellbeing cost-effectiveness analysis with the more traditional approaches of cost-benefit analysis. Thereby, the authors discuss two alternative ways to include wellbeing considerations in public project evaluations. One way could be to augment standard cost-benefit analysis with wellbeing insights. The chapter discusses the key changes necessary in such an approach. The alternative would be to enter a transition path between standard cost-benefit analysis and the wellbeing cost-effectiveness analysis described in the previous chapter.

The final chapter uses existing real-world case studies to show how the methodology of wellbeing cost-effectiveness analysis could complement existing policy evaluations. These examples are very illuminating as they highlight again the different channels by which wellbeing considerations may affect outcomes. Although the focus is on British case studies, the examples illustrate how the ideas developed in the book can be applied in general. Most illuminating in this respect are the discussions about the London Heathrow runway extension and the analysis of the consequences of the Covid-19 pandemic.

All in all, the book makes a very important contribution as it brings wellbeing research that has grown rapidly over the last three decades to policy by developing a forceful framework for wellbeing cost-effectiveness analysis. It is particularly strong in making an argument in favor of complementing standard policy evaluations and appraisals with wellbeing considerations. Less convincing is the book when it comes to the normative implications the use of wellbeing for policy might have. It remains unclear to what extent insights from wellbeing research should affect policy making, without a thorough discussion about the normative implications a wide use of subjective wellbeing data might have. Should it mainly provide additional information for more educated decisions to be made within the existing institutions of public policy making or shall the data be used to push the implementation of more paternalizing policy instruments? The answer may be of particular importance also from a positive viewpoint when we take the wellbeing approach seriously. Wellbeing may not only be the result of outcomes but also of the processes which lead to these outcomes, as Bruno Frey and coauthors have pointed out. Despite this shortcoming, Frijters and Krekel have written an excellent book, summing up the current state of the discussion as well as promoting wellbeing analysis for policy evaluation. They also point out that using wellbeing for policy-making is still work in progress and there is much more to do yet. Including the procedural view may be one of the most important items on their to-do list.